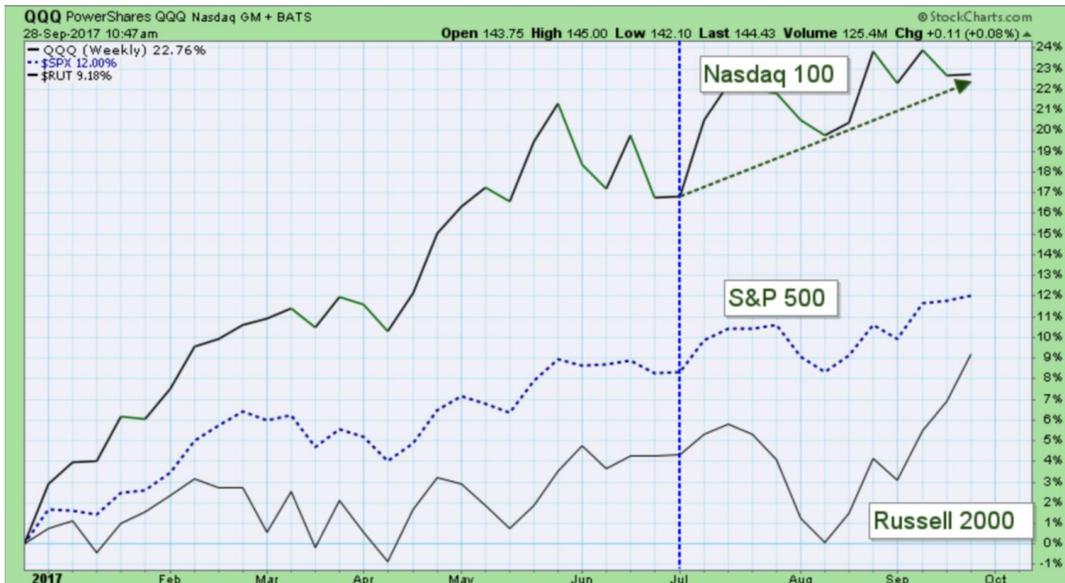


October 2017

Dear Valued Clients and Friends,

The stock market marched ahead in the 3rd quarter continuing a rally that has moved along without a hiccup since early 2016. The market has now gone a full year without a single monthly decline, with only one down month since the tide turned in early 2016. The tech and consumer-heavy Nasdaq led the way through the first two months of the quarter. A synchronized global economic revival helped these large global consumer companies. Small-cap companies, lagging all year as they have less exposure to the global economic strength, fell back in July to showing zero return for the year. However, they sprang to life in the second half of the quarter as the market shifted its focus to the potential for domestic tax cuts and a recovery in energy and financial shares, which are more heavily represented in this index.



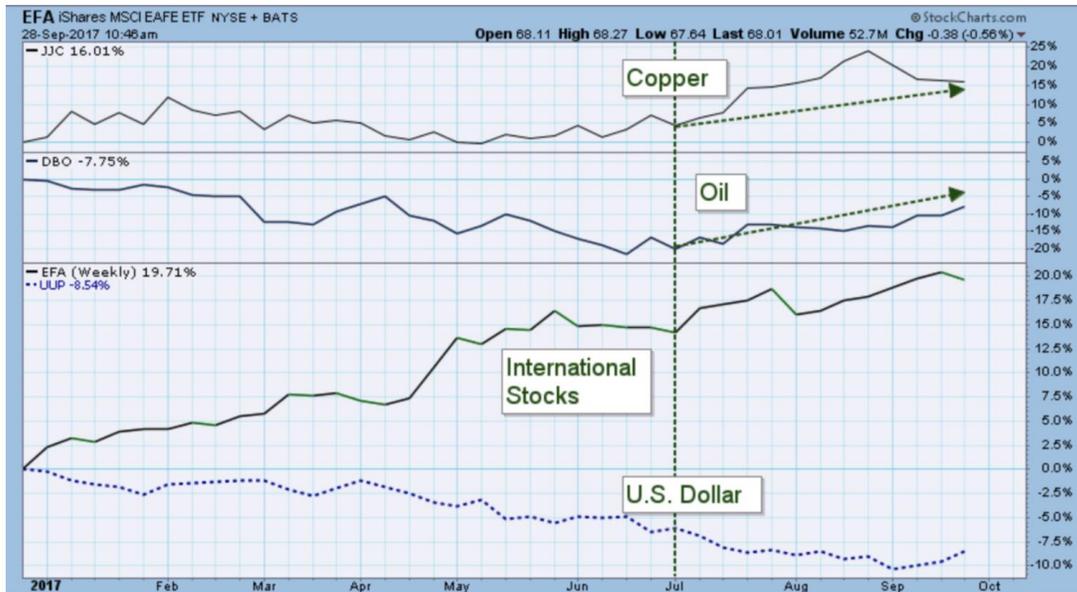
What does a global economic recovery look like? This chart of a key global metric shows green all up and down as of August 2017 with Korea the only country below an expansionary reading of 50.

Global Purchasing Managers' Index for manufacturing

| | Sep '15 | Oct '15 | Nov '15 | Dec '15 | Jan '16 | Feb '16 | Mar '16 | Apr '16 | May '16 | Jun '16 | Jul '16 | Aug '16 | Sep '16 | Oct '16 | Nov '16 | Dec '16 | Jan '17 | Feb '17 | Mar '17 | Apr '17 | May '17 | Jun '17 | Jul '17 | Aug '17 |
|-------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| Global | 50.4 | 51.0 | 51.0 | 50.7 | 50.9 | 50.0 | 50.6 | 50.2 | 50.1 | 50.4 | 51.0 | 50.8 | 51.1 | 52.0 | 52.1 | 52.7 | 52.8 | 53.0 | 53.0 | 53.0 | 52.7 | 52.6 | 52.7 | 53.1 |
| Developed Markets | 51.7 | 52.5 | 52.3 | 52.0 | 52.1 | 50.8 | 50.9 | 50.5 | 50.4 | 51.2 | 51.5 | 51.2 | 51.5 | 52.6 | 53.0 | 53.8 | 54.2 | 54.1 | 53.9 | 54.1 | 54.1 | 53.9 | 54.0 | 54.2 |
| Emerging Markets | 48.4 | 49.0 | 49.2 | 49.0 | 49.4 | 48.9 | 50.2 | 49.6 | 49.5 | 49.3 | 50.3 | 50.1 | 50.3 | 51.0 | 50.8 | 51.1 | 50.8 | 51.3 | 51.6 | 50.9 | 50.6 | 50.8 | 50.9 | 51.7 |
| U.S. | 53.1 | 54.1 | 52.8 | 51.2 | 52.4 | 51.3 | 51.5 | 50.8 | 50.7 | 51.3 | 52.9 | 52.0 | 51.5 | 53.4 | 54.1 | 54.3 | 55.0 | 54.2 | 53.3 | 52.8 | 52.7 | 52.0 | 53.3 | 52.8 |
| Canada | 48.6 | 48.0 | 48.6 | 47.5 | 49.3 | 49.4 | 51.5 | 52.2 | 52.1 | 51.8 | 51.9 | 51.1 | 50.3 | 51.1 | 51.5 | 51.8 | 53.5 | 54.7 | 55.5 | 55.9 | 55.1 | 54.7 | 55.5 | 54.6 |
| UK | 51.4 | 54.5 | 52.4 | 51.2 | 52.2 | 50.9 | 51.3 | 49.5 | 50.6 | 53.1 | 48.5 | 53.2 | 55.3 | 54.2 | 53.4 | 55.8 | 55.3 | 54.6 | 54.3 | 57.0 | 56.4 | 54.3 | 55.3 | 56.9 |
| Euro Area | 52.0 | 52.3 | 52.8 | 53.2 | 52.3 | 51.2 | 51.6 | 51.7 | 51.5 | 52.8 | 52.0 | 51.7 | 52.6 | 53.5 | 53.7 | 54.9 | 55.2 | 55.4 | 56.2 | 56.7 | 57.0 | 57.4 | 56.6 | 57.4 |
| Germany | 52.3 | 52.1 | 52.9 | 53.2 | 52.3 | 50.5 | 50.7 | 51.8 | 52.1 | 54.5 | 53.8 | 53.6 | 54.3 | 55.0 | 54.3 | 55.6 | 56.4 | 56.8 | 58.3 | 58.2 | 59.5 | 59.6 | 58.1 | 59.3 |
| France | 50.6 | 50.6 | 50.6 | 51.4 | 50.0 | 50.2 | 49.6 | 48.0 | 48.4 | 48.3 | 48.6 | 48.3 | 49.7 | 51.8 | 51.7 | 53.5 | 53.6 | 52.2 | 53.3 | 55.1 | 53.8 | 54.8 | 54.9 | 55.8 |
| Italy | 52.7 | 54.1 | 54.9 | 55.6 | 53.2 | 52.2 | 53.5 | 53.9 | 52.4 | 53.5 | 51.2 | 49.8 | 51.0 | 50.9 | 52.2 | 53.2 | 53.0 | 55.0 | 55.7 | 56.2 | 55.1 | 55.2 | 55.1 | 56.3 |
| Spain | 51.7 | 51.3 | 53.1 | 53.0 | 55.4 | 54.1 | 53.4 | 53.5 | 51.8 | 52.2 | 51.0 | 51.0 | 52.3 | 53.3 | 54.5 | 55.3 | 55.6 | 54.8 | 53.9 | 54.5 | 55.4 | 54.7 | 54.0 | 52.4 |
| Greece | 43.3 | 47.3 | 48.1 | 50.2 | 50.0 | 48.4 | 49.0 | 49.7 | 48.4 | 50.4 | 48.7 | 50.4 | 49.2 | 48.6 | 48.3 | 49.3 | 46.6 | 47.7 | 46.7 | 48.2 | 49.6 | 50.5 | 50.5 | 52.2 |
| Ireland | 53.8 | 53.6 | 53.3 | 54.2 | 54.3 | 52.9 | 54.9 | 52.6 | 51.5 | 53.0 | 50.2 | 51.7 | 51.3 | 52.1 | 53.7 | 55.7 | 55.5 | 53.8 | 53.6 | 55.0 | 55.9 | 56.0 | 54.6 | 56.1 |
| Australia | 52.1 | 50.2 | 52.5 | 51.9 | 51.5 | 53.5 | 58.1 | 53.4 | 51.0 | 51.8 | 56.4 | 46.9 | 49.8 | 50.9 | 54.2 | 55.4 | 51.2 | 59.3 | 57.5 | 59.2 | 54.8 | 55.0 | 59.8 | 59.8 |
| Japan | 51.0 | 52.4 | 52.6 | 52.6 | 52.3 | 50.1 | 49.1 | 48.2 | 47.7 | 48.1 | 49.3 | 49.5 | 50.4 | 51.4 | 51.3 | 52.4 | 52.7 | 53.3 | 52.4 | 52.7 | 53.1 | 52.4 | 52.1 | 52.2 |
| China | 47.2 | 48.3 | 48.6 | 48.2 | 48.4 | 48.0 | 49.7 | 49.4 | 49.2 | 48.6 | 50.6 | 50.0 | 50.1 | 51.2 | 50.9 | 51.9 | 51.0 | 51.7 | 51.2 | 50.3 | 49.6 | 50.4 | 51.1 | 51.6 |
| Indonesia | 47.4 | 47.8 | 46.9 | 47.8 | 48.9 | 48.7 | 50.6 | 50.9 | 50.6 | 51.9 | 48.4 | 50.4 | 50.9 | 48.7 | 49.7 | 49.0 | 50.4 | 49.3 | 50.5 | 51.2 | 50.6 | 49.5 | 48.6 | 50.7 |
| Korea | 49.2 | 49.1 | 49.1 | 50.7 | 49.5 | 48.7 | 49.5 | 50.0 | 50.1 | 50.5 | 50.1 | 48.6 | 47.6 | 48.0 | 48.0 | 49.4 | 49.0 | 49.2 | 48.4 | 49.4 | 49.2 | 50.1 | 49.1 | 49.9 |
| Taiwan | 46.9 | 47.8 | 49.5 | 51.7 | 50.6 | 49.4 | 51.1 | 49.7 | 48.5 | 50.5 | 51.0 | 51.8 | 52.2 | 52.7 | 54.7 | 56.2 | 55.6 | 54.5 | 56.2 | 54.4 | 53.1 | 53.3 | 53.6 | 54.3 |
| India | 51.2 | 50.7 | 50.3 | 49.1 | 51.1 | 51.1 | 52.4 | 50.5 | 50.7 | 51.7 | 51.8 | 52.6 | 52.1 | 54.4 | 52.3 | 49.6 | 50.4 | 50.7 | 52.5 | 52.5 | 51.6 | 50.9 | 47.9 | 51.2 |
| Brazil | 47.0 | 44.1 | 43.8 | 45.6 | 47.4 | 44.5 | 46.0 | 42.6 | 41.6 | 43.2 | 46.0 | 45.7 | 46.0 | 46.3 | 46.2 | 45.2 | 44.0 | 46.9 | 49.6 | 50.1 | 52.0 | 50.5 | 50.0 | 50.9 |
| Mexico | 52.1 | 53.0 | 53.0 | 52.4 | 52.2 | 53.1 | 53.2 | 52.4 | 53.6 | 51.1 | 50.6 | 50.9 | 51.9 | 51.8 | 51.1 | 50.2 | 50.8 | 50.6 | 51.5 | 50.7 | 51.2 | 52.3 | 51.2 | 52.2 |
| Russia | 49.1 | 50.2 | 50.1 | 48.7 | 49.8 | 49.3 | 48.3 | 48.0 | 49.6 | 51.5 | 49.5 | 50.8 | 51.1 | 52.4 | 53.6 | 53.7 | 54.7 | 52.5 | 52.4 | 50.8 | 52.4 | 50.3 | 52.7 | 51.6 |

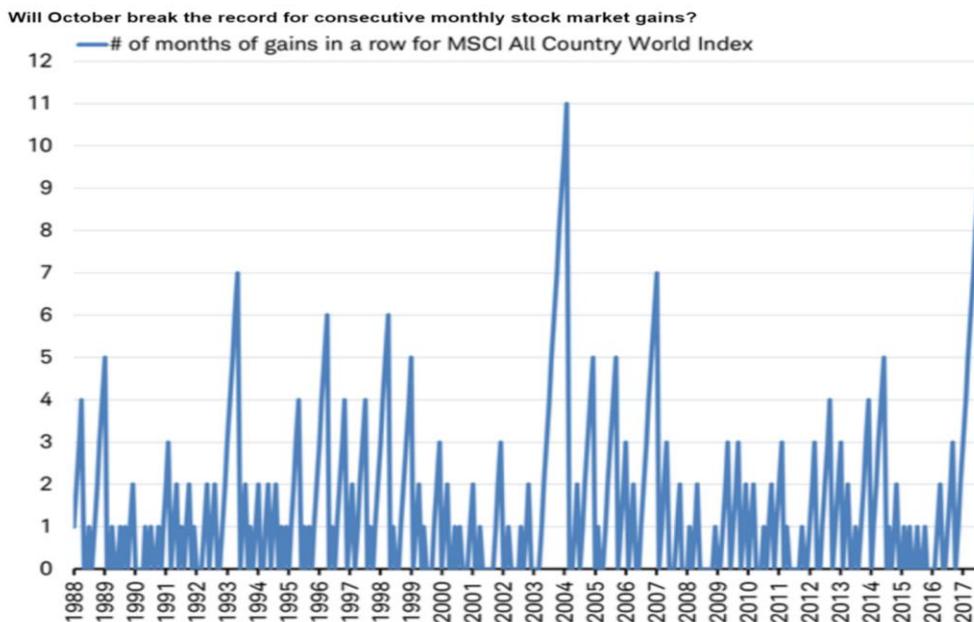
Source: Markit, J.P. Morgan Asset Management.
Heatmap colors are based on PMI relative to the 50 level, which indicates acceleration or deceleration of the sector, for the time period shown.
Guide to the Markets – U.S. Data are as of August 31, 2017.

The global economic strength boosted international stocks which, combined with weakness in the U.S. dollar, fueled a solid quarter for commodities like copper and oil.

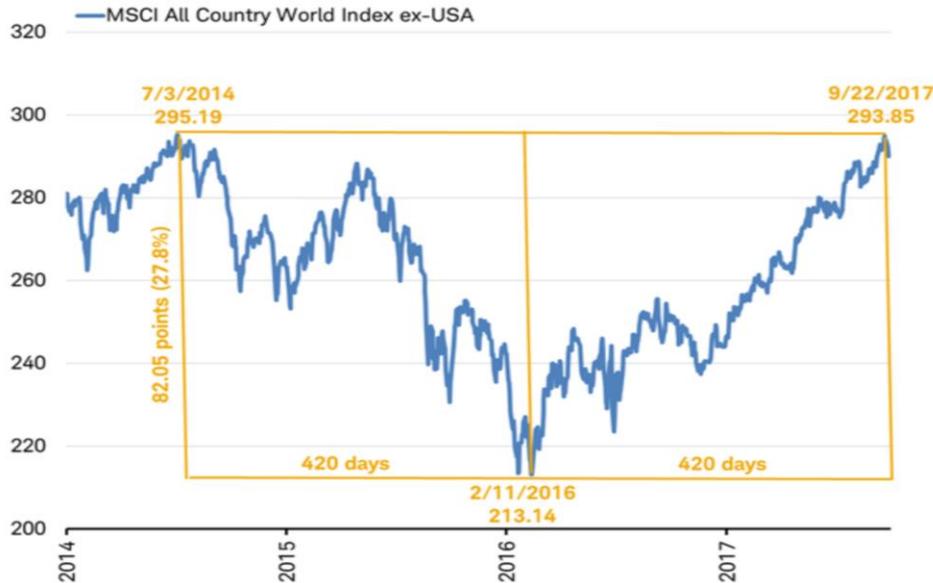


Despite all the talk about the coming unwinding of the Federal Reserve's balance sheet of bonds, which should raise interest rates all other things equal, interest rates barely moved throughout the quarter. Inflation has remained very low which has kept rates tame. All of this strong economic and market activity has kept our strategies and accounts moving forward

Now it's October and all through the market there was nary a sign of concern, nor a hint of trouble. Yet we know October as being one of the worst months for stocks, primarily because the month has spawned a couple of major market crashes. Take those crashes away and October is a typical month in stocks. We enter this potentially dangerous month with some interesting data points. For one, the global stock market has registered eleven consecutive monthly gains. If October also proves positive, it will be a record winning streak. Note that after the single other instance of eleven wins, back in 2004, the nearest streak is only seven months.

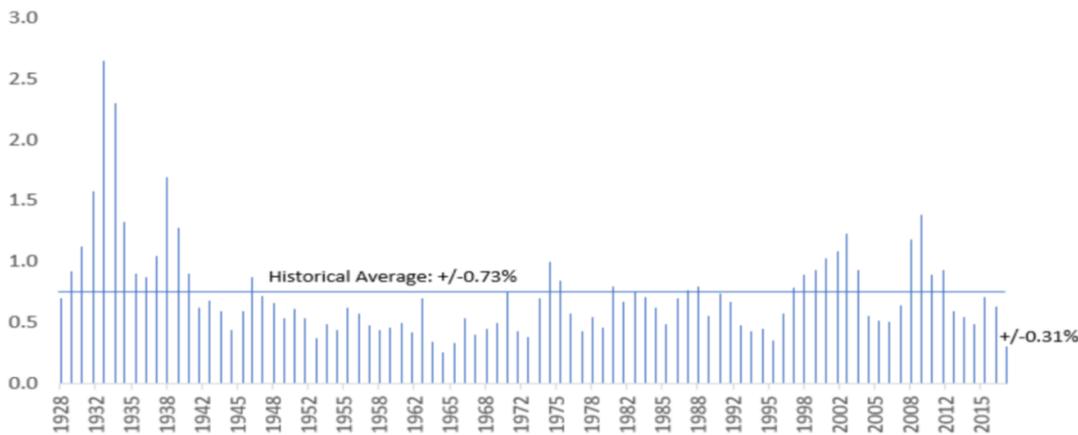


This comes as global, non-U.S., stocks have finally managed a full recovery from their recent bear market. What? You didn't know that stocks were emerging from a bear market? Stocks outside the U.S. logged an almost -30% decline over 18 months from July 2014 to February 2016.



This year is also setting records for its low level of volatility. In fact, this is the 2nd longest run in history where the S&P 500 hasn't even had a measly 3% pullback. And, as shown in the chart below, this is the 2nd least volatile year on record ever.

Average Daily Absolute % Chg Through 188 Trading Days: 1928-Present



The only year where the S&P 500 experienced a smaller daily change through 188 trading days is 1964. In that year, the index averaged a daily move of just +/-0.26%! As shown in the table below, though, the S&P 500 went through a three-year period of extremely low volatility in 1963, 1964, and 1965. 2017 now ranks as the second least volatile year through 188 trading days, but 1964 ranks 1st, 1965 ranks 3rd, and 1963 ranks 4th. The 1963-1965 period shows that 2017 doesn't have to be a one-year outlier — this type of low volatility environment can go on for even longer.

Looked at another way, this year has so far been one of almost zero pullback in stocks. The red dots below show the maximum decline, or drawdown, in a given year. So far in 2017, we are tied with 1995 as being the most benign year of the past 37 years.



In short, this low level of volatility will come to an end at some point and normal market volatility will resume. Commonly referenced long-term valuation indicators such as total market capitalization vs GDP (most frequently attributed to Warren Buffett) and the Shiller CAPE Ratio (cyclically adjusted price-earnings from Yale economist Robert Shiller) both show the markets at nosebleed levels, at heights only associated with past stock market crashes in 1929 and 1999. Yet, investors generally still see the markets as 'not too hot, not too cold' with earnings per share ticking up ever so slightly quarter over quarter, low inflation, accommodative monetary policy, and strong employment. With the anticipation of a reduction in both corporate and personal income tax rates, investors still see rosiness ahead. Hence if the prospects for tax reform start to go the direction that healthcare reform went, investors seem likely to change their outlook, especially if the next crop of earnings announcements in the coming weeks starts to disappoint.

Either way, we, as always, stand prepared, with tools and strategies to navigate the markets when the volatility and inevitable corrections return. If you are thinking about your investments, now might be a good time to review your strategies with us as we can be certain that the coming quarters are very likely not to repeat the benign conditions that we have recently witnessed.

To future profits,


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