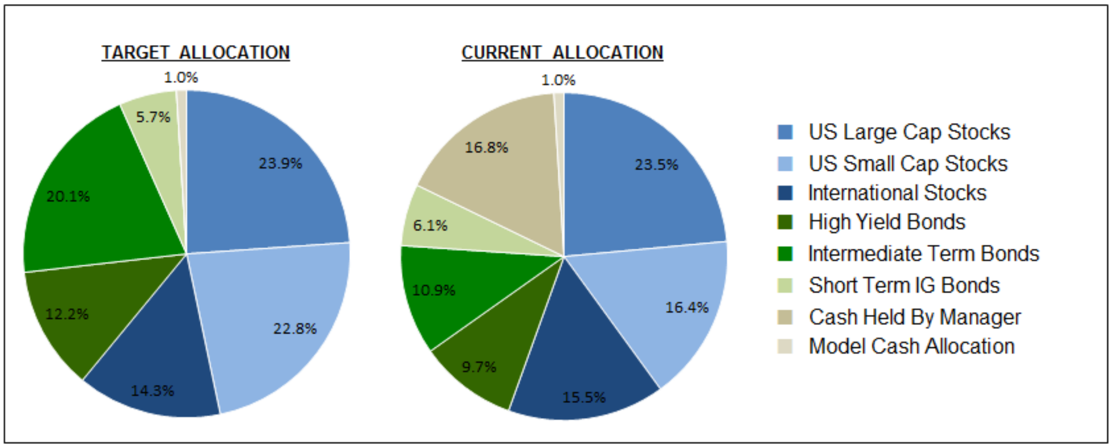
*General overall portfolio comments refer to the Moderate Growth allocations used in both the Pooled Fund Program and the Unified Managed Account Program. These general comments will be referred to as “Moderate Growth” throughout. Specific references to performance, current allocation, or comparison to indexes are derived from the CWA Model 5 Portfolio in the Pooled Fund Program; these specific comments will be referred to as “Model 5” throughout.

PORTFOLIO ANALYSIS

Overall Goal. We construct portfolios to generate a return that maximizes the probability that an investor will meet their retirement goals, as opposed to maximizing their asset base (which interjects significant risk). We believe that a value bias, international exposure and general diversification provide the best avenue to meet this objective. Our portfolios have lower volatility†, but can go through periods where they do not keep pace with the U.S. equity markets (the most common benchmark) because of our focus on value, fixed income and international stocks.

The **Moderate Growth Portfolio** is intended to provide a balanced allocation, with a slight overweight to equities over fixed income. The goal is to provide a balance of growth and income with lower volatility than an all-equity portfolio. Our target and current portfolio asset class allocations for Model 5 are listed below.



ACTUAL VS. TARGET

Underweight Equities

Equal Weight International Exposure

Underweight Intermediate and Long-Term Fixed Income

High Cash Position

LARGEST EQUITY AND FIXED INCOME POSITIONS

In normal market environments, Moderate Growth has a target allocation of 60% stocks & 40% bonds, with approximately 20% of the portfolio in international equities and fixed income. So, the portfolio is a global one – with a U.S. tilt. By design, the holdings are broadly diversified by location/country, by company size, by credit quality/yield and by maturity/duration. The investment managers have a degree of flexibility which allows them to respond to different market environments, and our equity managers are currently holding a large amount of cash (given current valuations).

† *as of 12/31/16, the 7-year volatility (standard deviation) of Model 5 is 6.6%, versus 12.7% for the S&P 500 Index.*

PERFORMANCE

The Moderate Growth portfolios in the Pooled Fund Program and the Unified Managed Account Program have slightly different investments, costs and thus returns. Accordingly, we direct you to your account statement for your individual performance.

In December, Model 5 (net of fees and expenses) market performed(1) compared to the U.S. 60/40 Index, under-performed the S&P Moderate Growth Index, and market performed(1) the Global 60/40 Index, which posted the following returns:

PERFORMANCE	DEC	COMMENTS
Global 60/40 Benchmark Index(2)	1.12%	Global bonds were down for the month, yet global equities outperformed domestic equities. Performance between both 60/40 benchmarks was very similar in a relatively quiet yet positive month.
US 60/40 Benchmark Index(3)	1.24%	
S&P Moderate Growth Index(4)	1.59%	

(1) "Market Perform" means within a range of +10 bps to -10 bps of the applicable index for the month (or +/- 8 bps per month for YTD performance); "Outperform" means more than +10 bps for the month (or more than +8 bps per month for YTD performance); "Underperform" means more than -10 bps for the month (or more than -8 bps per month for YTD performance). **Please note performance comparison comments are based upon Model 5 Pooled Fund Program data. There are inherent limitations in the use of model performance – please read the Model Disclosure found on page 7. Investors should consult their individual custodial statement for actual performance of individual portfolios. Actual performance comparisons may differ from model comparisons.**

(2) Global 60/40 Benchmark is 60% MSCI ACWI Index & 40% Barclays Global Aggregate Bond Index.

(3) US 60/40 Benchmark is 60% S&P 500 Index & 40% Barclays U.S. Aggregate Bond Index.

(4) S&P Moderate Growth Index is 50% S&P Target Risk Moderate Index & 50% S&P Target Risk Growth Index.

MARKET PERFORMANCE

Equities

PERFORMANCE	DEC	MULTIPLE	COMMENTS
U.S. Equities(5)	1.95%	22.6X	Domestic equities continued their post-election rally, particularly in the first half of the month, and appear to have momentum to continue in the first part of 2017.
International Developed(6)	3.44%	23.0X	International markets rallied strongly during the month as news of a bailout of the Italian banking system began to hit the wire. This issue was a negative drag on market sentiment overseas for the past several months and now appears to be put to bed.
Emerging Markets(7)	0.05%	15.5X	Emerging markets were virtually flat during the month, which is a positive given the slide they had experienced during the fourth quarter.

(5) U.S. Equities are represented by the Russell 3000 Index.

(6) International Developed is the MSCI EAFE Index.

(7) Emerging Markets is the MSCI EM Index.

Fixed Income

PERFORMANCE	DEC	SPREAD OVER UST 10 YEAR	COMMENTS
U.S. Treasuries (Medium Duration)(8)	-0.17%	-	The 10-Year Treasury was down once again in December, yet the pace of decline has slowed significantly and it appears that the Treasury market may be defining a new range after the Fed hiked rates in December.
U.S. Treasuries (Longer Duration)(9)	-0.56%	0.62%	The longer end of the treasury market was hit post the Fed raise in December, but not as badly as most expected. It appears the Fed raise was priced in, for the most part, prior to the announcement.
Global Fixed Income(10)	-0.46%	-0.81%	Global bonds were down for the month. The EU QE program is beginning to slow down which could take some of the stability underneath the European sovereign market.
Emerging Fixed Income(11)	0.92%	2.63%	Emerging market bonds enjoyed a nice reprieve after a few tough months.
High Yield(12)	1.85%	3.71%	High yield credit continues to outperform.

(8) U.S. Treasuries (7-10 Years), represented by the Barclays U.S.T 7-10 Yr Total Return Index
(9) U.S. Treasuries (20+ Years), represented by the Barclays U.S.T 20+ Yr Total Return Index
(10) Barclays Global Aggregate Bond Index.
(11) Barclays Emerging Markets EMEA Total Return
(12) Barclays U.S. Corporate High Yield Index.

Commodities and Real Assets. The Model 5 portfolios do not have significant exposure to commodities, except indirectly. However, commodities and real assets (real estate) provide a good sense of global demand (in the case of industrial commodities) or fear (gold).

PERFORMANCE	DEC	TREND	COMMENTS
Energy(13)	8.37%	UP	Energy continued to rebound as the thesis of a better overall global economy gained traction.
Real Estate(14)	4.22%	-	After a tough November the real estate market rebounded strongly during the month. Some follow through in the first couple of months of 2017 will give us an idea of the trend.
Industrial Metals(15)	-5.39%	-	Industrial metals were hurt during the month after an extremely positive November. We will see how they fare to begin the year.
Gold(16)	-1.79%	DOWN	Gold continues to struggle in the face of a stronger U.S. Dollar, and this will likely continue to be the story for 2017 given current market dynamics.

(13) S&P GSCI Energy Total Return Index.
(14) Dow Jones U.S. Real Estate Index.
(15) S&P GSCI Industrial Metals Total Return Index.
(16) Gold Spot Index in USD.

Market Comments

For the year, Model 5, net of fees and expenses, outperformed the US 60/40 Index, the Global 60/40 Index, as well as the S&P Target Moderate Growth Index.

Contributors to outperformance were a shorter duration positioning in fixed income, a positive contribution from security selection amongst our various equity managers and a healthy cash position that helped mitigate risk early in the year during the drawdown in January and February. Areas that negatively impacted performance were a relative underweight to utilities and financials amongst our various equity managers, as well as an underweight to the materials sector post-election. All in all, 2016 was a successful year from an investment standpoint and we now turn our attention to 2017.

2017 Outlook

We often mention Ben Carlson who runs the popular investment blog “A Wealth of Common Sense,” and regularly link to articles on his blog in this newsletter. Ben has a rare gift of being able to take complex and abstract investment concepts and boil them down to very simple and concise pieces.

In his book, also titled “A Wealth of Common Sense,” there is a chapter titled “Negative Knowledge and the Traits Required to Be a Successful Investor.” In it, Ben goes through many behavioral concepts that seem simple on the surface, but are actually the precursors to some of the most common mistakes human beings make as investors.

Faced with a market that is entering an unprecedented 9th straight year of gains, and a business cycle that has been long distorted by global central bank intervention, our 2017 outlook is constructive but is underpinned with a healthy dose of caution. We thought mentioning a few of Ben’s traits from the above-mentioned chapter would be helpful.

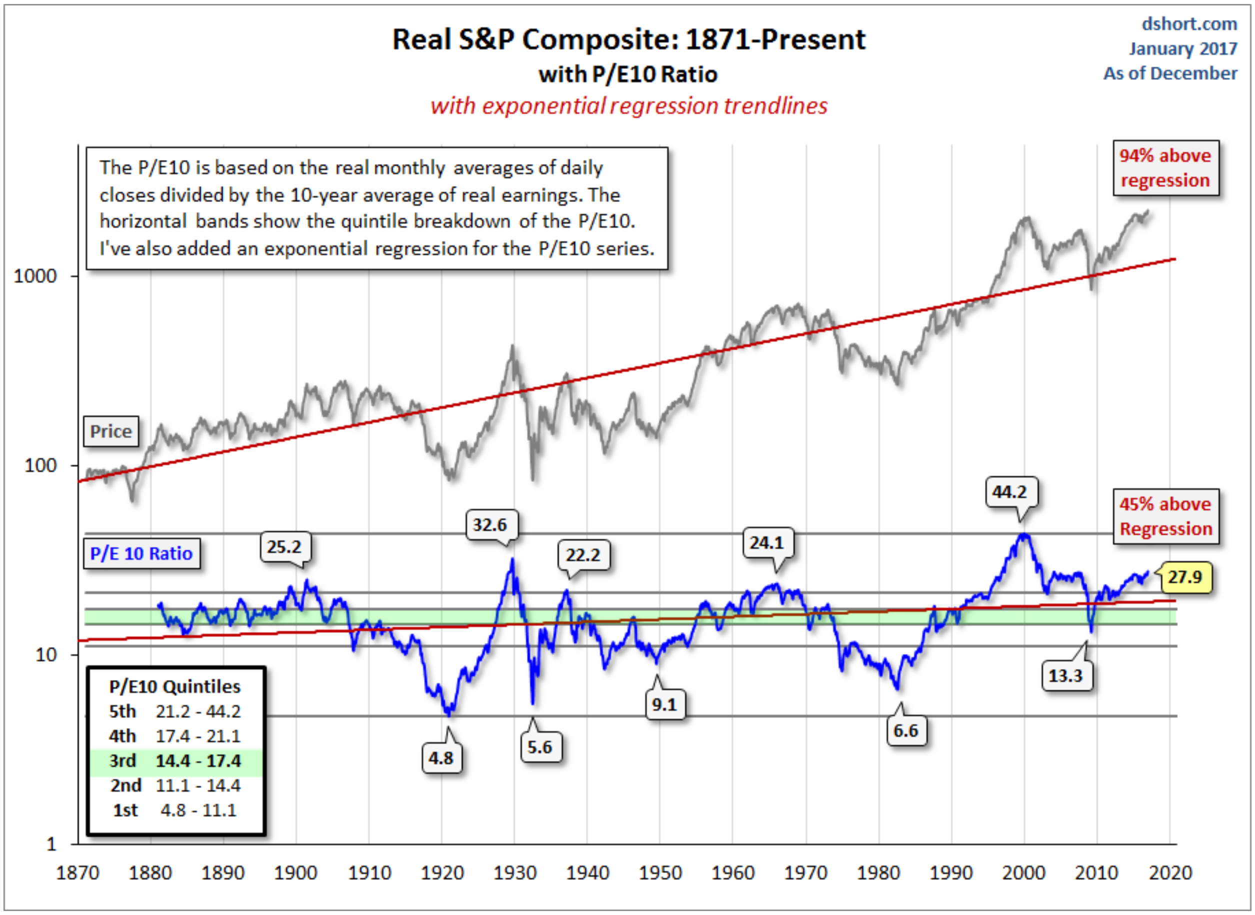
Focusing exclusively on the short-term - This concept seems very simple, yet it is probably the most difficult of them all. With information coming at us ever faster through social media and a continual shrinking news cycle, staying patient and long-term goal oriented can become frustrating and at times may feel impossible. This is why when making investment decisions for investors, we try our best to think in terms of full market cycles. Staying goal oriented in this environment we feel will be extremely important in 2017 as the new president takes office and several different policy initiatives take shape. Often times short-term reactions in the market can trick investors into making knee-jerk decisions and it will be important to keep this in mind as we enter 2017.

Discipline – “It doesn’t matter how great an investment strategy one has if they are unable to drum up the requisite discipline to follow it over various market cycles.” This is an important one. The strategy we employ uses investment theories that have been around and in use for a long time – particularly investing with an eye for value and not taking undue risks in the form of chasing return and stretching for yield. Markets that have run for 8 or 9 straight years can tempt investors to abandon strategies that have been working in order to try and reach for extra return, all the while taking their eye off the target and forgetting their risk management practices. It is important to stay the course.

With these two concepts in mind, here are some of our thoughts on the markets in 2017.

Equities: The stock market has enjoyed a nice run post-election, and the consensus seems to be that investors should be ready to enjoy a period of higher growth, a pickup in inflation, higher interest rates and a meaningful bump in employment and economic activity on the back of infrastructure spending by the new presidential administration. All of these things have historically coincided with periods of good returns for stocks. While we believe that the new administration will attempt to implement some deficit spending and to push growth higher, it is important to remember that – particularly in recent times – government policy has been difficult to execute and often times takes a lot longer to materialize than initially expected. The market seems to be pricing in much of this happening in the short-term, and we prefer to temper our optimism and to look to areas of the market that can benefit whether or not these policies are enacted.

Valuation in the market is still on the high end of historical ranges, which has previously led to periods of volatility, so we envision a scenario where the market can move higher but could prove to be very bumpy along the way. Valuations have also reached levels that would suggest muted returns on stocks from these levels. The P/E 10 Ratio, which we have discussed several times in these newsletters, remains at the 3rd highest reading since 1871.



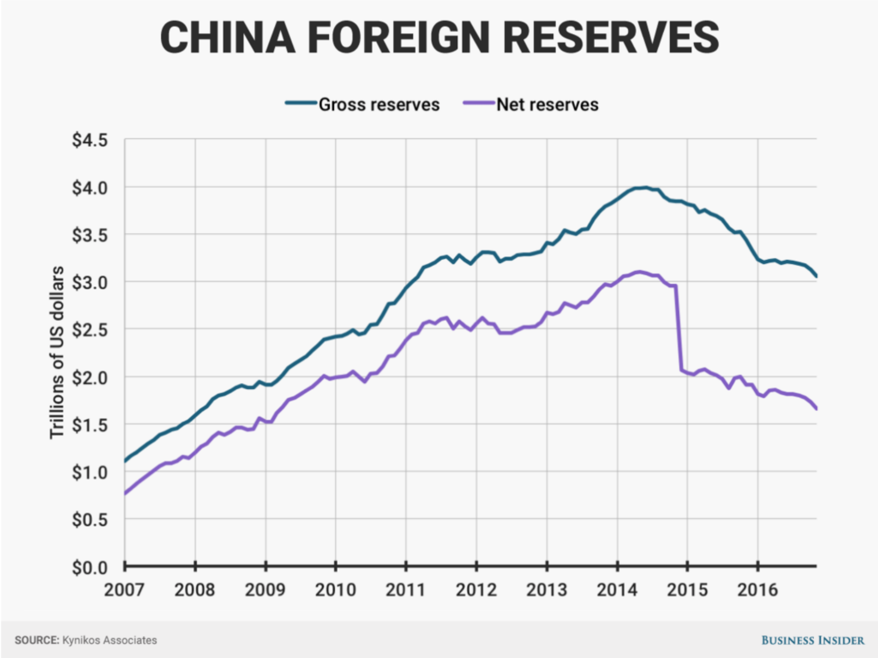
Fixed Income: The 10-Year treasury ended the year at 2.41% amid a post-election move higher in yields, as well as the Federal Reserve raising rates by another 0.25% in December. This was a pronounced move in yield in a short period of time. However, recent years have seen similar moves happen relatively quickly, so this is becoming a more common occurrence.

The Federal Reserve has stated that they expect to raise rates 3-4 more times in 2017, which would bring the discount rate in the 1.25% - 1.50% range by year end, if this happens. If there is indeed a pickup in inflation and growth this is a reasonable expectation. However, the past two years have been met by similar Federal Reserve statements to start the year, and in each instance the year was met with only one rate increase in December.

It is important to remember that higher rates do not necessarily mean large losses in bonds – it all depends on duration positioning in the bond portfolio. Our bond portfolio has been positioned on the shorter end for several years and we anticipate that it will remain so in 2017. Higher rates can also lead to better returns as entry yields move higher and the market begins to offer better returns and higher roll down yield. These are positives for bond investors and we remain constructive on bond positions in this environment. Also, bonds can be uncorrelated to the equity market during times of stress for stocks–this is an important concept to remember when constructing an allocation.

International Markets: Key issues in international markets for 2017 revolve mainly around the Brexit negotiations, central bank policy in Japan and China, and the strength of the U.S. Dollar's effect on emerging markets.

In Europe, negotiations between the U.K., France and Germany will be the key drivers that determine market stability throughout the year. A smooth exit for the U.K. should be a positive for European stocks, which appear to be in the early stages of a recovery after several years of relative underperformance to domestic equities. The relative value between a domestic stock and a stock of a similar company in Europe is quite large, and a smooth Brexit could pave the way for a better landscape in Europe for returns in the coming years. Our models remain equal weight internationally due to the value differential.



China: China remains and will likely continue to remain the wildcard for global markets in the coming year. A stronger U.S. Dollar, combined with a weakening Chinese currency threatens to destabilize China's financial system and would therefore threaten the global economy. China has instituted capital controls and continues to burn through reserves – which now stand at $3 trillion from nearly $4 trillion a year ago – in effort to stabilize its economy.

Growth forecasts for China in 2017 have been lowered to 6.5% - but many believe that actual growth is much lower and that these numbers are very generous. Along with the lowered forecasts comes rising speculation that China will once again resort to a one-off devaluation of their currency (the last time they did this was August of 2015). China is contending with a property bubble and several financial bubbles in their country. We believe that the odds of China being able to navigate all of these issues and come out unscathed are rather low, and continue to believe that China is the largest potential driver of systemic market risk globally.

Oil: The energy market rallied modestly in 2016. A late cut in production by OPEC and a follow on cut by Russia should help the oil market reach equilibrium in early 2017, and thus end the supply side recession. Capital expenditures have moved to shorter duration projects, which will help corporations maintain healthier balance sheets. Unless the U.S. Dollar were to become extremely strong, or China were to negatively affect the global economy, we believe the oil market to be stabilized and to continue to modestly improve over the coming year.

Conclusion: We remain cautious as we begin 2017, based mainly on valuation in the markets and the potential for China to have an issue that affects the global economy. However, we remain optimistic that market dynamics will continue to favor our strategy, and that the market will become more of a "stock pickers" market which favors value managers and managers that have the flexibility to hold cash during overvalued or turbulent times. We are also optimistic that the shorter duration positioning in bond portfolios will allow for positive returns in 2017.

Further Reading

1) **Fed Expects Gradual Rate Increases in the Next 2 Years**, Pensions & Investments, January 4, 2017

   http://www.pionline.com/article/20170104/ONLINE/170109956/fed-expects-gradual-rate-increases-in-next-2-years

2) **China's choices narrowing as it burns through FX reserves to support yuan**, Reuters, January 5, 2017

   http://www.reuters.com/article/us-china-economy-forex-reserves-analysis-idUSKBN14P0QV

For questions, or to request additional information, please contact your CWA Financial Planner.

DISCLOSURES

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CWA Model 5 Moderate Growth Pooled Fund Program: The target allocation and portfolio data used throughout this presentation is for the CWA Model 5 recommended for participants in the Pooled Fund Program. This Model is the most common recommendation and is used here to illustrate the CWA methodology. Other CWA Recommended Investment Program models will vary in asset allocation and underlying manager and/or security selection. Clients should discuss these models and programs with their planner prior to selection.

Model Performance Disclosure: Model performance is NOT an indicator of future or actual results. Performance does not represent the returns that any individual investor actually received. Cain Watters Investors may incur a loss. *Cain Watters Models contain allocations to several different common pooled trust funds. Each individual pooled trust fund has a defined investment strategy; usually designed around a specific asset class. Investment managers and their respective strategies are chosen to meet each of the pooled funds' objectives. Investors in the models pay a monthly asset based trust fee, based on their average investment balance during the month. Model performance is calculated using the reported net asset value of each individual pooled fund. Performance for the individual funds is then weighted according to the model target allocation. Model performance includes the reinvestment of dividends and interest. The annual trust fee of 0.65% is subtracted from gross returns on a pro-rated basis of 0.0541% per month; and includes trust fees and investment advisory fees. For time periods prior to July 1, 2016 an annual trust fee of 1.05% or 0.0875% per month was used. Model performance has inherent limitations in that it does not reflect the effects of significant cash flows, or take into account actual client asset allocation that may differ materially from the target allocation due to rebalancing policies and changes in market values. This model performance information is provided for illustrative purposes only. Cain Watters Model investors may experience materially different returns.*

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