# WORLDWIDE STRATEGY & OUTLOOK

Strategy Asset Managers

## STRATEGY

Our Worldwide Equity Strategy was up 4.8% for the 1st quarter of 2017, lagging the Global Equity benchmark return of 6.3%. Our Worldwide Balanced Strategy was up 3.6% in the quarter, slightly behind the Balanced Global benchmark return of 4.1%.

Growth versus Value continues to be our nemesis. The market continues to favor stocks that, by most measures, are overvalued. However, the momentum flows into passive indices and Exchange Traded Funds are driving these stocks higher. The top 10 stocks in the S&P 500 accounted for 55% of the first quarter's return. It appeared that the tide had shifted in the 4th quarter of 2016 from growth to value based stocks, but the shift sharply reverted back toward growth in the 1st quarter of 2017.

We are not offering excuses for companies that we own as they are selling at reasonable valuations, have strong cash flows and strong balance sheets. Our returns are positive and in excess of inflation and taxes. Still, keeping pace with what we believe are outlandishly priced growth components has been a challenge. As we illustrated in a chart last quarter, historically, the market has oscillated between growth and value over multi-year periods. Recently, growth has been in favor, but we believe that the market will move back to fundamental values as we move further into this eight year recovery.

We added one new stock in the first quarter, Corning Inc.; it is a good example of a company that has the value characteristics we seek combined with agents of change that often lead to a revaluation of price. Corning is a global leader in selling specialty glasses, ceramics and related materials. It sells at a P/E multiple of 8.2, less than half the market multiple, with a 2.4% dividend yield. It is a proven innovator in specialty glasses, has an excellent management team and consistently reinvests 8% of revenue ($800 million) in R&D. Corning is an excellent example of a deep value stock that has the potential for growth provided the company can increase global revenue at a faster pace.

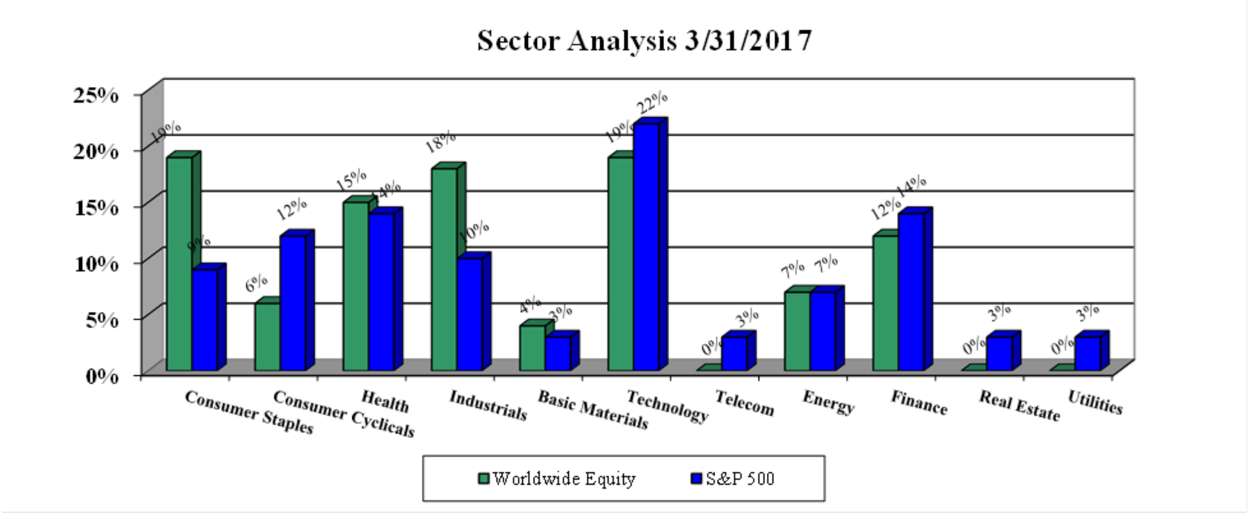
We had some excellent performances during the 1st quarter; most notably, one of our recent additions (Legg Mason) was up 21.5% for the quarter.

| Top 5 Performers in the Quarter | |
|---|---|
| Legg Mason | 21.5% |
| Oracle | 16.4% |
| Microchip Technology | 15.6% |
| Cisco Systems | 12.7% |
| Diageo | 12.3% |

| Bottom 5 Performers in the Quarter | |
|---|---|
| Teva Pharma | -10.5% |
| Baker Hughes | -7.7% |
| Bristol-Myers Squibb | -6.3% |
| United Parcel Services | -5.7% |
| AIG Inc. | -3.9% |

Consumer Staples, Industrials and Healthcare were the three overweight sectors at the end of the 1st quarter. These sectors were strong contributors to performance. The biggest performance detractor in the quarter was Energy which was the standout performer in the 4th quarter of 2016.

The sector chart shows the sector weightings as of March 31, 2017.




OUTLOOK

The eight year recovery remains intact.  Majority party initiatives regarding Obamacare, taxes and infrastructure spending have not materialized as yet. It remains to be seen whether some bi-partisan support can be cobbled together to move these major initiatives forward.  At the margin, many of the so called restrictive economic executive orders have been rolled back. Meanwhile, the eight year recovery is still intact. In fact, one can make the case that many economic factors are improving with little help from legislative initiatives. Company earnings (year-over- year) are improving, unemployment is below 5% and consumer confidence is at a 19 year high. Job openings are up as attempts are made to address the skills issue pertaining to the labor mismatch (between old skills and new skills) in this new technological era.

If little else is accomplished with the new administration, we have 2% economic growth, low inflation and slightly improving wages…a "not too hot- not too cold environment"!  If we achieve only "more of the same," that has not been a bad place to be for the equity investor over the last 8 years.

We are long overdue for a market correction. One is likely at some point which would be viewed as a correction in an aging bull market.

For now, we remain optimistic that stocks are still the best place to generate investment returns to maintain one's purchasing power.