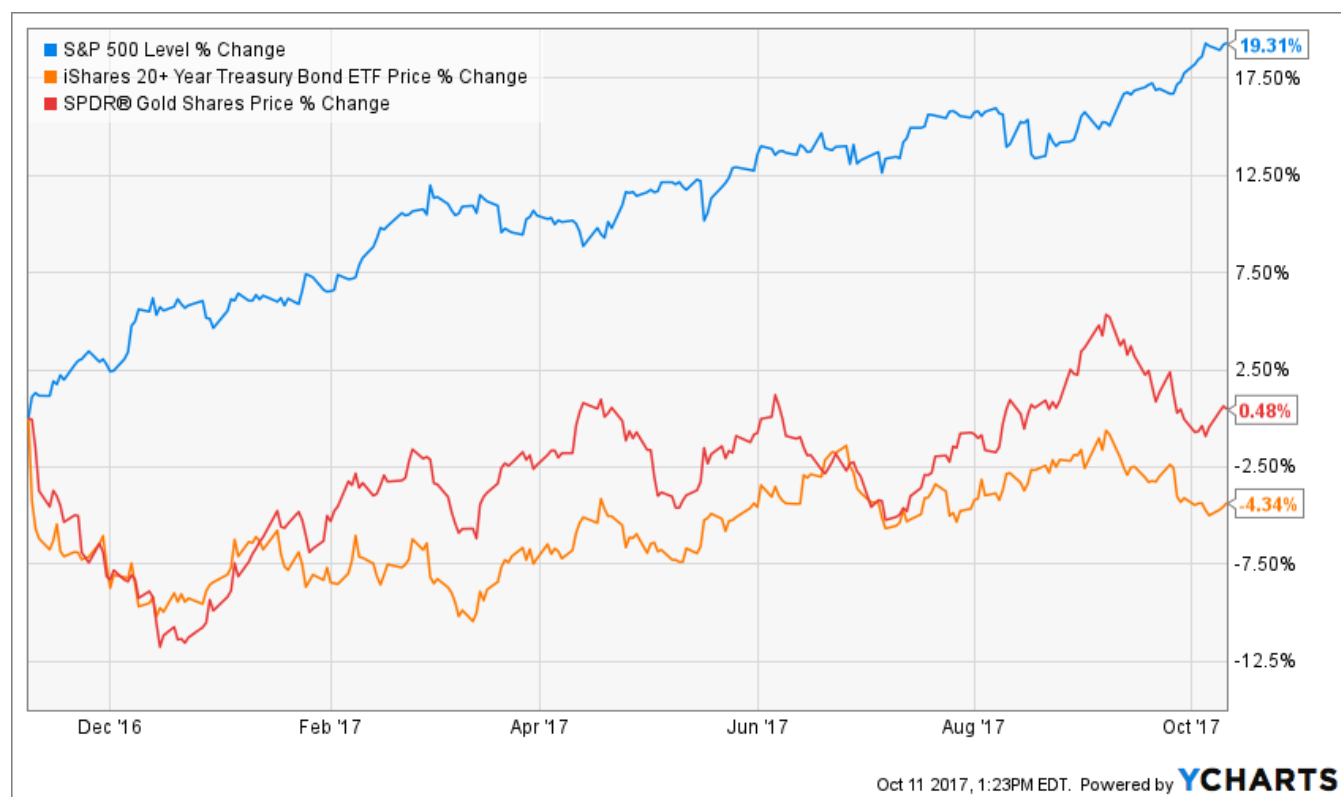


Market Update

October 11, 2017

Distorted Economic Data After Hurricanes

U.S. economic data has been impacted by hurricanes and may continue to see volatility with the raging wild fires impacting California. Hurricanes impacted auto sales, ISM indices, trade and payroll data. Auto sales increased as consumers affected by the storms replaced flood-damaged vehicles. ISM indices (manufacturing) surged, while the jobs report came in with a contraction of 33,000 due to hurricane affected areas. The jobless rate however declined and wage growth accelerated. This may have increased the likelihood of a rate increase by the Federal Reserve by years end. U.S. equities markets continue to hit new highs and yields on long Treasuries are increasing. The chart below shows the price of TLT (Proxy for long term Treasuries) declining since the middle of September. Treasury yields have an inverse relationship to treasury prices supporting the increase in yields. The price of Gold has also come down a bit since last month's update.



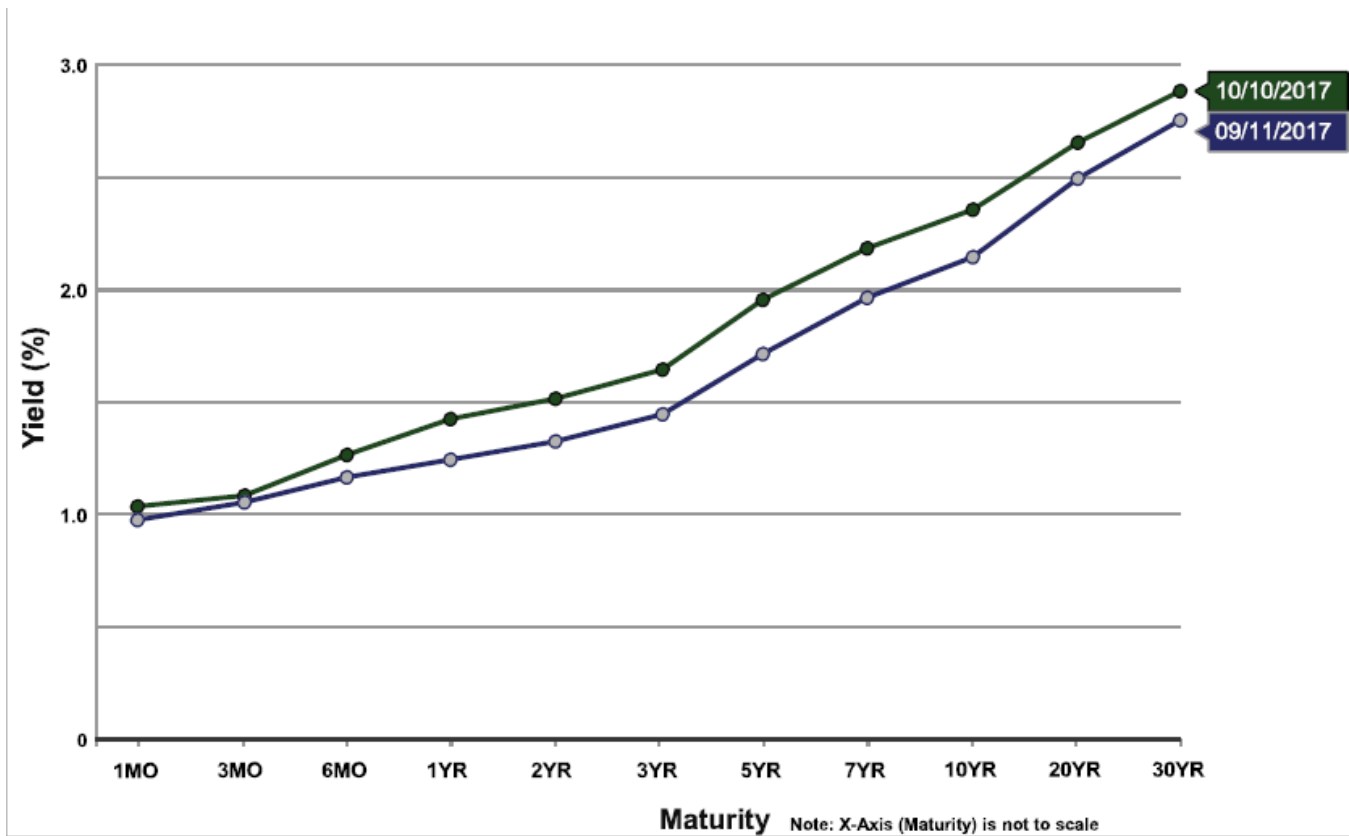
Information in the chart above was taken from sources we believe to be reliable; however, we do not guarantee its accuracy or completeness.

Along with the rise in long term yields the treasury yield curve has steepened since last month. This is likely due to the anticipation of a Federal Reserve rate increase. This is a somewhat positive development as Banks tend to benefit more as the yield curve steepens and they also look to lend more. Economic activity will likely pick up in the areas where we are seeing natural disasters and rebuilding will require an increase in lending which should support future economic growth.



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Information in the chart above was taken from sources we believe to be reliable; however, we do not guarantee its accuracy or completeness. <https://www.treasury.gov/resource-center/data-chart-center/interest-rates/Pages/Historic-Yield-Data-Visualization.aspx>

As mentioned last update the equities markets have not experience a 5% or more pull back in 2017. We are always cautious that one may occur and typically the months of September and October are the prime months for them. However, the economic back drop and recovery from natural disasters may continue to fuel the markets. Companies have started to report 3rd quarter results and positive results hear may provide more reason for investors to remain bullish on the U.S. equities markets.

We continue to watch geo-politics and continue to look for opportunities to reduce equity risk (beta and standard deviation) through changes to the equity holdings inside client's allocations. We still prefer domestic equities over international equities. International markets, especially developed international markets, continue to look attractive. Most all of our portfolios hold a percentage of their assets in international investments which should benefit from improved economic indications globally. As we stated before, we continue to look at ways to lower the risk of a rising interest rate environment and continue to make needed changes to further reduce duration risk in our fixed income holdings where appropriate.

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If you have questions or would like to discuss this further with regard to your personal portfolio please contact me at 310-433-5378.



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