EMERALD
ASSET ADVISORS, LLC

Investment Strategists for
Successful Families

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Thank you for reading GreenThought$. It is our privilege to provide you with our insight on current financial market events and our outlook on topics relevant to you.

Fourth Quarter 2017: Investment Market Summary

The stock market indices rewarded investors with another good year in 2017. The S&P 500 gained 21.8%, the most since 2013. The EAFE international index was up 25%, the best performance since 2009. The MSCI emerging market was the strongest performer last year, up 37.3%. We have to go back to 2009 to find a better year for that index. Lastly, the bond market, which often moves in the opposite direction of the stock market, was up 3.5% for the year.

Although the stock market is usually negative one out of every four years, 2017 was the ninth positive year in a row for the S&P 500. Not only were the results strong, but the volatility was historically low. Typically the S&P 500 experiences at least three draw-downs of 5% or more every year. In 2017, the S&P never fell as much as 3% from a previous high point. The 400-day stretch from the last slump that ended in November 2016 is the longest the S&P 500 has ever gone without a 3% or more retreat.

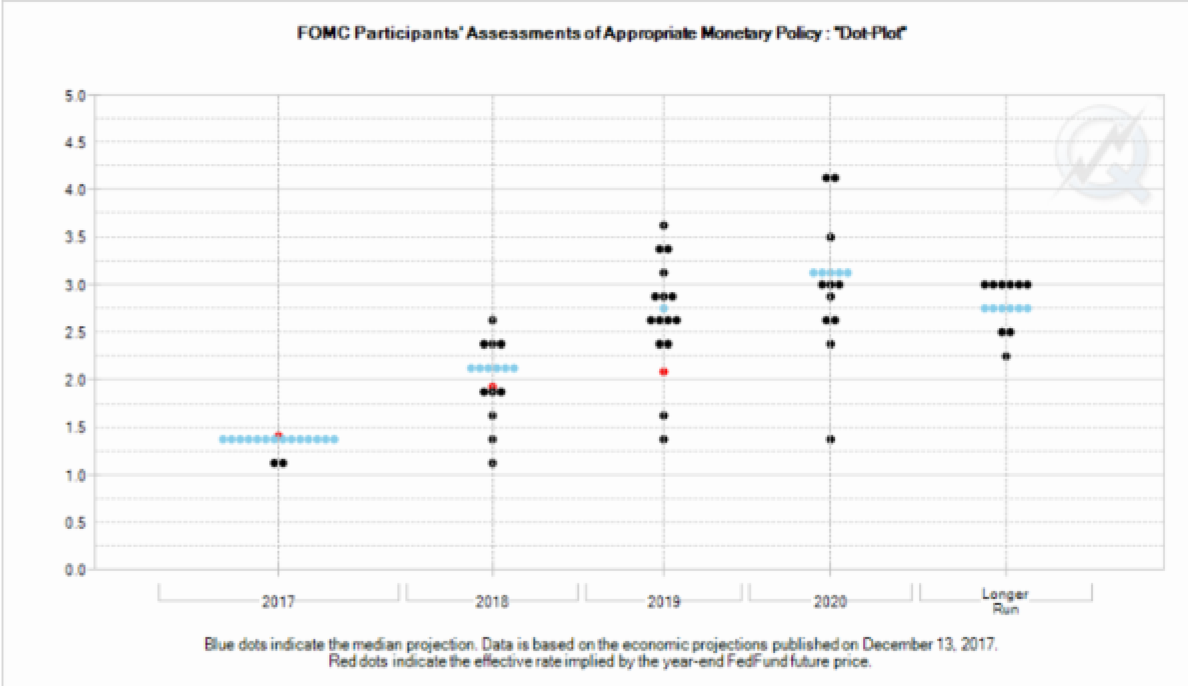
So do the odds favor an end to the bull market in 2018? Wall Street seems to say no. Here are 10 well known strategists' targets for the S&P 500 for this year:

Credit Suisse's Jonathan Golub	3,000
JP Morgan's Dubravko Lakos-Bujas	3,000
Oppenheimer's John Stoltzfus	3,000
BMO Capital's Brian Belski	2,950
UBS's Keith Parker	2,900
Jefferies' Sean Darby	2,855
Deutsche Bank's Binky Chadha	2,850
Goldman Sach's David Kostin	2,850
B of A Merrill Lynch's Savita Subramanian	2,800
Citi's Tobias Levkovich	2,800

In fact, because the S&P finished 2017 at 2,673.61, even the most pessimistic forecast above is calling for the S&P to rise 4.7% this year. As for Emerald's 2018 S&P forecast? We try to be agnostic and build all-weather portfolios, but we do take notice when everyone is on the same side of the boat. Sometimes that's a sign that it's time to start moving in the other direction.

Even though we don't take bets on market direction, we are aware of market trends and forces that influence the investments we make. For instance, per the chart below from Ed Yardeni, of Yardeni Research Inc., the forward price/earnings ratio of U.S. stocks is 18.7, the highest it has been in 10 years and much higher than any other region in the world. We want to ensure we have some money allocated overseas, and we think emerging market stocks could have further upside despite the great performance in 2017.

On the interest rate front, the current fed funds rate was raised to 1.5% on December 13, 2017. The "dot-plot" on the next page shows the Federal Open Market Committee's median estimate for short term interest rates is 2.125% in 2018 and 2.75% in 2019, both estimates substantially higher than current rates and above the levels currently being anticipated by the markets. The Fed is very clear about their intentions and we need to be prepared.



Blue dots indicate the median projection. Data is based on the economic projections published on December 13, 2017.
Red dots indicate the effective rate implied by the year-end FedFund future price.

Let's finish with a discussion of risk tolerance. We ask all our clients to complete what we call a P&Q, Profile and Questionnaire. This is a self-assessment which helps us to calculate your risk tolerance. We ask you to update this information periodically because circumstances can and do change, which affect the amount of portfolio risk with which you're comfortable. When the stock market has a year like 2017 with returns far different than historical norms, it is also a good time to think about your risk tolerance.

In Ben Hunt's Epsilon Theory newsletter, he introduces the concept of minimax regret. From the newsletter: "The idea is simple, but the implications profound: Instead of seeking to maximize returns, we seek to minimize our regret. Keep in mind that our maximum regret may not be ruinous loss! I know plenty of people whose maximum regret is not keeping up with the Joneses."

As investors we all tend to look back over the past year and wish we had been more conservative if the markets had done poorly or in the case of 2017, wish we had been more aggressive. Per the concept of minimax regret and keeping up with the Joneses, who among us doesn't have a friend or family member telling us how much money they made investing in Bitcoin this year?

The information below is courtesy of Vanguard, looking back over the past 90 years. A portfolio made up of 40% equity and 60% fixed income had an average annual return of 7.7%, with a worst year of down 18.4%. Flip the allocation to a more aggressive 60% equity and 40% fixed income and the average annual return was only 1% better but had a worst year of down 26.6%, 8.2% worse than the more conservative allocation. If 2018 is a bad year for the stock market, how do you want to be positioned?

40% Equity/ 60% Fixed income

Average annual return	7.7%
Best year (1933)	27.9%
Worst year (1931)	-18.4%
Years with a loss	16 of 91

60% Equity/ 40% Fixed income

Average annual return	8.7%
Best year (1933)	36.7%
Worst year (1931)	-26.6%
Years with a loss	21 of 91

In addition to the usual ways of thinking about your risk tolerance, also consider whether it is more important to you to maximize gains when the market is strong, or minimize losses when the market is weak, or positioning yourself for minimax regret. We'd be happy to review your current P&Q with you to make sure your portfolio allocation is still appropriate for your current risk tolerance.

The Emerald team thanks you for your continued confidence in us, and we look forward to a successful 2018.

Regards from the Emerald Team

Disclosure

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The information herein has been obtained from sources believed to be reliable, but Emerald Asset Advisors, LLC ("Emerald") does not warrant its completeness or accuracy. Prices, opinions and estimates reflect Emerald's judgment on the date hereof and are subject to change at any time without notice. Any statements nonfactual in nature constitute current opinions, which are subject to change. Projections are not guaranteed and may vary significantly.

Currency trading may involve significant risks, including market risk, interest rate risk and country risk. Funds or strategies that use leverage or shorting may experience substantial losses. The investment strategy presented is not appropriate for every investor and individual clients should review with their financial advisors the terms and conditions and risk involved with specific products or services. As with all investments, past performance does not guarantee future results.

Clients are urged to compare the custodian's account statements to the advisor's supplemental statements. Please contact us if you do not receive statements from your custodian.

As of August 2016, Schwab no longer sends month-end statements for those accounts where there has been no activity for the preceding month; these accounts will be receiving quarterly statements.

About Emerald

Emerald Asset Advisors, LLC is a Registered Investment Advisor (RIA) founded in 1998. For more information, please visit our website.
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