QUARTERLY MARKET COMMENT
First Quarter 2018

ALEXANDER FINANCIAL PLANNING

The 1st Quarter of 2018 was a bit of an ugly duckling. Could the year turn into a beautiful swan or are we experiencing a black swan? One thing we do know is the markets started moving down around January 26th, bottomed around February 9th and we have been retesting this bottom (good sign). Lately all indexes have hit correction territory, by definition a decline greater than 10% (another good sign). It has been over 1 ½ years since we have had even a 5% drawdown in the U.S. equity markets. This is abnormal. The markets have historically "averaged" one 10% and five 5% drops per year. So to say we were due for a correction is an understatement. Emotionally, this can feel very uncomfortable. We have become accustomed to low volatility and a steadily rising market. Market volatility, as measured by the VIX index, typically becomes greater in the later cycle of a rising or bull market. This is where we are today. The general consensus is the markets will resume an upward trend once this correction is over. Additionally, what often occurs during a correction is a change in leadership. What led the market higher in the past is not what will lead the market going forward.

The economic backdrop has not changed much from last quarter. The economy has continued to chug along. The revised Gross Domestic Product (GDP) number for 2017, which is a measure of growth, was up 0.1% to 2.6%. The projection for 2018 is between 2.5% to 2.9%. This is expected to be driven by the consumer and investment spending (partly reflecting tax cut impacts). Demand may be a bigger issue. We are at historic low levels for the unemployment rate (currently around 4.1%) and the projection is we could go lower (3.9% to 3.6%). However, the pressure to increase wages may be difficult in a low inflationary environment and with companies holding wages where they are now. There was a smooth transition in leadership at The Federal Reserve (FOMC) last quarter with a similar policy message. The FOMC members continue to project 3 rate hikes for 2018, one occurred last quarter with little fanfare. Inflation tends to lag and it is projected to be around 2.1% to 2.2% by the end of 2019. If this is true, the economy may continue to chug along without too much sign of overheating near-term. The dollar may continue to experience more downward pressure due to several issues – trade, our growing deficit, and stronger markets around the world, to name a few.

As we mentioned last quarter, a correction is not the end of a bull market. It's simply a pullback in a rising market environment. We believe the markets will resume their upward trend, but with greater volatility. A swan may be at the end of this year, but we remain vigilant in noting any black swans that could sway the markets a different direction. The key is to try and remain focused on the long-term and to not be pulled emotionally by the short-term swings in the markets.

Long-term we have found added value in rebalancing portfolios annually and maintaining all-weather diversified portfolios. Choice of asset allocation weightings become more important at this stage. We appreciate the opportunity to work with you and if you have any questions or concerns, please do not hesitate to let us know.

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Asset Index Category	YTD 1Q 2018	3-Year Average %	5-Year Average %	10-Year Average %
S&P 500 Index-Large Companies	-1.17	8.51	10.98	7.16
S&P 400 Index-Mid-size Companies	-1.07	7.25	10.26	9.20
Russell 2000 Index-Sm Companies	-0.40	6.88	9.96	8.32
Natural Resource Funds	-6.89	1.26	5.55	5.88
Gold	-4.26	3.88	1.27	0.67
US Real Estate Funds	2.11	3.93	-3.75	3.51
Global Real Estate Funds	-2.81	2.85	4.54	3.32
MSCI EAFE-Developed International	-2.20	2.74	3.68	-0.16
MSCI EM Index-Emerging Markets	1.07	6.31	2.50	0.59
Barclays U.S. Aggregate Bond Index	-1.46	1.20	1.82	3.63
Long U.S. Government Bond Index	-2.73	0.52	2.53	5.04
Emerging Market Bond Index	0.62	5.02	1.24	4.69

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