Market Update and Model Portfolio Reviews 5/31/2018

For the month of May, investment grade domestic bonds* were up 0.71% and down -1.50% on the year. Month over month, large cap domestic equities** finished up 2.41% and turned back to positive territory, year to date, up 2.02%. Yields on Treasuries, reaching maturity over the next 1-6 months, rose higher over the month while yields on Treasuries with maturities in the 1-30 year range fell over the month. Treasuries reaching maturity in 1-6 months yielded their highest levels since 2008, as the short end of the yield curve continues to drive higher. June is a big month for central bank decisions, with policy decisions set to impact markets around the globe. The U.S. Federal Reserve, the European Central Bank ("ECB"), and the Bank of Japan("BOJ") all meet the third week of June. As customary to these meetings, policy rate decisions as well as forward outlook on price levels (inflation) and labor market expectations will be discussed and presented to market participants. The consensus in the U.S. is that there will be another rate hike in June. The ECB is expected to continue their net assets purchase program through September (quantitative easing / monetary stimulus). The markets will be looking for any hints as to whether the ECB will continue their quantitative easing past September or whether they will start to wind down monetary stimulus in September. Lastly, the BOJ will likely also exit the month of June without any policy rate changes with their stated mandate of keeping prices (CPI - inflation) targeted at 2% year over year growth. The BOJ is currently well below these price levels.

YTD 5/31/18 Net of Fees	% Return Strategy	% Return Benchmark	Relative Over (Under) Performance
Ultra Conservative	-0.79%	-1.53%	0.74%
Conservative	-0.80%	-1.16%	0.36%
Moderate	-0.79%	-0.79%	0.00%
Balanced	-0.84%	-0.43%	-0.41%
Growth and Income	-1.08%	-0.06%	-1.02%
Growth	-1.03%	0.31%	-1.34%
Aggressive	-1.06%	0.68%	-1.74%
Ultra Aggressive	-1.60%	1.04%	-2.64%

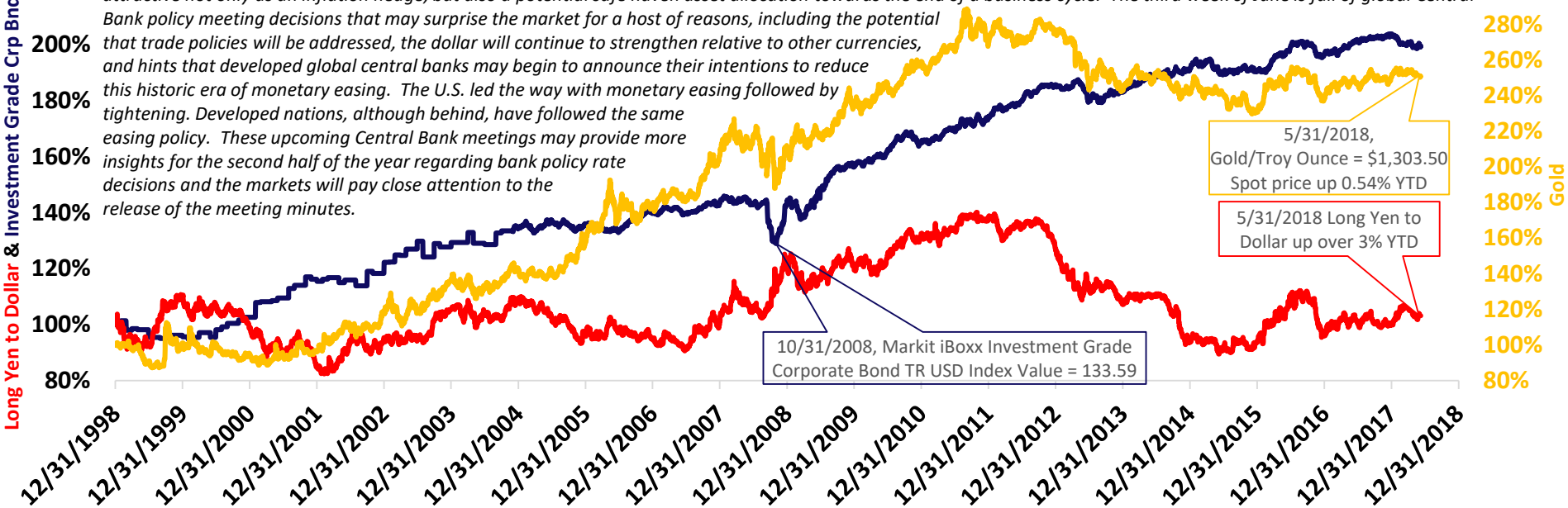
MTD 5/31/18 Net of Fees	% Return Strategy	% Return Benchmark	Relative Over (Under) Performance
Ultra Conservative	0.18%	0.91%	-0.73%
Conservative	0.23%	1.08%	-0.85%
Moderate	0.32%	1.26%	-0.94%
Balanced	0.26%	1.44%	-1.18%
Growth and Income	0.30%	1.61%	-1.31%
Growth	0.36%	1.79%	-1.43%
Aggressive	0.39%	1.97%	-1.58%
Ultra Aggressive	0.41%	2.14%	-1.73%

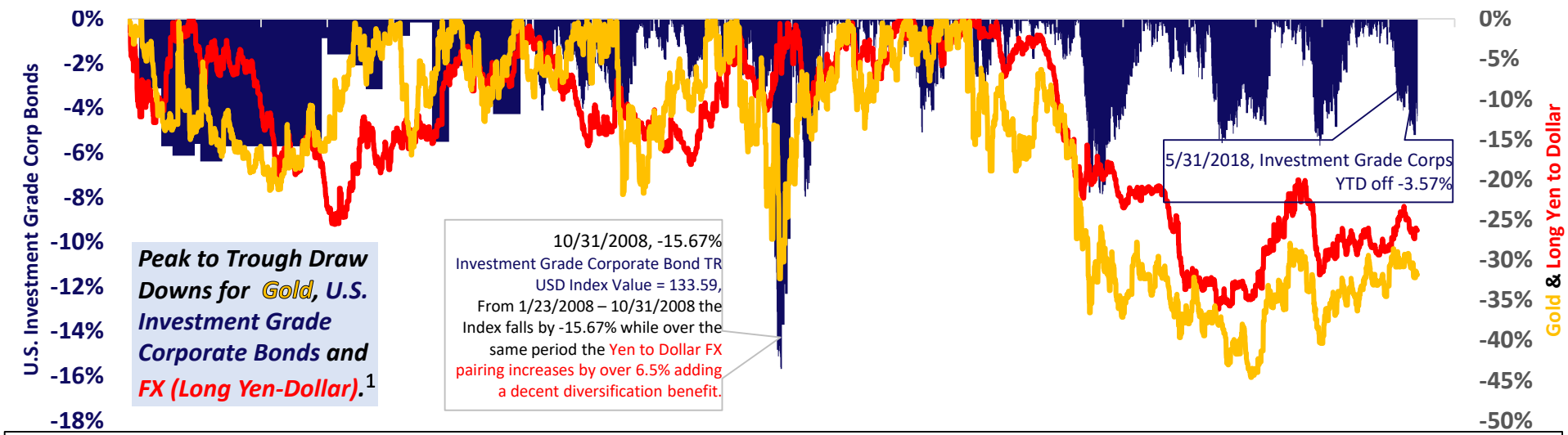
Year to date, three of the eight model portfolios outperformed their benchmarks. Month over month, relative model performance to the benchmark was negative across the board. The continued strength of the dollar hurt our local currency sovereign debt exposures and was the largest detractor from the models overall underperformance. We **do not** have allocations to any of the following countries through our bond allocations: Italy, Spain, Greece, Portugal and Venezuela. (Good luck buying any Venezuelan Debt, as the list of sanctions is seemingly endless). Brazilian Real and Mexican Peso denominated debt added to intra month detraction, as both currencies weakened against the dollar. In all, both hedged and unhedged emerging market sovereign debt has been weighed down primarily due to concerns that dollar denominated foreign currency debt will become more difficult to service as the dollar trends higher. The current account deficits are also a concern in some of these economies, such as Argentina. Rising rates have also been a detractor for the year on both fixed sovereign and local government debt. On the month and year, two closed end funds have performed very well, up 8.97% and 9.38%. Tactically, the premiums were too high in our view to hold in client portfolios, so we put those allocations in cash as of the end of the month and are currently searching for a replacement. We may reallocate if the premiums come back to a more attractive range. Alternatively, Corporate U.S. Investment Grade Debt, Gold and long Yen to Dollar may be a good place to reallocate in our view (see below or following page for more on this). Year to date, our long Yen to Dollar exposure is outperforming the S&P 500 TR Index up 3.39%. Over the month, the move away from floating rate bank loan exposures to less than one year to maturity Treasuries yielded positive results on a total return basis. The move to increase our consumer staples exposure in equities at the end of last month did not benefit over this month. The spread in relative performance between consumer staples and consumer discretionary sectors continued to widen over the month of May.

DISCLOSURE (Click links for sources. If in print, sources available upon request). Calculations & Definitions available upon request. Measured by the Barclays US Aggregate Bond Index - Morningstar. S&P 500 Total Return Index**. See "Model Disclosure" page for important disclosures and information – Period Measured 12/31/2017 – 5/31/2018. Model Performance presented net of highest advisory fee, updated 4/1/2018.*

Gold, U.S. Investment Grade Corporate Bonds and FX (Long Yen-Dollar).[1]

Investment Grade Corporate Bonds remain relatively rich in value (overvalued) when looking at historical yield spreads to Treasuries of similar maturities, and they have also had a very difficult start to the year. The primary driver of this poor performance has been rising rates, without the deterioration of credit fundamentals (hence, why spreads of U.S. Corporate Investment Grade Bond Yields to Treasuries remain historically tight). Accordingly, with inflation starting to creep up, gold starts to become more attractive not only as an inflation hedge, but also a potential safe haven asset allocation towards the end of a business cycle. The third week of June is full of global Central Bank policy meeting decisions that may surprise the market for a host of reasons, including the potential that trade policies will be addressed, the dollar will continue to strengthen relative to other currencies, and hints that developed global central banks may begin to announce their intentions to reduce this historic era of monetary easing. The U.S. led the way with monetary easing followed by tightening. Developed nations, although behind, have followed the same easing policy. These upcoming Central Bank meetings may provide more insights for the second half of the year regarding bank policy rate decisions and the markets will pay close attention to the release of the meeting minutes.





DISCLOSURE (Click links for sources. If in print, sources available upon request). Calculations & Definitions available upon request. Period Measured 12/31/1998 – 5/31/2018 Charts not to scale. 1. Charts are rescaled, using logarithmic computation and vertical axis titles define the respective asset % movements. Gold represented by: ICE Benchmark Administration Limited (IBA), Gold Fixing Price 10:30 A.M. (London time) in London Bullion Market, based in U.S. Dollars [GOLDAMGBD228NLBM], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/GOLDAMGBD228NLBM. Investment Grade Corporates represented by the Markit iBoxx USD Liquid Investment Grade Index. Long Yen-Dollar, inverted from original to show exposure as long Japanese Yen and short the U.S. Dollar pair: Board of Governors of the Federal Reserve System (US), Japan / U.S. Foreign Exchange Rate [DEXJPUS], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/DEXJPUS. Chart 1 base starts at 100%.

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The performance calculations are based on a hypothetical investment of $100,000 for both the model and benchmarks presented. **Benchmarks:** The performance results shown are compared to the performance of the performance of a blended ETF (exchange-traded-fund) portfolio comprised of the following two ETF's symbols, SPY & AGG, are described below. The benchmarks used are investible ETFs and their performance calculation is inclusive of the highest fee charged to a client(s) account, 1.25% annually. This will reduce the total return of the investable benchmark by the annualized rate of 1.25%. The ETF symbol SPY (SPDR® S&P 500® ETF Trust) which seeks to provide investment results that, before expenses, correspond generally to the price and yield performance of the S&P 500® Index (the "Index"). Visit https://us.spdrs.com/en/etf/spdr-sp-500-etf-SPY for more information about the ETF. The S&P 500® Index results do not reflect fees and expenses and you typically cannot invest in an index. The ETF symbol AGG (iShares Core U.S. Aggregate Bond ETF). The iShares Core U.S. Aggregate Bond ETF seeks to track the investment results of an index composed of the total U.S. investment-grade bond market. (the "Index"). Visit https://www.ishares.com/us/products/239458/ishares-core-total-us-bond-market-etf for more information about the ETF. The index composed of the total U.S. investment-grade bond market results do not reflect fees and expenses and you typically cannot invest in an index. The benchmark is blended representing a weighting of a percentage (%) to SPY and percentage (%) to AGG based on the respective model weights below. Unless otherwise indicated, the benchmarks are not rebalanced to maintain their original weighting over the period measured. Instead, they are comprised of the starting allocation and will shift given the prevailing market environment over the period measured. **Return Comparison:** To benchmark the results, the ETF (exchange-traded-fund) symbol SPY (SPDR® S&P 500® ETF Trust) which seeks to provide investment results that, before expenses, correspond generally to the price and yield performance of the S&P 500® Index (the "Index"). The S&P 500 was chosen as it is generally well recognized as an indicator or representation of the stock market in general and includes a cross section of equity holdings. In addition, the ETF symbol AGG was chosen as a benchmark. The iShares Core U.S. Aggregate Bond ETF seeks to track the investment results of an index composed of the total U.S. investment-grade bond market. The total U.S. investment-grade bond market was chosen as it is generally well recognized as an indicator or representation of the bond market in general and includes a cross section of debt holdings. For each respective model benchmark the performance measurement weightings are as follows to SPY / AGG %: 20/80, 30/70, 40/60, 50/50, 60/40, 70/30, 80/20, 90/10 % respectively for Ultra Conservative, Conservative, Moderate, Balanced, Growth & Income, Growth, Aggressive, Ultra Aggressive. **OPTIONS TRADING RISK DISCLOSURE**: Options Trading – Both the purchase and writing (selling) of options contracts –involves a significant degree of risk not suitable for all investors. Investors should carefully consider the inherent risks and financial obligations associated with options trading as further detailed in the Options Clearing Corporate booklet "Characteristics and Risks of Standardized Options."

The results do not represent actual trading and actual results may significantly differ from the theoretical results presented.