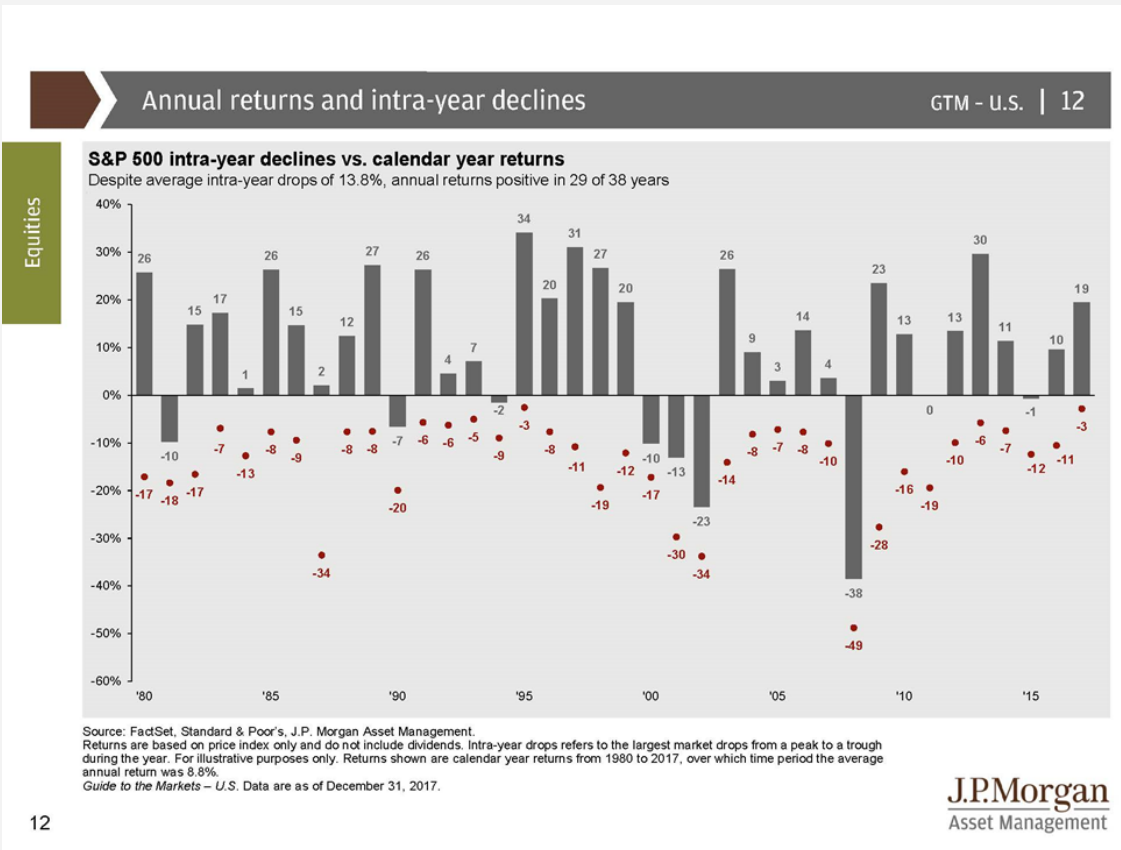




## FEBRUARY 2018 COMMENTARY

Good morning. Volatility is back, with a vengeance. It is said that market advances are a stairway, market declines are an elevator. That certainly was the case with Monday's decline. The 1175 point decline on the Dow Jones Industrial Average, was the worst single day point loss in history. In percentage terms, it was nowhere near the record of 22% from October 1987. We believe it is important to focus on the factors that drive markets over the longer-term, i.e.... economic growth, the level of interest rates and corporate earnings. All of which are healthy. Economic growth is accelerating, with reduced regulation, lower personal and corporate income tax rates, pending fiscal stimulus from added federal spending and stronger global growth expected, it is very likely that in 2018 there is an acceleration in GDP growth. Interest rates are slowly rising for all the good reasons. Wage inflation is finally being seen in lower and middle income citizen's paychecks. Due to stronger global growth, energy prices are higher but not in a runaway fashion. As long as the rise is controlled, they can run for a long time and move higher before they are considered more normal and become serious competition for investor assets. Corporate earnings are being reported for the fourth quarter of 2017 and they are strong from an earnings and revenue perspective. So far, about 50% of S&P 500 companies have reported and according to Strategas Research Partners, 78% of companies have exceeded forecasted revenues versus a longer-term average of 59% and 76% of companies are beating earnings estimates against an average of 64%. Looking at fundamentals, it appears to us that the longer-term outlook is positive. Markets are, and will remain volatile. It was the past twelve to fourteen months that were the exception with the future of stock markets likely to be more traditional with regard to volatility. The attached chart is a strong reminder that intra-year drawdowns of ten percent should be expected and have been "normal" in the past.



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