FIRST QUARTER 2018

Matt's Market Update

IN THIS REPORT

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Market Review

The vast majority of global equity indexes registered declines in the first quarter, yet these small changes don't tell the full story of how volatile the equity markets were in Q1. As the year began, markets rallied in January as the strong momentum from 2017 carried into the New Year. In fact, U.S. stocks posted their best January since the late 1990s. The S&P 500 rose +5.71% for the month with the MSCI ACWI ex US Index (+6.10%) and NASDAQ (+7.40%) doing even better. As February began and the quarter unfolded, euphoria gave way to fear as concerns over a variety of factors (potential wage inflation, Federal Reserve rate hikes, trade tensions with China and regulatory concerns for high flying technology stocks) introduced volatility to markets that we've not witnessed in recent years.

To put the volatility from Q1 into perspective, there were 23 days in Q1 where the S&P 500 index gained or declined by 1% or more. Remember, while we tend to feel the down days the most, volatility is a two way street. Of the 23 days with a + / - 1% move in Q1, 12 were actually up, with 11 down. There were only 8 such days with this type of movement for all of calendar year 2017! According to Datatrek Research, since 1958 the average for 1% volatility days in Q1 is 13. While Q1 was well above average, it was much more in line with typical volatility stats than last year. 2017 was the true anomaly due to its incredible lack of volatility during the year. To put an exclamation point on how extreme the volatility was during Q1, on February 5th the Dow Jones Industrial Average posted its largest-ever, single-day point decline with a loss of 1,175.21 points, a decline of -4.6%. This was the largest percentage decline since August of 2011. At one point intra-day, the Dow was down nearly 1,600 points. While the point decline set a record, the decline in percentage terms was nowhere near a record. On October 19th, 1987, the Dow fell 508 points, but this represented a one-day decline of 22.6%. Looking ahead, you should expect more volatility (as the early days of April have illustrated). Going back to the research from Datatrek, on average there are 13 1% movement days in both Q2 and Q3, while Q4 has averaged 14 such days. If Q1 is any indication of trend, betting on above average volatility going forward seems logical. In terms of equity market positioning, Growth oriented strategies continued to outperform Value in Q1. Within large-caps, the Russell 1000 Growth index outperformed the Russell 1000 Value index by 425 basis points. Similar trends were present

ASSET CLASS RETURNS Q1

	Q1 2018 (%)	1-YEAR (%)		Q1 2018 (%)	1-YEAR
Gold	2.5	6.3	High-Yield Bonds	-0.9	3.7
Emerging-Market Stocks	1.3	25.2	Investment-Grade Bonds	-1.5	1.2
Non-U.S. Small-Cap Stocks	0.1	23.6	Non-U.S. Developed-Country Stocks	-1.6	15.1
U.S. Small-Cap Stocks	-0.1	11.8	Emerging-Market Bonds	-1.8	3.3
U.S. Mid-Cap Stocks	-0.5	12.2	U.S. Corporate Bonds	-2.1	2.6
U.S. Large-Cap Stocks	-0.8	14.0	Long Government & Credit Bonds	-3.6	5.1
Commodities	-0.8	2.5	Real Estate Stocks	-6.7	-1.1

Source: Fidelity Investments

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in mid- and small-cap categories. Despite the extreme volatility in the latter half of the quarter, the Technology sector managed to post small gains which supported the Growth indexes, while Value oriented sectors like Consumer Staples, Utilities and Telecomm severely underperformed. YTD declines in overseas large-cap stocks were in line with their U.S. counterparts. Growth oriented strategies managed to post small gains here as well. The average fund in the Emerging Markets category from Morningstar posted a gain of 1.97%.

Fixed-income was under pressure in Q1 as well. The yield on the benchmark 10 year U.S. Treasury rose from 2.46% at the start of the year to an intra-month high of 2.94% in February, before settling back to 2.74% at quarter-end. Yields on the front end of the curve rose even faster with the 2 year Treasury note moving from 1.89% to 2.27%. Momentum for higher short-term yields seems firmly intact with the Fed once again raising interest rates by 0.25% in Q1 and giving every indication that 2 to 3 more hikes are in store for the remainder of 2018.

Food for Thought

Without further introduction, some of the more interesting tidbits from Q1:

The S&P 500 bottomed at 677 on 3/09/09, the end of a 17-month bear market in which the stock index fell 57%. A weekly survey of stock investors indicated 70% of them were bearish as of 3/04/09, the highest bearish measurement ever recorded by this study (source: American Association of Individual Investors).

The ongoing bull market for the S&P 500 reached 9 years in length as of the close of trading on Friday 3/09/18 (with a gain of 398%), having achieved 202 all-time closing highs during the 9 years. (source: BTN Research).

Over the 9 year bull market, the S&P 500 rose at a 17.3% annualized pace, in line with prior bull market periods. What is unique is that these gains have come during a period where annualized real GDP growth was only 2.1%. Typically market gains of this pace are seen with real GDP growth registering near 4%. (source: Gluskin Sheff).

The S&P 500 lost 0.76% in the first quarter 2018, the 9th time since 1990 that the stock market was negative during the first 3 months of the year. The S&P 500 went on to record a positive return for the entire year in 5 of the previous 8 years that started with a loss (1992, 1994, 2003, 2005 and 2009) (source: BTN Research).

The Dow Jones Industrial Average suffered 10 sessions of 300 point declines in Q1 after experiencing just one session this severe in all of 2017. In fact, the 1,175 point decline for the Dow on February 5th was the worst point loss ever experienced in one day, but far from the worst in percentage terms (source: Gluskin Sheff).

So goes the first quarter so goes the year? The Atlanta Federal Reserve Bank slashed its estimate of Q1 GDP from 5.4% to 1.9% during the quarter. Just once in fifteen instances since 1980 that growth registered less than 2% in the first quarter, did the real GDP for the entire year manage to register above 3%. (source: Gluskin Sheff).

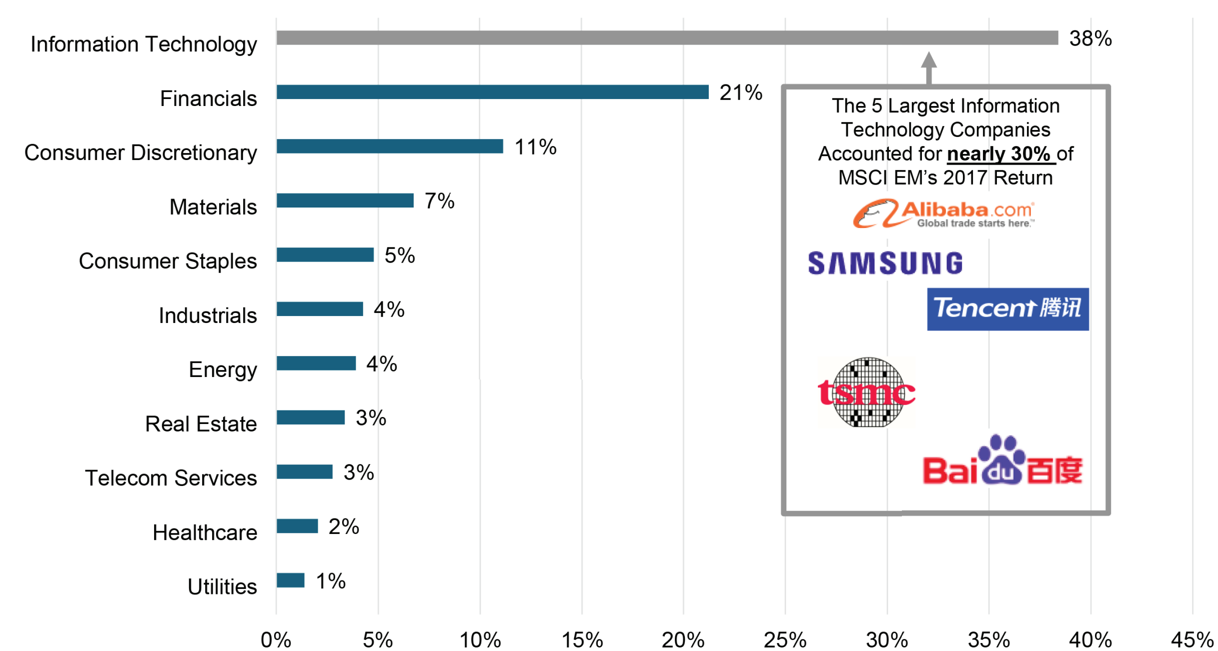
Looking ahead to Q2, the month of April has been very friendly to the bulls (just ahead of "sell in May and go away"). The S&P 500 has risen in April for 9 of the past 10 years with an average gain of 2.2% (vs. +0.5% on average for the other months). (source: Gluskin Sheff).

Technology Funds in Disguise?

We've mentioned the Emerging Markets (EM) asset class frequently in our updates over the past year. At the beginning of last year, we felt that this broad category of investment was out of favor and unloved by investors. We thought it possessed relatively strong growth potential and the overall equity valuations (as measured by the benchmark averages) were quite favorable in relation to developed world markets. As it turns out, EM was a strong performer in 2017 with the MSCI Emerging Market index total return of +37.28%. This certainly is attractive relative to the S&P 500 index total return of +21.83% for calendar 2017. The positive relative performance has continued in Q1 '18 with a +1.42% gain for the MSCI Emerging Market Index vs. a -0.76% decline for the S&P 500.

As analysts, we're always curious as to what were the key drivers of index or manager performance over a given timeframe. In the past, commodity prices were the main drivers for EM performance as many countries in the developing world depended on natural resource production and export to fuel economic growth. This reliance on commodities has declined over the years as the Materials sector makes up only 7.46% of the MSCI EM index. The Information Technology sector is now the largest component with 27.7% of the index. In contrast, Information Technology makes up only 21.5% of the S&P 500 Index. Needless to say, when choosing to invest with an EM strategy, knowing their exposures and policy towards technology stocks is very important. As it turns out, 2017 performance for the EM index was essentially driven by the exposure to the Information Technology sector. As you can see from the chart on this page, the Information Technology sector accounted for 38% of the index return last year, nearly doubling the impact of Financials, while the other sectors made far less of an impact. More specifically to the fund managers, how much exposure did they have to five technology stock winners in 2017? Drilling down even further, just five companies accounted for nearly 30% of the index return. Of these five, three of the firms (Alibaba, Tencent and Baidu) are Chinese Internet companies. In essence, exposure to one or all three of these companies in a portfolio was a key factor in comparing relative performance among managers in 2017.

DECOMPOSING MSCI EM's 2017 RETURNS
Contribution to Performance (%)



Source: Brandes, MSCI

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Wealth Management Corner

Everyone has experienced financial planning in their lives, whether that entails buying a house, a car, financing college or buying that second home you always wanted. These are but a few of the ways we incorporate financial planning into our lives. Once these decisions are made, an individual's financial life becomes a bit more complicated. As asset ownership grows, families expand and retirement becomes closer, an individual needs to think beyond financial assets. We need to assess… how are these assets protected? How are they going to be passed onto my heirs?

These are compelling questions that prompt an individual to think beyond their account statements and take an assessment of their future. One segment of the holistic planning process is estate planning. In our estimation, estate planning could be considered the most important component to a sound planning strategy. Without it, an individual's plan for their estate can go awry. No matter the size of the estate. From what we've seen in practice, estate planning tends to take a backseat to investment management. In most situations, a simple estate plan consists of several legally established documents; a will, durable power of attorney, healthcare proxy and a living will. Each of these documents has a different purpose. The Will is a blueprint on how your assets will be distributed through probate and who will be guardians of your children. The Durable Power of Attorney provides someone to act as your agent in financial matters if you become incapacitated. A Healthcare Proxy and Living Will work together to establish end of life wishes and conditions.

One major document that provides an extra layer of estate planning protection on top of the four core ones mentioned above is the Revocable Living Trust. This document is a complement to a Will where an estate is instead managed via the trust's directives in lieu of the will's. Now, keep in mind that establishing a revocable trust is costlier up front than the simple estate planning package yet serves many purposes.

In our view, there are three primary reasons to consider establishing a Revocable Trust in addition to a Will:

Privacy: Once an individual has a Will and passes away with no surviving spouse, the probate courts usually become involved. Probate courts are open to the public. If, however, a Revocable Trust was established and funded appropriately, the assets held by the trust typically bypass probate.

Legal Fees: Yes, as we pointed out, legal fees are higher up front to establish a Revocable Trust versus just a Will. However, the probate courts can be costly once the estate is opened to the public via the Will.

Time: Depending on backlogs and probate requirements, the time to settle an estate could test an executor's patience. In contrast, once an individual passes with an executed Revocable Trust, distribution can happen fairly quickly and usually with little, if any, probate court intervention.

Now, keep in mind, that this information is considered education and not advice so please speak with your financial advisor and attorney about what's appropriate for your particular situation. Regardless of which direction you choose, estate planning is an integral part of any sound financial plan.

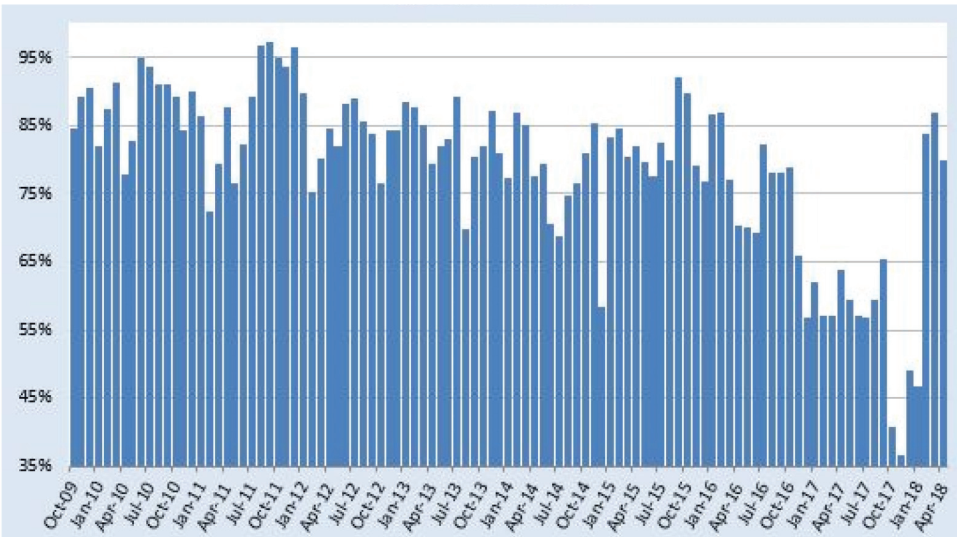
Our Portfolio Strategy & Allocation Outlook

We did make a few changes within our individual client strategies this quarter. As we discussed in our last update, our expectations for fixed-income returns going forward remain muted. However, we do feel like the environment is still favorable to bond managers who have maximum flexibility in their approach. In other words, we like managers who have the freedom to adjust positioning within different sectors of the bond market depending on the current opportunities. Therefore, we added a new active manager into our fixed-income segment of the portfolio. We expect this manager to provide more alpha vs. the benchmark index over time while also adding additional defensive characteristics in the face of potential rising interest rates.

The other changes this quarter are better described as "operational" in nature. We've used ETFs over the years as they have allowed us efficient exposure to certain asset classes at a very low expense ratio. Trading these securities in the portfolios does incur commission costs for buying and selling. Very recently, certain ETFs have now become "commission free" for trading purposes. In an effort to lower overall costs to managing the portfolios, we removed certain ETF holdings that carried trading costs in favor of similar commission-less ETFs.

Equity holdings in the portfolios remain a mix of active and passive (index) strategies. One of the market dynamics that tends to favor active equity strategies is low correlation. Correlation is a statistical representation of the tendency for stocks to move in tandem (and thus limit the diversification impact of investing with different managers, industries, market caps, etc.). A high correlation (maximum 1.0) means that stocks have historically moved in lock step and therefore diversification has provided less benefit. This has been the case for much of the 9-year bull market in equities as defined by the S&P 500. On the other hand, lower correlation readings among stocks tend to signify more independent movement of prices. Lower correlations typically indicate a friendlier environment for active managers who are trying to pick among winners and losers.

AVERAGE SECTOR HISTORICAL 30-DAYS CORRELATION AGAINST THE S&P 500
October 2009 - April 2018



Source: Datatrek Research

Market Scoreboard

Index Returns (%)	Q1 2018	YTD	1 Year	3 Year	5 Year	10 Year
S&P 500	-0.76	-0.76	13.99	10.78	13.31	9.50
DJIA	-1.96	-1.96	19.39	13.48	13.32	9.86
NASDAQ	2.33	2.33	19.50	12.96	16.68	11.98
Russell 2000	-0.08	-0.08	11.79	8.39	11.47	9.84
MSCI ACWI Ex USA	-1.18	-1.18	16.53	6.18	5.89	2.70
Barclays Aggregate Bond	-1.46	-1.46	1.20	1.20	1.83	3.63
Bloomberg Commodity TR	-0.40	-0.40	3.71	-3.20	-8.32	-7.72

Source: Morningstar

As you can see from the chart on this page, 2017 represented a period of lower correlation for S&P 500 stocks. Perhaps signaling the start of a more extended favorable condition for active equity management. But in Q1 this changed rapidly as correlations have jumped significantly since the February correction. Since the lows of February, stocks are once again moving in the same direction with less distinction among individual company fundamentals. Very much like what we've witnessed over the last nine years. We continue to think that elevated volatility in global markets will lead to lower correlations among stocks in general, thus benefitting truly active managers. We'll be judicious in our addition of these strategies to portfolios going forward.

Please let us know if you'd like to discuss your personal investing and financial planning needs.

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S&P 500 TR: A market capitalization-weighted index of 500 widely held stocks often used as a proxy for the large-cap segment of stock market.

Russell 2000 TR: Consists of the smallest 2000 companies in the Russell 3000 Index, representing approximately 7% of the Russell 3000 total market capitalization often used as a proxy for the small-cap segment of the stock market.

Barcap Aggregate Bond TR: The Barclays Capital Aggregate Bond Index is a market capitalization-weighted index, meaning the securities in the index are weighted according to the market size of each bond type. Most U.S. traded investment grade bonds are represented. The index includes Treasury securities, Government agency bonds, Mortgage-backed bonds, Corporate bonds, and a small amount of foreign bonds traded in U.S.

MSCI EAFE NR USD: Widely accepted as a benchmark for international stock performance, the EAFE Index is an aggregate of 21 individual country indexes that collectively represent many of the major markets of the world.

DJ US Industrials TR USD: Computed by summing the prices of the stocks of 30 U.S. companies and then dividing that total by an adjusted value--one which has been adjusted over the years to account for the effects of stock splits on the prices of the 30 companies.

NASDAQ: Measures the performance of all issues listed in the Nasdaq Stock Market and is often used as a proxy for the large-cap technology segment of the U.S. stock market.

DJ/UBS Commodity: The DJ-UBSCI is composed of futures contracts on physical commodities and is often used as a proxy for broad-based exposure to the commodity markets.

Date of First Use: 5/1/2018 | QMR-032-05012018

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