CAISSA Wealth Strategies

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2017 in Review and 2018 Strategies

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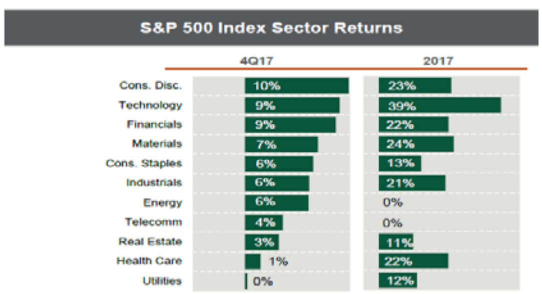
2017 in Review

- S&P was up 21.8% for the year while allocated portfolios were up about 13.5%
- Tax reform was passed in the last few day of the year which propelled markets to advance about 7% in the fourth quarter alone.
- Domestically, the best place to be in equities was Large Cap Growth, returning 30.2%. The disparity between growth and value persisted creating a divide of about 16.5% difference in returns of growth over value.
- Synchronized global growth accelerated in 2017 with about ¾ of the world's economies recording growth.
- US GDP accelerated towards 3.2% which is the fastest acceleration since 2015.
- The energy sector quickly started a steep recovery.
- Unemployment rate fell to almost 4%
- The Fed hiked rates .75% in 2017 and will turn over the reins to Jerome Powell in 2018.
- The Fed started to unwind their balance sheets by decreasing reinvestments in certain fixed income holdings.
- The Bank of England raised interest rates for the first time in 10 years and signaled more tightening to come.
- Japan had a 2.5% GDP and has had 7 consecutive quarters of growth – which they have not seen in a very long time
- Emerging Markets was one of the best returning asset classes, as it returned over 30% for the year
- Barclay's Aggregate Bond index returned about 3.5% for the year and the 10 year treasury ended at 2.4% yield.
- Due to the short end of the yield curve rising about .69%, the spread between the 10 year treasury and the 2 year treasury tightened to .51% - the lowest level since 2007.
- While we typically observe a pullback intra year of approximately between 13-14%, 2017 only lost 2.6% at its weakest point.

Index Returns	4Q17	YTD	2017
S&P 500 Index	6.6%	21.8%	21.8%
Russell Midcap Index	6.1%	18.5%	18.5%
Russell 2000 Index	3.3%	14.6%	14.6%
MSCI EAFE Index	4.2%	25.0%	25.0%
MSCI Emerging Markets Index	7.4%	37.3%	37.3%
Bloomberg Barclays U.S. Aggregate Bond Index	0.4%	3.5%	3.5%
Bloomberg Barclays U.S. Corporate IG Bond Index	1.2%	6.4%	6.4%
Bloomberg Barclays U.S. Corporate HY Bond Index	0.5%	7.5%	7.5%
Bloomberg Barclays Municipal Bond Index	0.7%	5.4%	5.4%
Dow Jones U.S. Select REIT Index	2.0%	3.8%	3.8%
Bloomberg Commodity Index	4.7%	1.7%	1.7%
Markets	**12/31/17**	**9/30/17**	**12/31/16**
Oil	$60.5	$51.7	$53.8
Gold	$1,291	$1,283	$1,146
Bloomberg Commodity Index	88.2	84.5	87.5
Rates & Spreads			
Fed Funds	1.50%	1.25%	0.75%
3M Libor	1.69%	1.33%	1.00%
2-Year U.S. Treasury	1.88%	1.47%	1.20%
10-Year U.S. Treasury	2.40%	2.33%	2.45%
Investment Grade Bond Spread (bps)	96	103	127
High Yield Bond Spread (bps)	364	370	442
30 Year Mortgage	3.99%	3.83%	4.32%
6 Month CD	0.48%	0.46%	0.34%
Currencies			
$ per Euro	$1.20	$1.18	$1.05
$ per Pound	$1.35	$1.34	$1.24
Yen per Dollar	¥112.65	¥112.57	¥116.63



Equity Style

	4Q17 Value	4Q17 Core	4Q17 Growth	2017 Value	2017 Core	2017 Growth
Large	5.3%	6.6%	7.9%	13.7%	21.7%	30.2%
Mid	5.5%	6.1%	6.8%	13.3%	18.5%	25.3%
Small	2.0%	3.3%	4.6%	7.8%	14.6%	22.2%

Source: Bloomberg, Dow Jones, FactSet, MSCI, Russell, Standard & Poor'

Sources: Bloomberg, FactSet, S&P, Dow Jones, Blackrock, JP Morgan, Schwab Center for Financial Research and MSCI

2018 Strategies

- A synchronized rise in inflation expectations shows that markets are growing more confident that global inflation has hit the bottom. Inflation seems to be running hotter in the U.S. than in Europe and Japan.
    - Goal: Buy Inflation linked assets

- Expect about 3 rate hikes from the Fed and rising wage inflation as a catalyst
    - Goal: Buy TIPS due to rising inflation and lower valuations
    - Goal: Keep the durations to about 3-7 years and the quality high
    - Goal: Maintain our allocation to target date maturity portfolios for fixed income
    - Goal: Watch for municipal bond valuations to relax before buying
    - Goal: Opportunity for Baby Bonds

- Earnings momentum is strong heading into 2018 with the tax bill as its tailwinds. Momentum and value style boxes should be rewarded.
    - Goal: Financial and technology should benefit as well. Energy likely to have a good year.
    - Goal: Keep our weightings in Large Cap Value

- Emerging markets still have improving fundamentals and reasonable valuations. Headwinds would be a fast rising dollar and degrading trade talks.
    - Goal: Sustain our global presence around 15%. Global stocks have typically produced double–digit returns before leading indicators signal a recession.
    - Goal : Do not hedge currency risk

- Anticipate solid growth for 2018 domestically and internationally with earnings a key driver. GDP expectations are 2.5-3% with some indicating 4% is not out of reach if newly freed up cash is reinvested into capex or wages.
    - Goal: Watch intently for recession signals when the sugar high from the tax bill starts to fade.
    - Goal: Continued flattening of the yield curve could signal the next recession in sight; however, that is likely a couple of years out.
- The tax reform bill will bolster the economic growth and corporate earnings domestically. Capex is likely to expand and repatriation of foreign cash reserves will have an immediate positive effect on the economy.
    - Goal: Review quarterly reports for corporate buy backs of stock vs Capex. If more buybacks are happening than Capex expenditures, growth expectations are likely to contract.
- Valuations are getting stretched, but earnings growth is pulling it together. Extended valuations and length of positive returns don’t kill bull cycles, inflation does.
    - Goal: Watch Fund flows from the retail vs institutional sectors. Euphoria indicates the last stage of the cycle before a selloff.
    - Goal: Discipline needs to be heightened. Rising, but low, risk of recession means rebalancing will be a must.
- Allocate to low correlating asset classes and rebalance periodically.
    - Goal: 15% allocation to private equity, long-short, hedges and inflation adjusting assets.