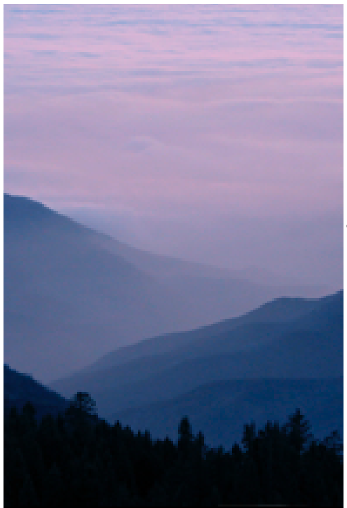

Quarterly Investment Report
December 31, 2017

Dear investor:

UP UP AND AWAY

Every major asset class closed the year higher - small, mid, and large capitalization stocks, international stocks, real estate, bonds, and commodities. The number of times that the S&P 500 and the Dow Jones Industrials achieved new record highs this year started to sound like its own broken record. The indices closed out the year up 22% and 28% respectively.

Investors began the year on a cautious note over a Trump presidency, Russian meddling, nuclear threats from North Korea, and Mid-East chaos. Regardless, stocks rallied, focusing on strong tailwinds from the housing sector, solid employment, a more business friendly stance out of Washington and expectations for tax reform.

2017 S&P 500 Total Return = 22%

The new tax bill, The Tax Cuts and Jobs Act of 2017, was signed into law on December 22nd and goes into affect on January 1st, 2018. This is the first major change to our tax code in more than thirty years. While tax reform is usually thought of as a way to simplify our complex tax rules, this bill doesn't come close to achieving that objective, but it does lower taxes for both corporations and most individuals. The speed with which the bill was done along with its massive scope and complexity mean that it will be months, if not years, before all its implications are examined and understood.

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We think the rhetoric on both extremes of the political spectrum is unfair. The bill isn't a scam to cut taxes for the rich while socking it to everyone else. Nor is it the greatest ever Christmas gift for the middle class. The reaction to the bill is a strong example of the deep partisan divide that currently exists within our country.

Proponents of the bill see it as incentives for investment in the country and genuinely believe that lower tax rates for companies, along with allowing companies to bring back the $2 trillion trapped overseas, will create a more level playing field in global trade. The corporate tax cut coupled with the individual tax cut, proponents believe, will produce more jobs and grow the U.S. economy overall. Opponents of the bill feel that the wealthiest individuals should be paying much higher relative rates, that the doubling of the estate tax exemption (which expires after eight years) is unfair, and that company owners are getting too sweet a deal on the backs of the middle class.

We view the lower marginal individual tax rates and lower corporate tax rates favorably, while recognizing that unfortunately some who live in jurisdictions with high property, state and local taxes may wind up with a higher tax bill next year ($10,000 deduction limit for property, state, and local taxes combined). Most households will have higher after-tax income either directly from lower personal taxes or indirectly from the impact of higher stock dividends and stock prices that result from the cut in corporate taxes. The individual tax cuts are due to expire after eight years in accordance with reconciliation budgetary rules, and there's no telling if Congress at that time will renew the cuts or not.

Other benefits for individuals include the doubling of the standard deduction, doubling of the child tax credit, and a higher alternative minimum tax income threshold. New homebuyers will be limited to deducting mortgage interest on mortgages up to $750,000. This change will likely impact home buying behavior.

According to analysis by The Joint Committee on Taxation (JCT), it appears that at least half of the individual tax cuts will flow through to higher consumer spending in both 2018 and 2019, and would add about .3% and .2% to real GDP growth in 2018 and 2019 respectively.

Old Versus New Tax Brackets

Single Filers

OLD BRACKETS		NEW BRACKETS	
Taxable Income	Tax Rate	Taxable Income	Tax Rate
$0 - $9,525	10%	$0 - $9,525	10%
$9,526 - $38,700	15%	$9,526 - $38,700	12%
$38,701 - $93,700	25%	$38,701 - $82,500	22%
$93,701 - $195,450	28%	$82,501 - $157,500	24%
$195,451 - $424,950	33%	$157,501 - $200,000	32%
$424,951 - $426,700	35%	$200,001 - $500,000	35%
$426,701 +	39.6%	$500,001 +	37%

Married Filers

OLD BRACKETS		NEW BRACKETS	
Taxable Income	Tax Rate	Taxable Income	Tax Rate
$0 - $19,050	10%	$0 - $19,050	10%
$19,051 - $77,400	15%	$19,051 - $77,400	12%
$77,401 - $156,150	25%	$77,401 - $165,000	22%
$156,151 - $237,950	28%	$165,001 - $315,000	24%
$237,951 - $424,950	33%	$315,001 - $400,000	32%
$424,951 - $480,050	35%	$400,001 - $600,000	35%
$480,051 +	39.6%	$600,001 +	37%

Taking the corporate tax rate from the highest rate (35%) among the 35 members in the Organization for Economic Co-Operation and Development (OECD) down to 21% (close to the OECD average rate of 22%), should help boost investment spending. Additional one-time boosts will come from the ability of companies to be able to fully expense capital spending and from the one-time repatriation of offshore earnings. Many smaller domestic corporations have been paying taxes at the 35% rate (unlike many international companies where their effective tax rate is much lower) and will greatly benefit from this tax cut.

Qualifying pass-through businesses (LLCs and Chapter S) will be able to deduct 20% of their business income up to certain personal income thresholds ($157,500 for single filers and $315,000 for joint filers). This deduction expires after eight years.

Whether or not companies will put money towards capital investment, new hiring and higher wages or share buy-backs and dividend increases is on everyone's mind. The former would benefit everyone and the latter would more directly favor investors. There's no way to discern how companies will act, but according to the JCT analysis, expectations are for about a .3% addition to GDP growth in 2018 from business tax cuts.

Consternation on both sides of the aisle over the additional $1.5 trillion of deficits from the tax cuts before any added GDP growth is realized, is being hotly debated in some circles. Already our debt as a percentage of GDP has been edging closer to post World War II levels of over 100%. Will foreign investors continue to buy our dollars? Will higher deficits trigger higher interest rates and inflation? Will our government entitlement programs be at risk for some serious restructuring? We believe our dollar won't lose its place in the global sun any time soon.

Though we expect interest rates and inflation to finally inch higher, not just as a result of higher deficits, but from the impact of a potentially overheating economy in the upcoming years. Going into 2018 our economy was already at full employment with GDP expected to grow by about 2.7%. In the next year or two, the tax bill has the potential to cause GDP to grow close to 3% and push the unemployment rate below 4.0%. However, we don't expect long-term growth to be affected by the bill much at all.

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The bottom-line for investors is to not get caught up in the euphoria that is our current stock market. It seems that most every professional market pundit has now decided that the economy, in its ninth year of expansion, is risk-free and moving in only one direction - up. We agree that recession is not on the horizon and corporations do have the wind at their backs, but it's becoming unnatural to have this much equity growth with so little volatility for so long. The bar for stocks after 2017's strong performance is quite high.

Though we are cautious around stocks, we believe that staying invested in particular growth companies that trade at reasonable valuations to their peers will continue to reward us. Yet, while we expect stocks to climb even higher before the next major decline, we think it is more important than ever for prudent investors to stay with their long-term asset allocations that include bonds, and be accepting of missing out on full exposure to stock gains (or losses).

Several positive themes we see for stocks going into 2018 include technology, pharmaceutical and biotech, retail and financial stocks. With technology stocks, we are in the midst of a digital economic revolution - the internet, the cloud, big data, robotics, machine learning, and artificial intelligence are technologies that have been and will continue to be disruptive and create wealth. The healthcare industry continues to make breakthroughs with new therapies to enhance quality of life for an aging demographic. Retail companies are being forced to reinvent themselves in the face of Amazon's power, and surprising alliances are favoring many retail players. Finally, financial stocks stand to gain if companies and consumers feel confident to borrow and if interest rates increase slowly.

As always, we remain hopeful yet cautious with our investments.

We wish everyone a very happy and healthy New Year!

Sincerely,

Ellen P. Le, CFA
President