



Market Commentary April 2, 2018

Dear Investors:

In like a lion...

Investors roared into 2018.

During the first week of the first quarter of the New Year, the Dow Jones Industrial Average rose above 25,000 for the first time ever. Less than two weeks later, it closed above 26,000. The Standard & Poor's (S&P) 500 Index and NASDAQ Composite also reached new all-time highs.

Strong performance was supported by strong fundamentals. In December 2017, Mohamed A. El-Erian wrote in *BloombergView* economic and policy fundamentals, including synchronized global recovery, progress on U.S. tax reform, improved certainty around Brexit, and orderly acceptance of changing U.S. monetary policy, "...reinforce the prospects for better actual and future growth, thereby increasing the possibility of improved fundamentals validating notably elevated asset prices."

During the first quarter, the global economy remained robust, reported *Forbes*. American companies were profitable (profitability is measured by earnings) and earnings per share for the S&P 500 Index are expected to increase during 2018. *FactSet* reported analysts currently estimate the S&P 500 Index will deliver double-digit earnings growth (18.5 percent overall) during 2018. Here's what the analysts anticipate each quarter:

- Q1: Earnings growth of 17.3 percent
- Q2: Earnings growth of 19.1 percent
- Q3: Earnings growth of 20.9 percent
- Q4: Earnings growth of 17.1 percent

Improving expectations for American companies can be credited, in large part, to tax reform, which lowered corporate tax rates significantly. In addition, rising oil prices may help companies in the Energy sector, and rising interest rates may give a boost to companies in the Financials sector.

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Despite a robust global economy, strong earnings, and improving earnings per share (EPS) expectations, the major U.S. stock indices delivered negative quarterly returns for the first time since 2015. On March 29, the last trading day of the quarter, the Dow closed at about 24,100.

If fundamentals are strong, why did major indices in the United States (and many indices around the world) finish the quarter lower? *Financial Times* suggested uncertainty might have something to do with the retreat:

“The tax cut has been achieved. We are no longer so sure that [President Trump’s] remaining ideas are so good, and most investors think his ideas about trade are downright terrible. And so the market has started reacting to presidential tweets... Most importantly, though, key assumptions have been stripped away. We can no longer rely on low volatility. And critically, the positive view of a low-inflation strong-growth future has been called into question – but only after the stock market had priced in that assumption as a done deal.”

Market declines may also reflect concern about valuations. One financial professional told *Financial Times* many asset classes have gone from being very expensive to being expensive. They haven’t yet gotten inexpensive.

Out like a lamb...

The last week of the quarter was a good one for U.S. stock markets, which pushed higher. However, the major indices were unable to overcome deficits accumulated earlier in the quarter. The Dow Jones Industrial Average gained 2.4 percent last week, finishing the quarter down 2.5 percent. The S&P 500 Index was up 2.0 percent last week, down 1.2 percent for the quarter. Likewise, the NASDAQ bounced 1.0 percent last week, but ended the quarter down 2.3 percent, reported *Barron’s*.

Data as of 3/29/18	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 (Domestic Stocks)	2.0%	-1.2%	11.9%	8.2%	10.1%	7.2%
Dow Jones Global ex-U.S.	0.6	-1.5	13.6	3.9	3.9	0.6
10-year Treasury Note (Yield Only)	2.7	NA	2.4	2.0	1.8	3.4
Gold (per ounce)	-1.7	2.1	5.8	3.8	-3.5	3.6
Bloomberg Commodity Index	0.0	-0.8	2.4	-4.1	-8.5	-8.0
DJ Equity All REIT Total Return Index	3.7	-6.7	-0.3	2.7	6.7	6.9

S&P 500, Dow Jones Global ex-US, Gold, Bloomberg Commodity Index returns exclude reinvested dividends (gold does not pay a dividend) and the three-, five-, and 10-year returns are annualized; the DJ Equity All REIT Total Return Index does include reinvested dividends and the three-, five-, and 10-year returns are annualized; and the 10-year Treasury Note is simply the yield at the close of the day on each of the historical time periods.

Sources: Yahoo! Finance, Barron’s, djindexes.com, London Bullion Market Association.

Past performance is no guarantee of future results. Indices are unmanaged and cannot be invested into directly. N/A means not applicable.

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IF YOU ASKED ARTIFICIAL INTELLIGENCE (AI) TO BAKE, WHAT WOULD IT MAKE?

Janelle Shane at *PopSci.com* wrote, “When computers try to imitate humans, they often get confused. But simulated brain cells in so-called neural networks can mimic our problem-solving skills. An AI will look at a dataset, figure out its governing rules, and use those instructions to make something new. We already employ these bots to recognize faces, drive cars, and caption images for the blind. But can a computer cook?”

Shane addressed the question by training a computer’s neural network to write a recipe. The computer reviewed a dataset of more than 24,000 online recipes (647 of them began with the word chocolate and 8 included blood as an ingredient). After two days of processing, the network delivered a remarkable recipe that includes a title, category, ingredients, and directions, although the nonsensical word choices are likely to leave bakers uncertain about how to proceed:

CHOCOLATE BUTTERBROTH BLACK PUDDING

cheese/eggs
4 oz cocoa; finely ground
1teaspoon butter
½ cup milk
¼ teaspoon pepper
¼ cup rice cream, chopped
1 lb cream
1 sesame peel

– DATE HOLY –

1 large egg
1 powdered sugar serving barme
¼ cup butter or margarine, melted

Brown sugar, chocolate; baking powder, beer, lemon juice and salt in chunk in greased 9x2 inch cake. Chill until golden brown and bubbly. Place serve garlic half by pieoun on top to make more use bay. Place in frying pan in preheated oven. Sprinkle with fresh parsley for cooking. Eating dish to hect in pot of the oil, pullover half-and half...Yield: 1 cake”

AI seems to have missed an important governing rule for recipes: Instructions should not include unlisted ingredients and all ingredients should be included in the instructions. DATE HOLY is particularly baffling. The author suggested the neural network might have been trying for frosting. It is a cake, after all.

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Weekly Focus – Think About It

“We are surrounded by hysteria about the future of artificial intelligence and robotics – hysteria about how powerful they will become, how quickly, and what they will do to jobs...Mistaken predictions lead to fears of things that are not going to happen, whether it’s the wide-scale destruction of jobs, the Singularity, or the advent of AI that has values different from ours and might try to destroy us. We need to push back on these mistakes.”

--Rodney Brooks, Australian robotics entrepreneur

Best regards,

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P.S. Please feel free to forward this commentary to family, friends, or colleagues. If you would like us to add them to the list, please reply to this email with their email address and we will ask for their permission to be added.

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* Government bonds and Treasury Bills are guaranteed by the U.S. government as to the timely payment of principal and interest and, if held to maturity, offer a fixed rate of return and fixed principal value.

However, the value of fund shares is not guaranteed and will fluctuate.

* Corporate bonds are considered higher risk than government bonds but normally offer a higher yield and are subject to market, interest rate and credit risk as well as additional risks based on the quality of issuer coupon rate, price, yield, maturity, and redemption features.

* The Standard & Poor's 500 (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general. You cannot invest directly in this index.

* All indexes referenced are unmanaged. Unmanaged index returns do not reflect fees, expenses, or sales charges. Index performance is not indicative of the performance of any investment.

* The Dow Jones Global ex-U.S. Index covers approximately 95% of the market capitalization of the 45 developed and emerging countries included in the Index.

* The 10-year Treasury Note represents debt owed by the United States Treasury to the public. Since the U.S. Government is seen as a risk-free borrower, investors use the 10-year Treasury Note as a benchmark for the long-term bond market.

* Gold represents the afternoon gold price as reported by the London Bullion Market Association. The gold price is set twice daily by the London Gold Fixing Company at 10:30 and 15:00 and is expressed in U.S. dollars per fine troy ounce.

* The Bloomberg Commodity Index is designed to be a highly liquid and diversified benchmark for the commodity futures market. The Index is composed of futures contracts on 19 physical commodities and was launched on July 14, 1998.

* The DJ Equity All REIT Total Return Index measures the total return performance of the equity subcategory of the Real Estate Investment Trust (REIT) industry as calculated by Dow Jones.

* Yahoo! Finance is the source for any reference to the performance of an index between two specific periods.

* Opinions expressed are subject to change without notice and are not intended as investment advice or to predict future performance.

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- * You cannot invest directly in an index.
- * Stock investing involves risk including loss of principal.
- * Consult your financial professional before making any investment decision.

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