MACROVIEW

September 30, 2017

Quarterly Review & Outlook

"October: This is one of the peculiarly dangerous months to speculate in stocks. The others are July, January, September, April, November, May, March, June, December, August and February."

- Mark Twain

Mark Twain's quip above serves as a humorous reminder that speculation in the stock market, no matter the month, can always be perilous. Now more than a century after his death (1910), Twain's unintentional focus on October also makes him seem a bit clairvoyant. October has long been known as the most volatile month on the calendar. October 1987 is remembered for Black Monday when the market crashed 23% in a single day. 20 years later, October 2008 wrecked investor portfolios as the S&P 500 ended up finishing the month down 17% after falling more than 27% intra-month. Since 1970, no month has had more 1% daily changes (higher or lower) as nearly 30% of October trading days have closed up or down at least 1%. In 2017 however, the stock market is on pace to shatter all sorts of volatility (or lack thereof) records. Investors have yet to be confronted with even a minor pullback this year and as we enter October, and Q4, the table looks set for further gains.

The commentary within will offer a detailed look at the various markets/asset classes we cover along with an assessment of the current investment landscape.

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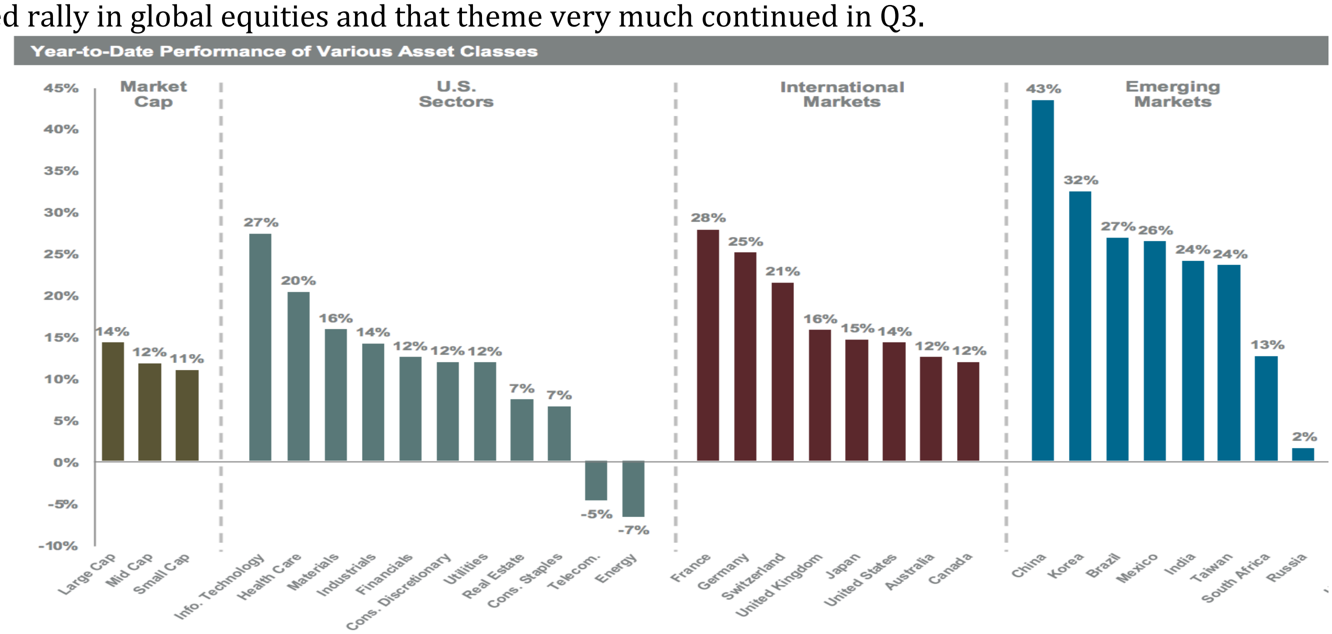
(Chart from RW Baird)

Global stocks continued their surge higher in Q3 as nearly every major country index in the world is now up double-digit percent in 2017. On a total return basis, the S&P 500 has gained 14%, US small caps 11%, developed international stocks (MSCI EAFE index) 20% and emerging market stocks (MSCI emerging markets) 28%. We mentioned in our last quarterly note that not since 2009 have we seen such a broad-based rally in global equities and that theme very much continued in Q3.



As of September 30, 2017

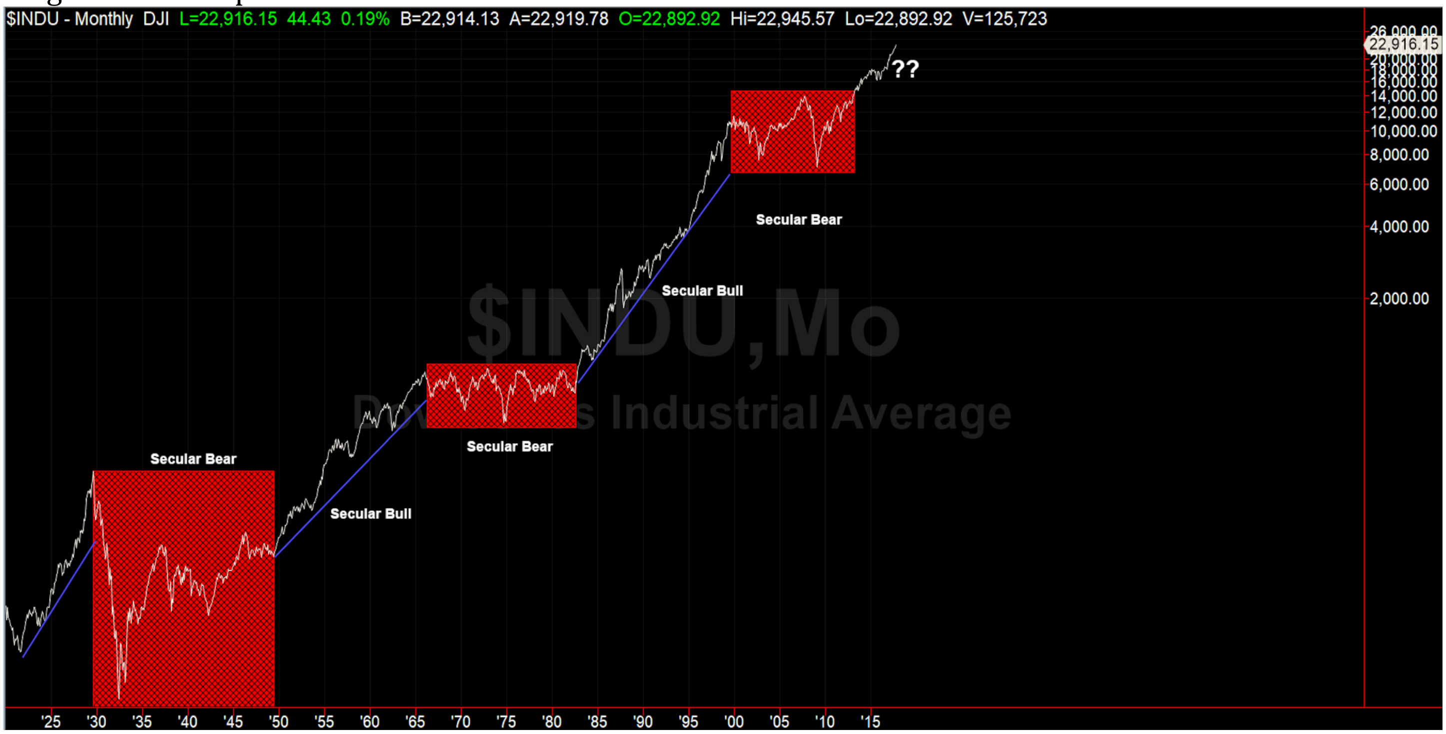
	Trailing Returns (%)						5-Year Risk Stats		Other Metrics			Representative
	Last Qtr	YTD	1-Year	3-Year	5-Year	10-Year	Std. Dev.	Max. Loss	P/E	EPS Gr.	Div. Yld.	Benchmark
Bellwethers												
S&P 500	4.5	14.2	18.6	10.8	14.2	7.4	9.6	(8.4)	20.5	9.8	2.0	*S&P 500*
DJIA	5.6	15.5	25.5	12.3	13.6	7.7	10.1	(9.0)	18.9	9.1	2.4	*Dow Jones Industrial Avg.*
Market Cap												
Mega	4.7	14.5	18.4	10.8	13.0	6.9	9.9	(8.4)	20.6	4.9	2.2	*Russell Top 50*
Large	4.9	15.1	19.8	11.1	14.3	7.3	9.6	(8.6)	20.6	9.8	2.1	*Russell Top 200*
Mid	3.5	11.7	15.3	9.5	14.3	8.1	10.4	(12.8)	20.6	9.7	1.8	*Russell Midcap*
Small	5.7	10.9	20.7	12.2	13.8	7.8	13.9	(16.8)	19.6	11.1	1.5	*Russell 2000*
Micro	6.7	11.2	22.3	12.2	13.9	6.7	15.1	(21.0)	16.8	(3.3)	1.3	*Russell Micro Cap*
Style												
Value	3.3	7.7	15.5	8.8	13.2	6.0	10.0	(10.4)	17.8	8.4	2.5	*Russell 3000 Value*
Core	4.6	13.9	18.7	10.7	14.2	7.6	9.8	(8.8)	20.5	9.9	2.0	*Russell 3000*
Growth	5.9	20.4	21.9	12.6	15.2	9.0	10.2	(8.8)	24.2	11.8	1.4	*Russell 3000 Growth*
S&P 500 Sectors												
Consumer Discretionary	0.8	11.9	14.5	12.4	15.9	11.3	11.6	(8.0)	21.1	11.2	1.6	*S&P 500/Cons. Disc.*
Consumer Staples	(1.3)	6.6	4.4	9.0	11.5	9.8	10.2	(7.5)	21.3	8.3	2.8	*S&P 500/Cons. Staples*
Energy	6.8	(6.6)	0.2	(5.7)	1.0	1.0	15.9	(38.7)	26.8	14.1	3.2	*S&P 500/Energy*
Financials	5.2	12.5	36.2	13.4	17.6	1.3	13.5	(15.2)	15.0	9.2	1.8	*S&P 500/Financials*
Health Care	3.7	20.3	15.5	10.4	17.3	10.9	11.8	(13.1)	22.1	9.2	1.7	*S&P 500/Health Care*
Industrials	4.2	14.1	22.4	12.2	16.2	7.5	11.2	(11.3)	19.7	9.9	2.2	*S&P 500/Industrials*
Information Technology	8.6	27.4	28.9	17.4	17.4	10.9	12.8	(8.2)	23.1	12.0	1.4	*S&P 500/Info. Tech.*
Materials	6.0	15.8	21.3	6.7	11.3	5.5	14.4	(22.7)	20.4	8.7	2.1	*S&P 500/Materials*
Telecomm	6.8	(4.7)	(0.1)	5.3	5.6	4.1	13.9	(12.6)	14.8	3.6	5.1	*S&P 500/Telecomm*
Utilities	2.9	11.9	12.0	11.9	11.9	7.1	13.6	(12.7)	18.0	5.0	3.4	*S&P 500/Utilities*

Source: Morningstar Direct. Performance greater than one year is annualized. Performance is represented by the benchmark listed in the "representative benchmark" column. See important disclosures and definitions included with this publication.

(Chart from RW Baird)

US stocks continued the surge that began last fall with impressive participation. All US market caps, styles and S&P 500 sectors (save for consumer staples) saw gains in Q3. The Russell 2000 (small caps) had a notable run in the back half of the quarter as the index rallied 11% from its August 21st low to quarter end. Tech stocks continue to be the clear leader (up 9% in Q3; 27% year-to-date) while Energy and Financials showed impressive end of quarter strength.

Nothing has changed with respect to our long-term outlook as we continue to believe stocks are in the middle innings of a long-term secular bull market with years left to advance. The charts below show the span and ranges of history's secular bulls and bears for the Dow and S&P 500. From this zoomed-out, monthly view, we see that relative to past moves the market could still be in the early to middle stages of a long bull market phase.



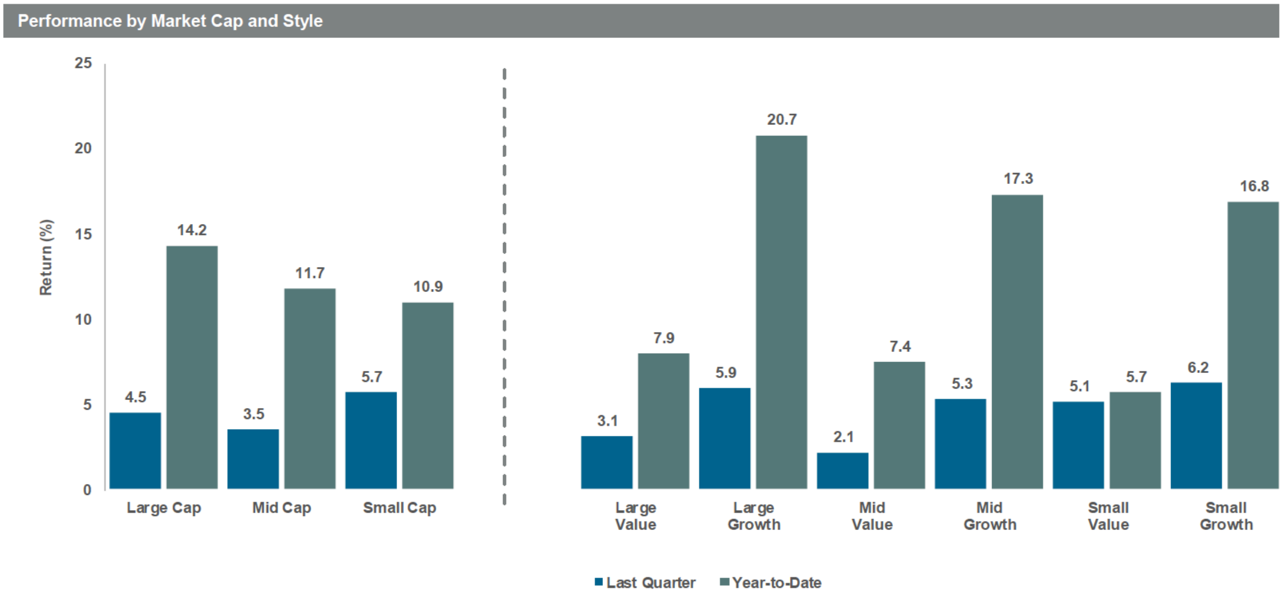
The S&P 500 only recently (in a relative sense) emerged from what amounted to a 13-year bear market. In the spring of 2013, the index finally eclipsed its previous all-time high range set in 2000, and briefly matched in 2007. We continue to believe that stocks have plenty of room to advance over the long-term.

As touched on in our opening comments, volatility has yet to make an appearance in 2017. The WSJ recently referred to 2017 as "the year the stock market never woke up" and the chart below makes it difficult to argue with that description. We've only seen a few spans in recent memory (25 years) where the market was able to march upward seemingly unimpeded.

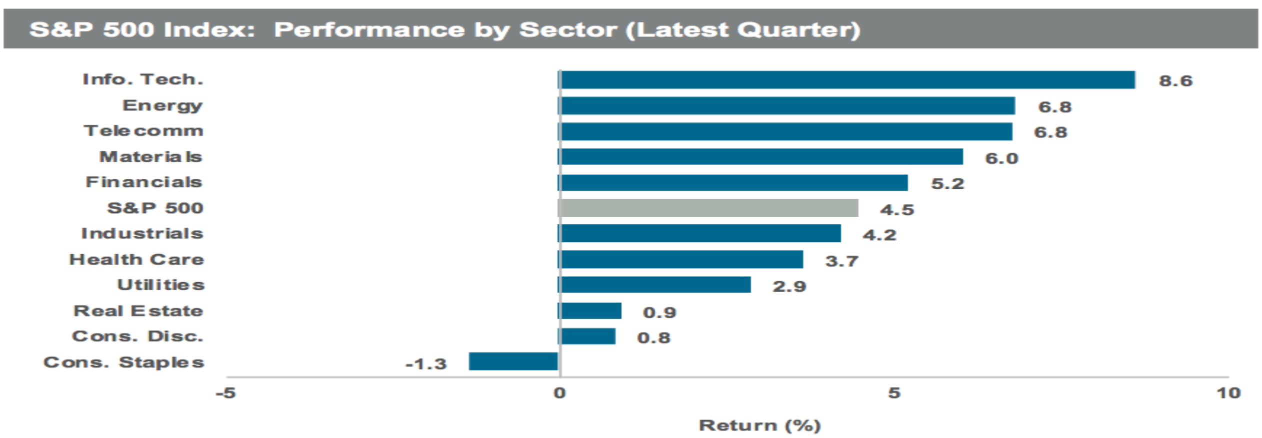
After going effectively nowhere for almost two years (December 2014 – October 2016), the S&P 500 has since rewarded investors for their patience by gaining 19% over the last year while the Dow is up nearly 26% over that span. More impressively perhaps has been the relentless path of the market's gains. As it stands today, 2017 is on pace to match 1995 for the smallest intra-year decline (just -3%) since 1980

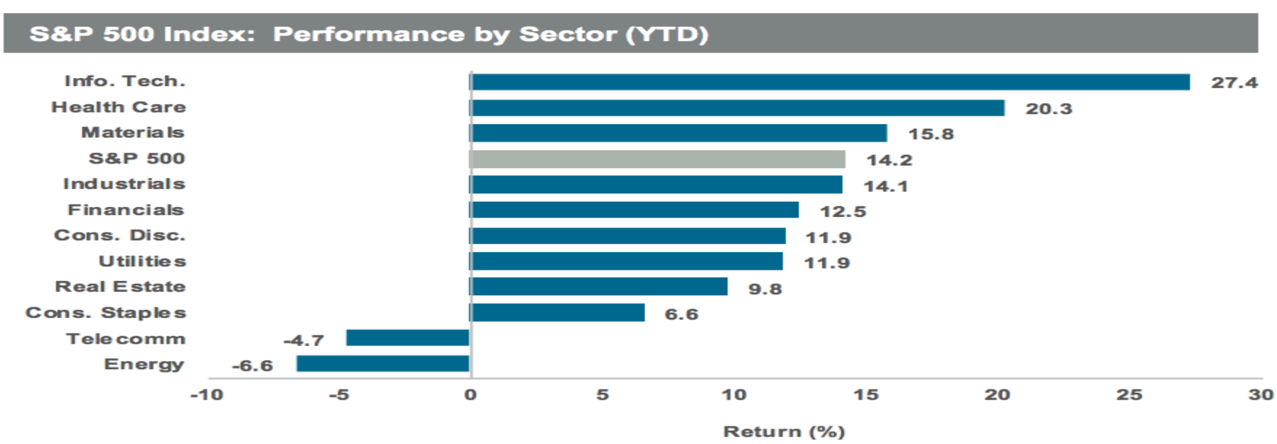
In a show of sustained strength, the S&P is currently trading above both its daily and weekly longer-term trendlines. And while the index does look a little overbought on the weekly chart it has managed to trade above its long-term weekly trendline for all of 2017 with little to no consequence.

While large cap stocks (S&P 500) are still outperforming mid-caps (Russell Mid Cap) and small-cap stocks (Russell 2000) on a year-to-date basis, small caps were able to outperform during Q3 (+5.7%). Style-wise, Growth stocks continued their 2017 dominance over Value across all market caps.



On a sector basis the traditionally more "growth-y" spaces like technology (+27.4% ytd) and health care (+20.3% ytd) continue to lead the markets higher. In another positive development, 2017's laggards, energy and telecom, were able to post strong performance in Q3 with each sector gaining 6.8%.

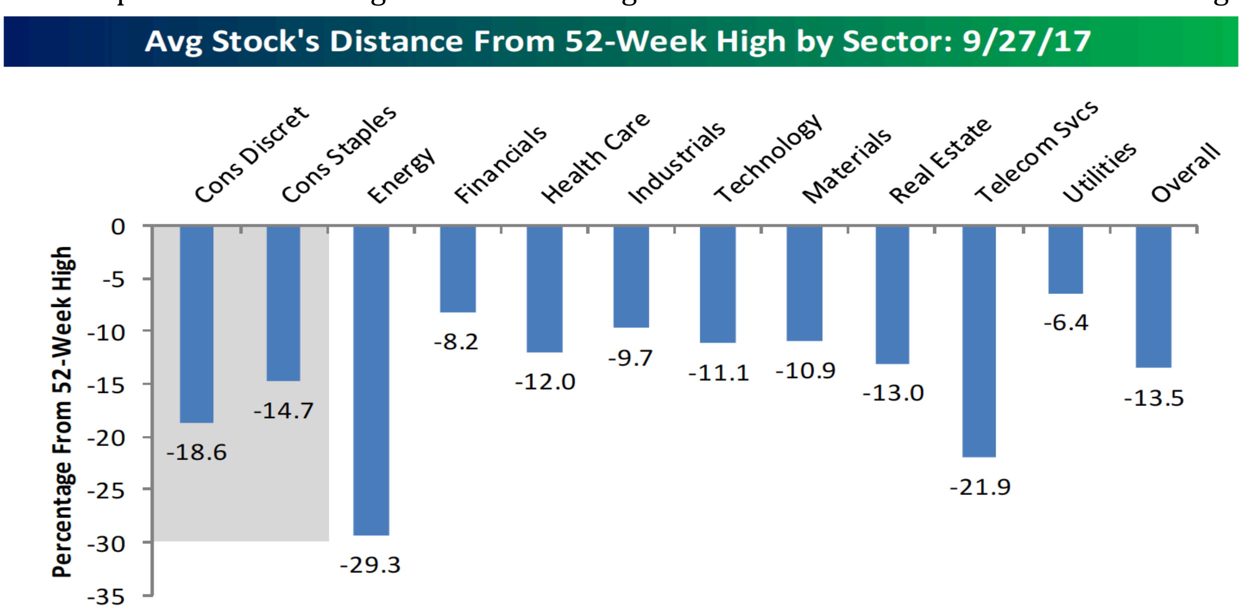




(Chart from RW Baird)

However, it's important to highlight that September delivered a bit of a twist to the 2017 playbook. We saw Value begin to outperform Growth (see ratio chart below) in the last month of the quarter and we are watching intently to see if this becomes a sustainable trend.

A few more notes on sector performance that we find interesting: With the major indexes and many sub-sectors at their bull market highs one would figure that the majority of stocks that make-up those groups would be as well. However, a look under the hood of the S&P 1500 (broken down by sector) paints a different picture. The average stock in each segment of the index is well off its 52-week highs.



Bespoke

This data point suggests a couple of things: 1) there are definitely pockets of strength in each sector (consisting of a handful stocks) that are working hard to keep their group and the market as a whole propped up and advancing forward. 2) It also tells us that investors continue to be incredibly cautious with their stock selection and should a broader rally take hold, this market could go much, much higher.

It's been widely noted that the S&P is on track to break the current record of trading days without a 5% pullback. We're closing in on day 360 and if we make it to early December we'll have gone nearly 400 days without a 5% fall (eclipsing the record of 394 set back in the mid-90s). 361 Capital thoughtfully decided to examine what's gone on under the surface and see which, if any, sectors have experienced a 5% drop over this same time period. What they found is that there have been 11 such pullbacks in the S&P sector ETFs over this span.

# of 5%+ Drawdowns over past 400 trading days...

SPY Equity	0
XLB Equity	0
XLE Equity	2
XLF Equity	2
XLK Equity	1
XLY Equity	0
XLI Equity	0
XLP Equity	2
XLU Equity	2
XLV Equity	1
XLRE Equity	1

We mentioned the absence of even a hint of volatility earlier and the VIX chart below brings home the message. It has officially flat-lined.

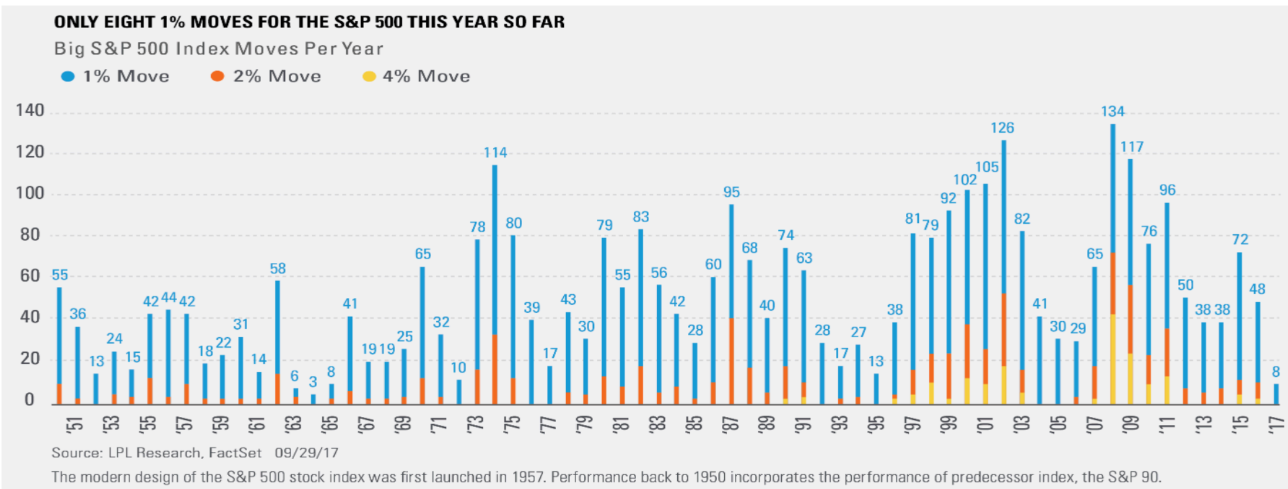
We could write an entire white paper on volatility's disappearance but below are just a few stats that fly in the face of historical precedent:

- As of the end of September, the S&P 500 had gone 42 consecutive weeks without a weekly move of 2% in either direction. Only the mid-1960s and mid-1990s have seen longer streaks.

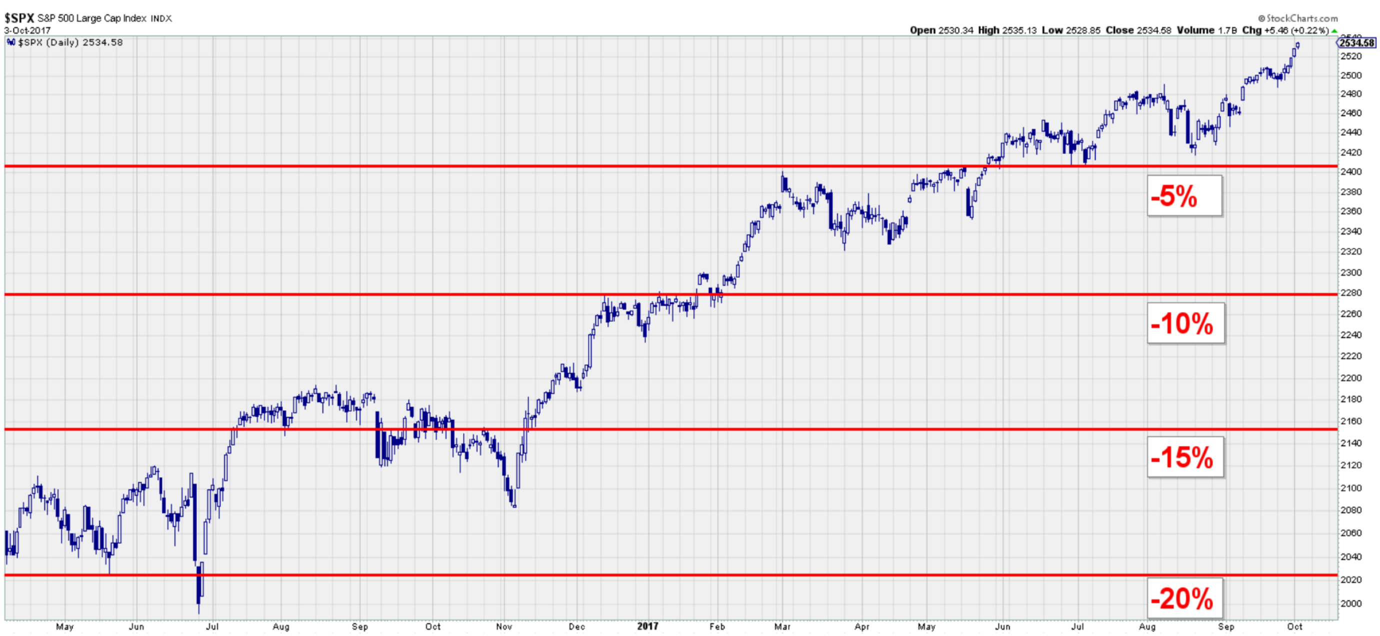
- September has historically been one of the more volatile months of the year. However, September 2017 had an average daily range of just 0.4% which is by far the smallest daily range for a September ever (looking back to 1920).

- The VIX has averaged 11.34 through the first nine months of 2017. If it stays this way it would be the lowest average since the index launched in 1993 and a full point below the 12.4 average registered in 1995 that currently stands as the lowest on record.

- As of 9/30/17, the S&P had moved 1% or more in either direction on just eight days. The last time was saw such an absence of 1% or greater moves was 1972.

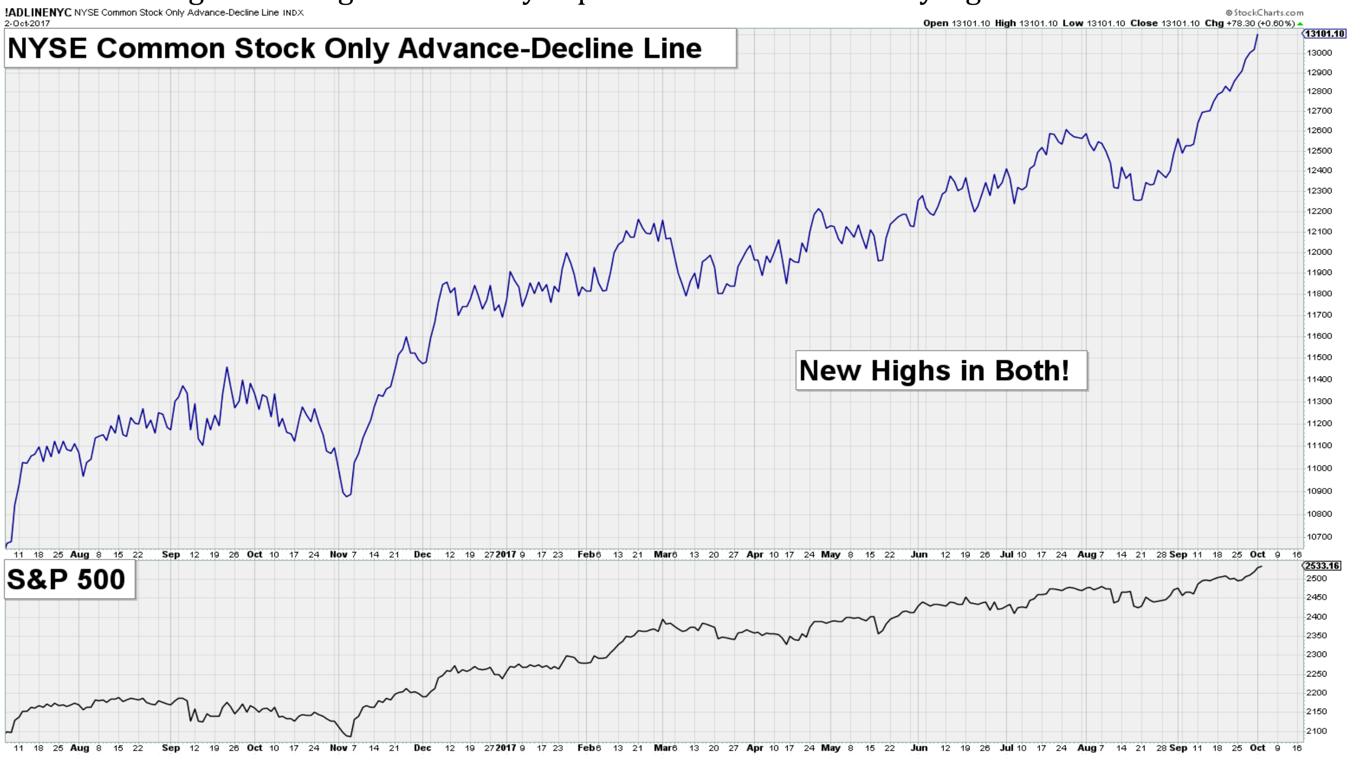


Over the last 40 years, the average intra-year drop for the S&P has been roughly 14%. The chart below shows that if Q4 got ugly and the index fell 15% from here it would only take us back to last November's post-election levels. Not the end of the world.



Source: Stockcharts.com

Things continue to look good from a participation standpoint as well. A current look at breadth via the NYSE Advance/Decline Line is confirming the recent series of all-time market highs. In fact, the A/D line has been racing to new highs since early September. This is a healthy sign.



(Chart from Raymond James)

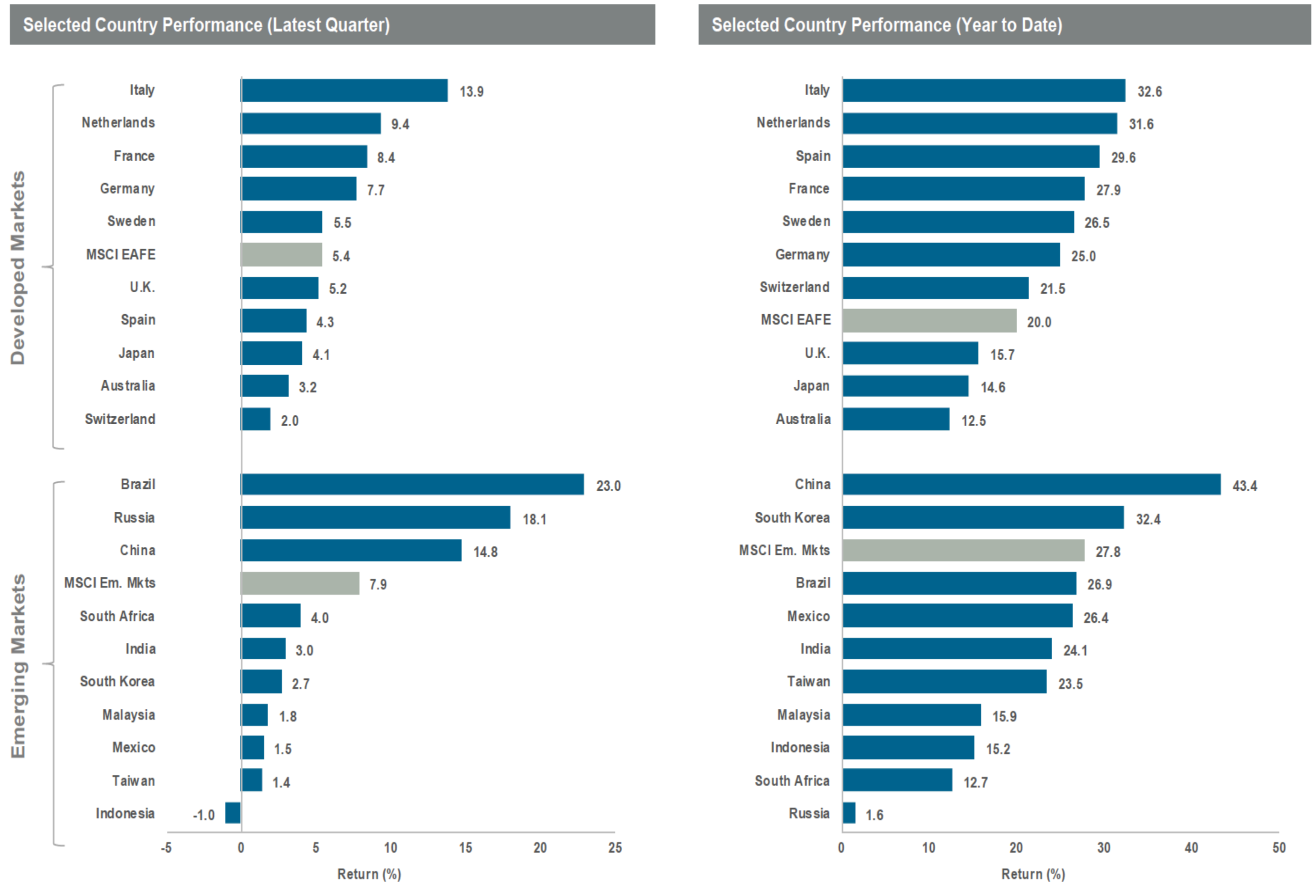
International Equity Markets

As of September 30, 2017

Asset Class/Region	Trailing Returns (%)						Annual Returns (%)			Benchmark
	Last Qtr	YTD	1-Year	3-Year	5-Year	10-Year	2016	2015	2014	
Broad Developed Markets										
Developed Markets (USD)	5.4	20.0	19.1	5.0	8.4	1.3	1.0	(0.8)	(4.9)	*MSCI EAFE (Net) USD*
Developed Markets (Local Currency)	3.4	11.2	19.0	7.9	12.3	2.6	5.3	5.3	5.9	*MSCI EAFE (Net) Local*
Currency Effect (USD - Local Returns)	*2.0*	*8.8*	*0.1*	*(2.8)*	*(3.9)*	*(1.3)*	*(4.3)*	*(6.1)*	*(10.8)*	
Broad Emerging Markets										
Emerging Markets	7.9	27.8	22.5	4.9	4.0	1.3	11.2	(14.9)	(2.2)	*MSCI Emerging Markets (Net)*
BRIC	13.9	33.2	28.2	7.6	5.5	0.3	12.4	(13.3)	(2.6)	*MSCI BRIC*
Returns by Style										
Value	5.9	17.6	22.5	3.5	7.8	0.5	5.0	(5.7)	(5.4)	*MSCI EAFE Value*
Growth	4.9	22.4	15.7	6.5	8.9	2.1	(3.0)	4.1	(4.4)	*MSCI EAFE Growth*
Large Cap	5.2	19.2	19.0	4.2	7.8	1.1	1.1	(2.1)	(5.5)	*MSCI EAFE Large Cap*
Mid Cap	6.1	22.6	19.6	8.7	10.8	2.5	0.7	4.4	(2.1)	*MSCI EAFE Mid Cap*
Small Cap	7.5	25.4	21.8	11.1	12.8	4.6	2.2	9.6	(4.9)	*MSCI EAFE Small Cap*
Returns by Region										
Europe	6.5	23.4	23.0	5.0	9.0	1.7	0.2	(2.3)	(5.7)	*MSCI Europe*
Japan	4.1	14.6	14.5	8.1	10.9	1.9	2.7	9.9	(3.7)	*MSCI Japan*
Pacific (ex Japan)	3.7	17.7	14.6	4.7	5.4	2.9	8.0	(8.4)	(0.3)	*MSCI Pacific ex Japan*

International markets have clearly asserted themselves as the equity market leaders in 2017. Both the MSCI EAFE Index (+20%) and MSCI Emerging Markets Index (28%) have dramatically outperformed US markets. This strength continues to be a welcomed development for asset allocators with a global focus who for the last few years had to standby and watch as US stocks were the only game in town.

The impressive Q3 and year-to-date performance were fueled by strong earnings growth, a weaker US dollar and more optimistic investor sentiment with regard to the political landscape. Further, Eurozone economies still have plenty of slack to stave off inflation so it's widely expected that Mario Draghi and the European Central Bank will continue be friendly with monetary policy.



(Chart from RW Baird)

Most positively though is that markets are finally rewarding investors for their patience. The MSCI EAFE Index has been in a strong up-trend for over a year as allocators have learned to balance the economic risks posed by Brexit (and similar scenarios) with encouraging fundamental developments found elsewhere. In fact, the EAFE sits comfortably above its long-term trendline and is challenging its 2014 and 2015 highs.

The chart above features the MVP of 2017, Emerging Markets. The asset class, as portrayed by the MSCI Emerging Markets Index, is up 28% this year and 22% over the last 12 months. We've said in prior quarters that the strength in EM might still be in its early stages and consideration for additional exposure could be warranted. The results of Q3 did nothing to change that stance. The chart below is a monthly ratio study of the EEM vs S&P 500. After years of relative underperformance, the tides have turned in favor of EEM as it has broken above the 30-month moving average, a feat not seen since early 2011.

Technicals/Seasonality/Sentiment

It shouldn't come as a surprise, after considering the data highlighted above, that the current technical picture looks rather promising. Markets are trending higher, breadth (by most measurements) looks good and the major indexes are trading above their key moving averages. A major question on many investor minds is "Can I buy the market here at all-time highs?"

It's a fair question to ask and there are plenty of reasonable responses. However, when we take a view of the world, economy and markets, we believe that any pullback of significance (5-7%) should be bought. There are simply too many things "working" right now to be overly fearful of a 15-20% fall in the major indexes. Global growth has returned, we still have historically low interest rates on our side, investor sentiment is firmly grounded and in-check, and from late-2014 to late-2016 the markets were mired in a two-year long journey to nowhere. The research team from Raymond James offers up a fair reminder that stocks, even at all-time highs, can always churn out years more of gains.

Source: Stockcharts.com

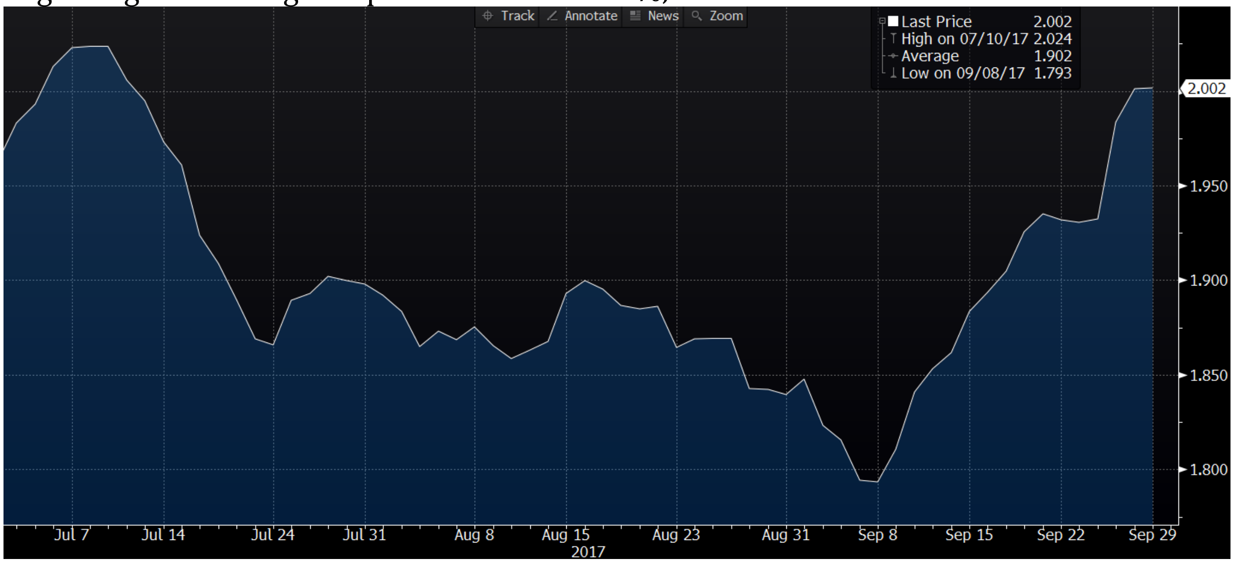
Source: Stockcharts.com

During the third quarter of 2017, the tug of war over a definitive trend in interest rates continued. On one side, tepid economic data and brewing tensions with North Korea led to a precipitous decline in interest rates in July through the beginning of September. On the other side, September's headlines were dominated by both the anticipation of the unveiling of Trump's tax reform plan (an outline was released at the end of the month) and a Federal Reserve that started to lay out a plan to reduce their balance sheet. These two headlines led to a spike in interest rates over the last few weeks of the month. Investment grade bonds, as a whole, were up for the quarter, continuing their strong performance for 2017 after a disastrous Q4 2016.

Using the 10-year US Treasury as a benchmark, interest rates during the third quarter completed a round trip. New lows for the year - 2.04% - were reached at the beginning of September before rising back to just over 2.3%, where it started the quarter. The chart below summarizes this movement:

Municipal bonds performed in line with treasuries during Q3, as a parallel tug of war continued between reduced supply/increased demand driving prices up on one side of equation, and the potential for cuts in individual tax rates and a resulting reduced demand for tax-exempt investment vehicles. For the week ending September 1, municipal bond funds experienced positive net inflows for the eighth consecutive week and 22 of the previous 24. In addition, July and September were 2 of the lowest months of new municipal bond issuance in 2017. As with Treasuries, these positive signs for municipals were partially negated going into the close of the quarter with tax reform proposals and negotiations looming. Furthermore, municipal bond issuance is projected to tick up in October. Over the past 5 years, October issuance has averaged $35 billion, making it the third heaviest issuance month of the year during that timeframe.

The 10-year AAA municipal benchmark interest rate followed a similar round trip path as treasuries, beginning and ending the quarter around 2.00%, as shown below:



As widely expected at their meeting on September 20, the Federal Reserve held the Federal Funds Rate to a target of 1% to 1.25% and announced the beginning of the unwinding of their $4.5 trillion balance sheet. With two meetings remaining in 2017, the market expects one more rate hike at the December meeting, with implied probability of 70% as of the end of the third quarter:

Meeting	Hike Prob	Cut Prob	0.75-1	1-1.25	1.25-1.5	1.5-1.75	1.75-2	2-2.25	2.25-2.5
11/01/2017	0.8%	0.0%	0.0%	99.2%	0.8%	0.0%	0.0%	0.0%	0.0%
12/13/2017	70.0%	0.0%	0.0%	30.0%	69.5%	0.5%	0.0%	0.0%	0.0%

While raising interest rates is one way the Fed can tighten monetary policy, the Fed can also tighten via the unwinding of their balance sheet. This in effect is the reverse of its QE programs. In their September statement, the Federal Reserve committee confirmed that starting in October, they will begin reining back the reinvestment of proceeds from maturing treasuries and mortgage-backed securities (MBS). This announcement came as no surprise as the Fed made clear in previous statements that they expected to implement a balance sheet normalization process in 2017. The process is expected to take several years and will begin gradually at a $6 billion monthly cap for treasuries and $4 billion monthly cap for MBS. The caps will increase in 3-month intervals by $6 billion for treasuries and $4 billion for MBS until they reach $30 billion and $20 billion per month, respectively.

Another important development to keep an eye on is who President Trump selects to be the next Chair of the Federal Reserve when Janet Yellen's term expires in February 2018. Yellen herself is a candidate for reappointment, along with current and former Federal Reserve governors Jerome Powell, Neel Kashkari and Kevin Warsh. Rounding out the list of candidates are White House economic adviser Gary Cohn and Stanford University economist John Taylor, famous for the Taylor Rule, an interest rate forecasting model designed to be a guideline for central bank policy. The table below summarizes important information about each candidate, shown on a continuum of their hawkish or dovish leanings with regard to monetary policy:

⇦ Hawkish leanings — Dovish leanings ⇨

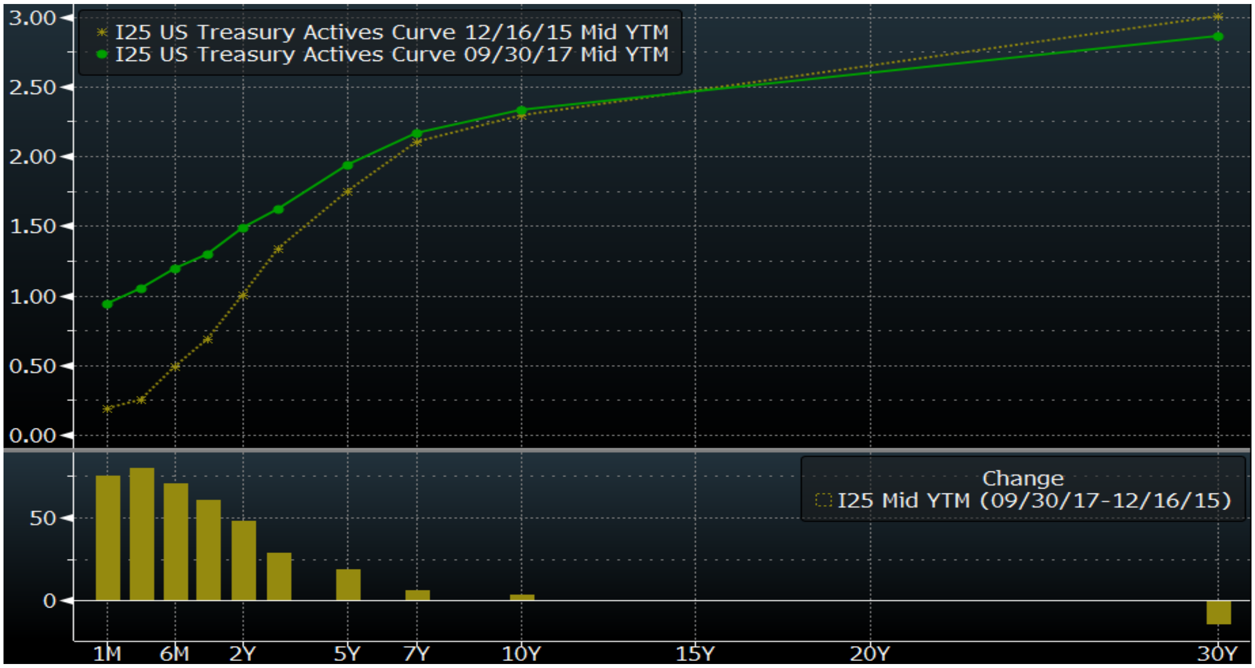
	John Taylor	Kevin Warsh	Jerome Powell	Janet Yellen	Gary Cohn	Neel Kashkari
Already named by Trump	No	Yes	Yes	Yes	Yes	No
Trained economist	Yes	No	No	Yes	No	No
Fed experience	No	Yes	Yes	Yes	No	Yes
Republican leanings	Yes	Yes	Yes	No	No, until recently	Yes
Other notable affiliations	Treasury, adviser to both Bush Presiden-cies, Hoover Institute	Hoover, George W. Bush adviser, Morgan Stanley	Treasury, Bipartisan Policy Centre, Carlyle Group	Berkeley, Clinton adviser, SF Fed	Goldman Sachs	Treasury, Goldman Sachs, Pimco

Source: Author's opinions

Warsh, Powell, Cohn and Kashkari would be unusual picks since they are not trained economists, as every Fed Chair since 1979 has been an economist. A decision is expected by the end of the year, as Congress must approve the nominee.

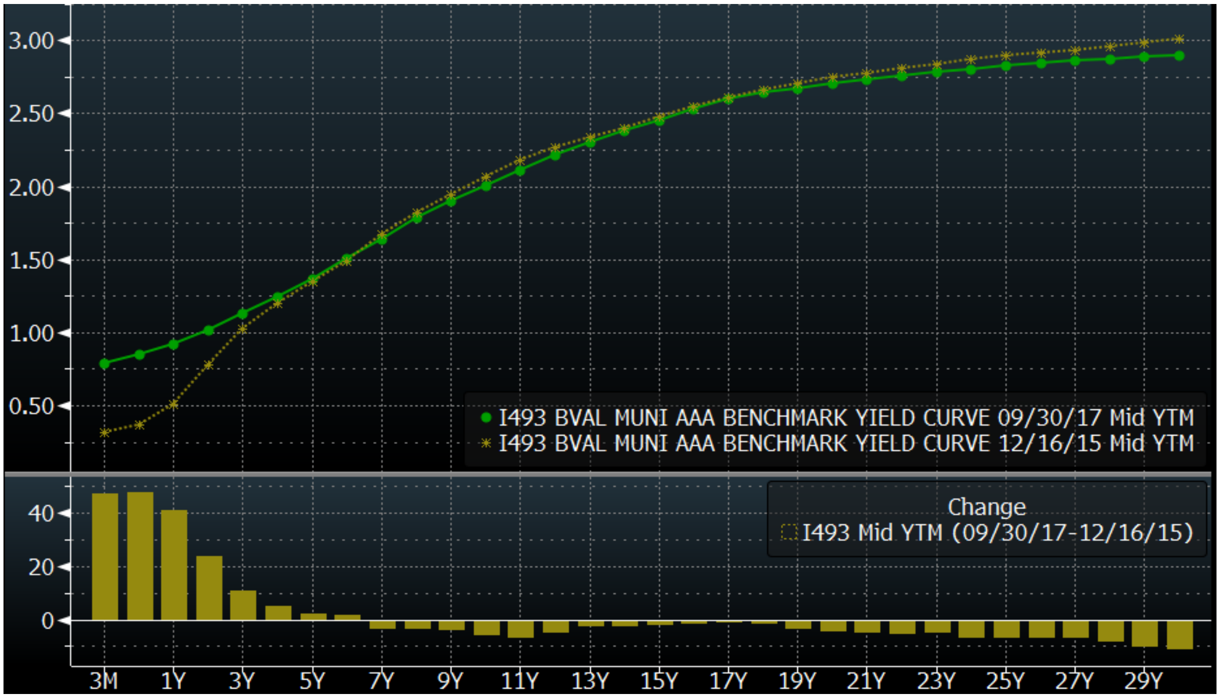
No matter who is chosen, we expect a sharp initial reaction in the fixed income markets. Clearly, each candidate has their own unique philosophy on monetary policy, including the pace of Fed Funds rate increases and balance sheet reduction. However, we believe ultimately that the Fed will remain data dependent and not do anything radical at the risk of stifling GDP and any inertia in wage growth.

With that decision looming, we can observe that the Fed's activity since beginning to raise rates in Q4 2015 has caused a noticeable flattening of the yield curve. The green line in the chart below indicates where the yield curve was at the end of Q3, and the gold line indicates when the Fed first raised rates in December 2015. Since the Fed sets their target rate on overnight loans they charge their member banks, their actions generally affect bonds with shorter maturities. The actions to reduce the balance sheet is expected to have a similar effect throughout the rest of the yield curve, assuming economic and inflation data strengthens. As a result, short-term interest rates continue their rise while longer term rates were little changed for the quarter due to the aforementioned tug of war.

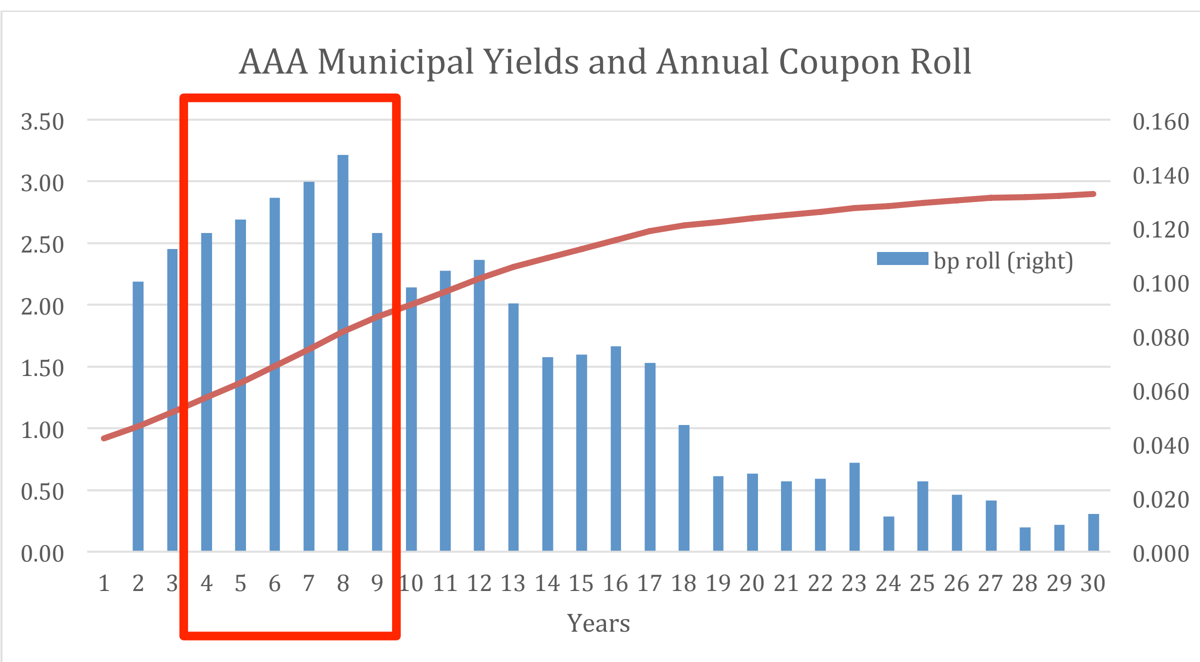


Another common tool we use to measure how much the yield curve has flattened is the difference between the 2-year and 10-year treasuries. During Q3, that difference continued to grind lower, eventually settling at 0.85. A new low for 2017 was reached in the beginning of September 0.77, again flirting with the lowest levels since the 2008 financial crisis.

Municipal bonds, specifically, experienced the same tightening since the Fed began raising interest rates. The chart below shows how the curve has adjusted, with the short end bumping up and the longer end flattening slightly, though not as much as treasuries. The green line is the AAA muni curve as of the end of Q3, and the gold line is the same curve on the day the Fed raised rates for the first time in this cycle in December 2015:



This flattening creates opportunity in the middle of the yield curve. The chart below shows the number of years to maturity on the AAA muni curve, with current yield (orange line) and annual coupon roll (blue bars). Annual coupon roll is best defined as the amount of coupon retained by a bondholder from the year-to-year amortization of a higher-coupon premium bond. Essentially, the higher the coupon roll, the more extra value (bps) a bond will generate from year-to-year based on shape of the yield curve. This effect is amplified when buying callable bonds. Together with greater absolute yields and higher percentage over treasuries, we position our tax-exempt municipal bonds around the area of the curve with the highest coupon roll highlighted by the red box, approximately 4-9 years:



From a technical perspective, the 10-year treasury made new lows for the year, reaching 2.04%. In the chart below, we continue to see lower highs (red circles) and lower lows (green circles) throughout the year and continuing into October. That pattern is generally consistent with a short-term downtrend. The 2.40% level is important since yields approached that level twice before, only to bounce off and made new lows for the year.

The 10-year treasury yield is close to fair value, according to the Bloomberg Intelligence Long Term Yield Model. This model incorporates a variety of inputs including the Fed's balance-sheet level, Fed Funds rate, GDP growth and CPI. The model has computed a fair value of approximately 2.39%. For context, in Q3 2016, the model projected 10-year treasury yields at 1.85% when in fact the market was at 1.6%. As the Fed continued to hike and GDP growth accelerated, the model predicted yields climbing. This model, like many economists, predicts that yields will continue to rise if consensus economic and Fed-hike forecasts are realized. However, current market sentiment remains skeptical and believes the Fed will hike interest rates just twice in 2018.

Further flattening in the treasury curve is widely expected if the Fed continues along their current path. The chart below from Bloomberg Intelligence forecasts several key interest rate measures going forward. As you can see, the expectation is for 2-year yields to climb at a much quicker rate than 5s, 10s or 30s. By the end of 2018, 2s are projected to rise 46 basis points (bps), a projected change that is well above the change 5s (26 bps), 10s (31 bps) and 30s (23 bps).

Forecasts	2s	5s	10s	30s
Actual 10/2/17	1.49	1.94	2.34	2.87
12/31/2017	1.55	1.90	2.30	2.95
3/31/2018	1.65	2.00	2.45	3.00
6/30/2018	1.80	2.05	2.50	3.05
9/30/2018	1.85	2.10	2.60	3.10
12/31/2018	1.95	2.20	2.65	3.10

Source: Bloomberg LP
Note: Updated as of 10/2/17, Yields(%)

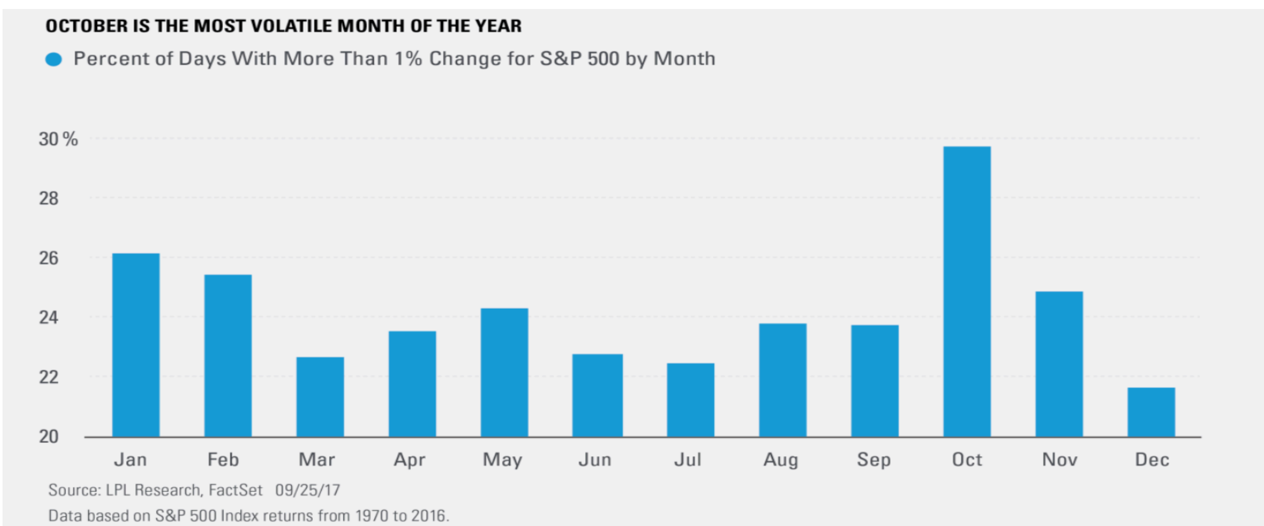
As usual, there are many important data points going into the end of the year that could affect interest rates. We expect the tug of war to continue between geopolitical uncertainty, sluggish economic data, progress in Congress on tax reform, and headlines from the Federal Reserve. While the trend in interest rates since December of last year appears to be down, any number of factors could cause a move to the upside, and breach the key 2.4% level or even reach new highs for this cycle. We expect a slight uptick going into the end of the year, but remain cautious and focused on finding value as interest rates are pulled in different directions.

Our general belief continues to be that the market is in the midst of a long-term, secular rise. We view any near-term pullbacks to likely be an attractive buying opportunity. While many investors, for one reason or another, have been under-invested during the huge move off the 2009 bottom, we do not believe they've entirely missed their chance to capitalize on gains.

The maximum drawdown for the S&P so far in 2017 is a very shallow 3%. Over history, only 1995 made it the entire calendar year with a smaller pullback. Then consider the time we've gone without a 5% pullback and it would be fair to expect a more meaningful drop in stocks over the next three months. If that comes to pass (assuming it be orderly and not caused by a larger, landscaping-altering event), we view such a decline as an opportunity to add further equity exposure especially for those "stuck" on the sidelines in cash.

Factor in the broad performance we're seeing in overseas markets and this environment has started to become an asset allocators dream. A global focus is being rewarded, correlations have relented and active management is working.

So yes, Mr. Twain, historically October has been quite the volatile month for stocks…



…but 2017 appears set on bucking that notion. We've yet to see a single 1% day thus far in October (and only 8 for the entire year!) and we're now firmly in the most bullish seasonal period of the calendar. Since 1950, the S&P 500 has gained an average of nearly 4% in the fourth quarter and has finished higher almost 80% of the time. Outside of some type of black swan event, which by definition are unpredictable, our current view for the market is that any risks to the downside are mostly contained.

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