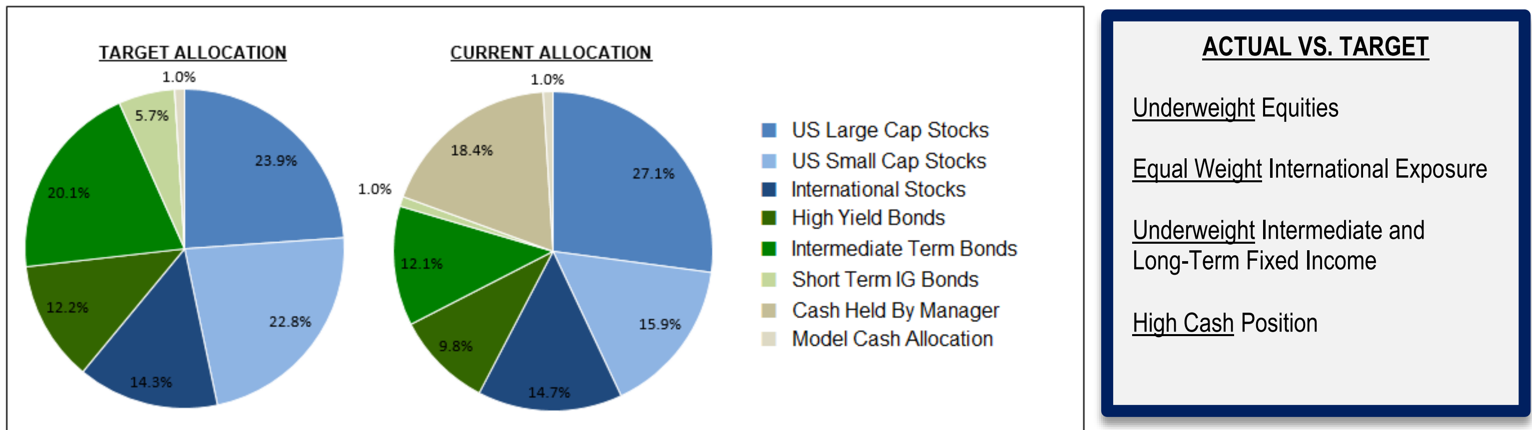
*General overall portfolio comments refer to the Moderate Growth allocations used in both the Pooled Fund Program and the Unified Managed Account Program. These general comments will be referred to as "Moderate Growth" throughout. Specific references to performance, current allocation, or comparison 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.



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 12/31/2017, the 7-year volatility (standard deviation) of Model 5 is 5.9%, versus 10.6% 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 and S&P Moderate Growth Index, and underperformed compared to the Global 60/40 Index, which posted the following returns:

PERFORMANCE	DEC	COMMENTS
Global 60/40 Benchmark Index[2]	1.12%	U.S. stocks performed well to close out the year, with international stocks once again outpacing the U.S. for the month. The U.S. markets recorded gains in every calendar month during 2017, which is the first time this has happened in history.
US 60/40 Benchmark Index[3]	0.84%	
S&P Moderate Growth Index[4]	0.90%	

(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]	0.99%	24.1X	U.S. stocks had another solid month to end the year. Stocks continued to drift higher on new of confirmation of the new tax reform package. The U.S. markets recorded gains in every month of the year for the first time in history.
International Developed[6]	1.63%	19.9X	European markets outpaced the U.S., which was a common theme for 2017. International stocks are benefitting from U.S. dollar weakness as well as improving growth metrics and a more attractive relative valuation to domestic equities.
Emerging Markets[7]	3.49%	15.9X	Emerging markets had a huge month, likely bolstered by the prospects of the U.S. expanding its trade deficit due to the tax reform package.

(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)	0.21%	-	The curve continued to flatten during the month.
U.S. Treasuries (Longer Duration)(9)	1.81%	0.32%	Long bonds improved during the month as the curve flattened, potentially continuing to signal that long-term inflation expectations are muted. Spreads modestly tightened.
Global Fixed Income(10)	0.35%	-0.75%	Global bonds earned a modest return during the month.
Emerging Fixed Income(11)	0.65%	1.95%	Emerging market bonds had a nice month on the backs of improving metrics in EM due to favorable global growth prospects. Spreads modestly tightened.
High Yield(12)	0.30%	3.13%	High yield had a modest month in the risk on environment that was December. High yield remains near historic lows as far as spread, and we would anticipate lower gains in the intermediate term than we have enjoyed over the past several years.

(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)	5.91%	UP	Energy had a strong month due to weather related issues, particularly in the North East, as well as improving global growth prospects and favorable impact of the new tax law to the industry.
Real Estate(14)	-0.08%	UP	Real Estate still remains in an uptrend despite a flat month in December.
Industrial Metals(15)	8.03%	UP	Industrial Metals had an extremely strong month, bolstered by improving global growth metrics.
Gold(16)	2.11%	-	Gold enjoyed a nice pop during the month. We still point to the exuberance around cryptocurrency as a potential reason that gold has not been as popular of a topic in 2017.

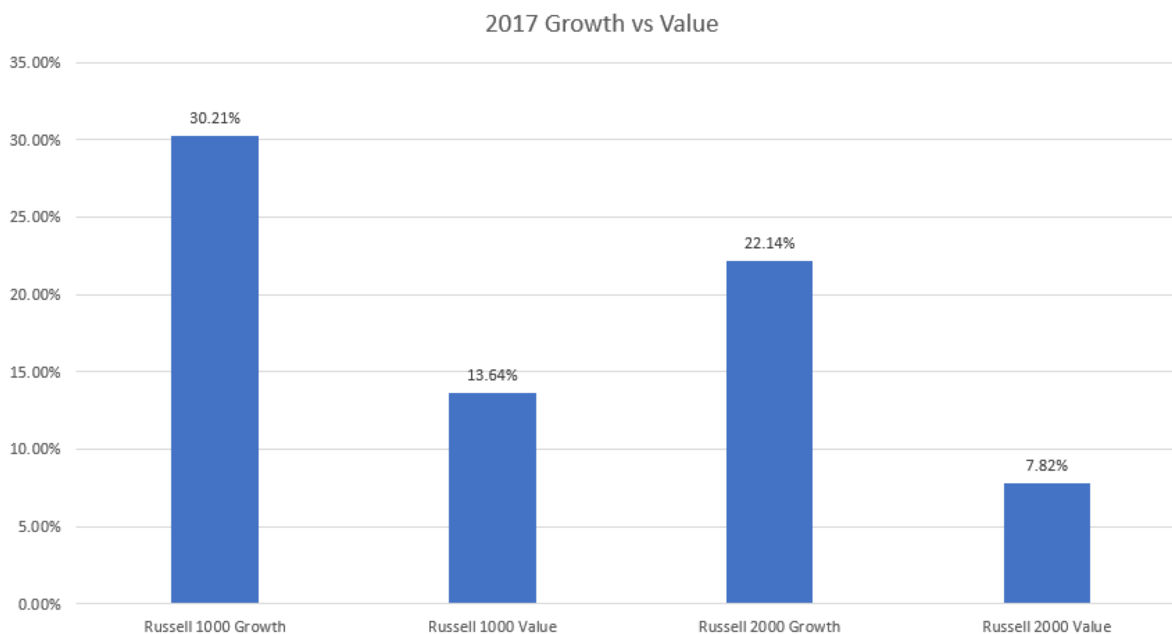
(13) S&P GSCI Energy Total Return Index.
(14) Dow Jones U.S. Real Estate Index.
(15) S&P GSCI Industrial Metals Total Return Index.
(16) SPDR Gold Shares (GLD).

Market Comments

John Maynard Keynes, the famous British economist who is responsible for Keynesian economics and its various offshoots, used the term “animal spirits” in his 1936 publication “The General Theory of Employment, Interest and Money.” This term was used to describe the human emotion that drives consumer confidence and investor behavior.

In 2017, animal spirits were alive and well. The S&P 500 recorded a 21.8% gain, despite beginning the year with the third highest valuation metric on record (as measured by the Shiller PE Ratio**). The S&P 500 also recorded a gain in every month of the year which was the first time this has happened in recorded history, which is remarkable. International equities outpaced the U.S., posting a 24.6% gain as measured by the MSCI World Index.

2017 was also a year in which Growth outperformed Value by a significant amount. Model 5 portfolios are value tilted, so this negatively affected relative performance for the year. However, these trends are historically mean reverting, and Value has outperformed Growth by 1.9% per year since 1926 (as measured by Fama and French, see disclosures+). We saw a similar period in 2015-2016, in which value underperformed, only to outperform the subsequent year. While past performance does not guarantee future results, over the long-term, investing with an eye for value has been a winning strategy and we currently believe this will continue to be the case in the future.



Source: Bloomberg

Bond returns in the U.S. were 3.54% versus 7.39% for international bonds. Despite a year in which growth expectations were ratcheted up and the Fed raised rates several times, the 10-year U.S. Treasury ended with roughly the same yield as it began the year. The curve has been flattening, with longer-term Treasuries rallying. This typically signifies muted long-term inflation expectations, as well as the potential for a slowdown due to debt dynamics in the next 18-24 months.

The new tax reform bill was passed in the 4th quarter, and it served to give a boost to an already ebullient stock market. Stocks began a “melt up” pattern after it became clear we were on the doorstep of passing the reform. This melt up was characterized by historically low volatility and an appetite for risk that hasn’t been witnessed since the late 1990s. The tax reform bill should help corporate earnings in 2018, thus lowering current multiples and giving stocks the potential to run

back up to current P/E valuation levels. There is also the potential for companies to repatriate capital (money held in foreign accounts by U.S. based companies) and there is a belief that this could lead to higher corporate spending and share repurchases – both of which are near term bullish for the market.

The tax cut will likely also cause the trade deficit to rise – some estimate by as much as $1.8 trillion. This is also short-term bullish for the markets. Longer-term remains to be seen, however historically running lofty trade deficits has worked against growth and has led to recessions.

The majority of the above comments are bullish, and the start of 2018 has seen the animal spirits continue. However, coupled with tax reform and market euphoria, the U.S. is entering what could prove to be a very volatile geopolitical environment. This past Tuesday, President Trump issued a tweet in which he bragged that the U.S. nuclear button is "bigger and works" as compared to the North Korean one. The market shrugged this comment off, but the comment is indicative of an environment that could lead to issues down the road. Tensions with Iran and European Brexit concerns are also alive and well, as are China's issues with their currency and property bubbles (although it appears the market is granting China a temporary reprieve). The market historically does not price in idiosyncratic events very well, and thus any of the above is a threat to the market at any given time.

Additionally, the animal spirits awoke at a time when the market was the most expensive it has been since the technology bubble of 2000 and right before the Great Depression (as measured by the Shiller PE ratio). While this ratio is not predictive of short term market movements, it has been historically predictive of lower than average returns for equities over the next 10 years when valuations have reached these levels.

The geopolitical environment, combined with current market valuation levels, lead us to conclude that it is important to make sure sound risk management practices are in place. This does not mean that investors should sit on the sidelines – quite the contrary given the amount of good economic news on a global scale. It simply means that "keeping the eye on the ball" is paramount, and to not let animal spirits take over and get in the way of good judgement.

Further Reading

1) **The Year American Hegemony Ended,** Observer, December 31, 2017

   This article outlines the current geopolitical environment and how tenuous the US' hold as the global leader has become. This article describes a multitude of issues that we believe may impact markets over the near and intermediate term.
   http://observer.com/2017/12/president-trump-inherited-a-hegemon-in-decline-inflicted-more-damage/

2) **Energy Investors: Behold the Miracle of the Tax Law,** Wall Street Journal, December 22, 2017

   This article describes the favorable prospects to the energy industry from the new tax law.
   https://www.wsj.com/article_email/energy-investors-behold-the-miracle-of-the-tax-law-1513960315-kIyTDAtMU03QjJCMy0yNjM1Wj/

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

DISCLOSURES

PAST PERFORMANCE IS NOT AN INDICATOR OF FUTURE MARKET RETURNS.

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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.

***The CAPE ratio is a valuation measure that uses real earnings per share (EPS) over a 10-year period to smooth out fluctuations in corporate profits that occur over different periods of a business cycle. The ratio is generally applied to broad equity indices to assess whether the market is undervalued or overvalued. While the CAPE ratio is a popular and widely-followed measure, several leading industry practitioners have called into question its utility as a predictor of future stock market returns. The CAPE ratio, an acronym for Cyclically Adjusted P/E (i.e. Price-Earnings) ratio, was popularized by Yale University professor Robert Shiller. It is also known as the Shiller P/E ratio.*

+*Statements relating to Value outperforming Growth are based upon the data of the Fama-French 3-Factor Model. A pioneering study by renowned academics, Eugene Fama and Ken French, suggesting that three risk factors: market (beta), size (market capitalization) and price (book/market value) dimensions explain 96% of historical equity performance.*

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.*

Use of Comparison Benchmark or Index: Indexes cannot be invested in directly. Index performance and statistics are provided for illustrative or comparison purposes and are chosen as commonly accepted representations of the performance of a particular segment of the market.