FINANCIAL MARKETS COMMENTARY

MARCH 2018

TELEMUS®

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FIRST QUARTER HIGHLIGHTS

The slow global recovery continues to strengthen with world growth expected to reach almost 4% in 2018.

The U.S. economy is growing steadily and expected to get a short term boost from tax reductions and government spending. We might see 3% growth in 2018.

The reduction in expansion of global quantitative easing is being felt in increased volatility in world markets which we expect to continue.

Globally, most stocks rallied in January, fell and partially recovered in February and treaded water in March.

Globally, rates rose in the beginning of the year and moderated a bit by quarter's end. The U.S. Fed will continue to raise rates in 1/4% increments.

INDEX RETURNS AS OF 3/31/2018

BASIC INDEX RETURNS

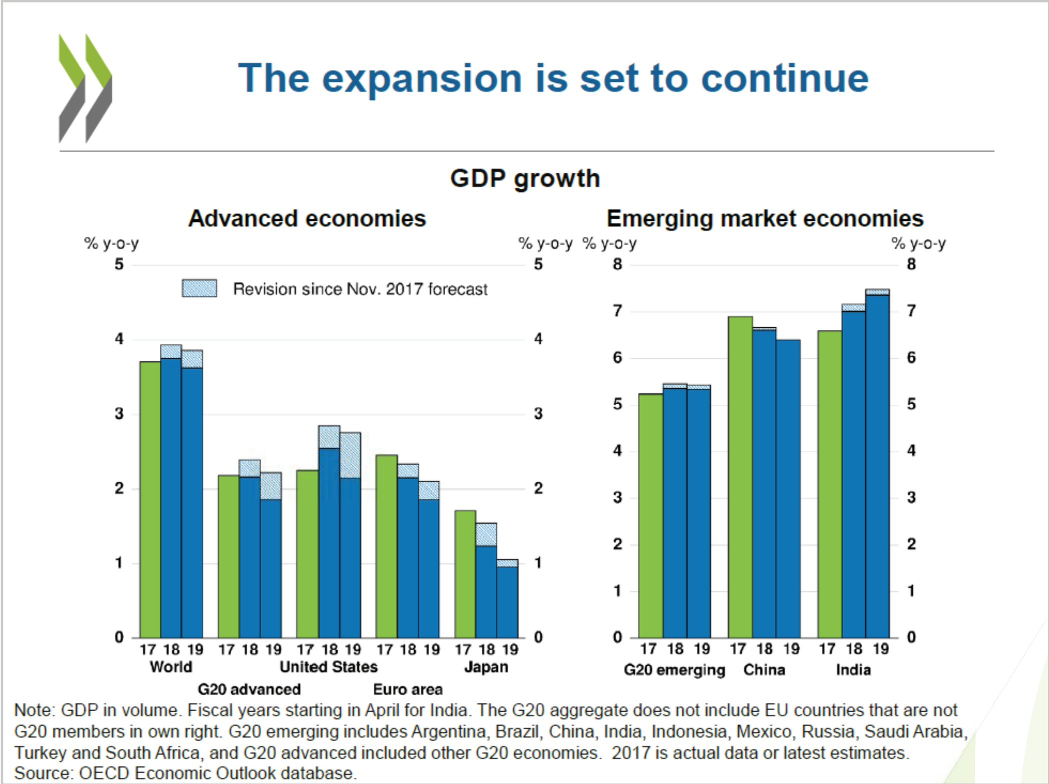
BASIC INDEX RETURNS	MONTH TO DATE RETURN	QUARTER TO DATE RETURN	YEAR TO DATE RETURN	LATEST 3 YEARS RETURN	LATEST 5 YEARS RETURN	LATEST 10 YEARS RETURN
BALANCED INDEX (25% ACWI, 60% US Gov. Cr 1-5, 5% HFRX, 5% commodity, 5% bill)	-0.49%	-0.57%	-0.57%	7.70%	14.75%	28.29%
HFRX GLOBAL HEDGE FUND INDEX	-0.98 %	-1.02%	-1.02%	1.54%	6.61%	-2.33%
CPI - SEASONALLY ADJUSTED	0.00%	0.69%	0.69%	6.14%	7.24%	17.40%
S&P 500 COMPOSITE	-2.54%	-0.76%	-0.76%	37.29%	98.81%	153.07%
LIPPER LARGE - CAP CORE	-2.66%	-1.20%	-1.20%	33.42%	87.87%	129.46%
WISDOM TREE LARGE CAP DIVIDEND	-2.31%	-3.20%	-3.20%	32.48%	84.57%	135.88%
MSCI ALL COUNTRY WORLD INDEX NET	-2.21%	-1.03%	-1.03%	27.15%	61.60%	73.18%
MSCI EAFE NET	-1.97%	-1.70%	-1.70%	17.94%	40.64%	32.00%
BLOOMBERG BARCLAYS MUNICIPAL BOND 5Y (4 - 6)	-0.04%	-0.57%	-0.57%	3.82%	7.97%	40.89%
BLOOMBERG BARCLAYS US AGGREGATE	0.64%	-1.46%	-1.46%	3.46%	8.85%	42.42%
BANK OF AMERICA / MERRILL LYNCH US T - BILL 3MONTH	0.13%	0.35%	0.35%	1.45%	1.56%	3.54%

EXTENDED INDEX RETURNS

EXTENDED INDEX RETURNS	MONTH TO DATE RETURN	QUARTER TO DATE RETURN	YEAR TO DATE RETURN	LATEST 3 YEARS RETURN	LATEST 5 YEARS RETURN	LATEST 10 YEARS RETURN
RUSSELL 1000 GROWTH	-2.24%	1.94%	1.94%	46.26%	119.55%	199.16%
RUSSELL 1000 VALUE	-1.76%	-2.83%	-2.83%	26.05%	76.56%	113.59%
RUSSELL MIDCAP GROWTH	0.40%	2.75%	2.75%	30.67%	94.51%	169.74%
RUSSELL MIDCAP VALUE	0.10%	-2.65%	-2.65%	22.76%	76.46%	151.71%
RUSSELL SMALL CAP COMP GROWTH	1.09%	3.54%	3.54%	32.36%	101.25%	188.84%
RUSSELL SMALL CAP COMP VALUE	0.48%	-2.87%	-2.87%	23.06%	65.01%	132.81%
MSCI EM (EMERGING MARKETS) NET	-1.99%	1.28%	1.28%	29.40%	27.72%	29.93%
BLOOMBERG BARCLAYS US TREASURY BILL 6 MONTH	0.15%	0.34%	0.34%	2.08%	2.41%	6.54%
BLOOMBERG BARCLAYS US AGENCY	0.56%	-0.53%	-0.53%	2.63%	5.61%	27.65%
JP MORGAN EMERGING MARKET BOND INDEX(EMBI) + COMPOSITE	0.70%	-2.04%	-2.04%	16.08%	17.13%	86.84%
CITI GROUP WORLD GOVERNMENT BOND	1.53%	2.49%	2.49%	7.83%	4.13%	23.60%
BLOOMBERG COMMODITY	-0.62%	-0.40%	-0.40%	-13.43%	-34.38%	-57.78%
PHILADELPHIA STOCK EXCHANGE GOLD / SILVER	3.64%	-4.87%	-4.87%	1.73%	-41.69%	-60.18%
LIPPER GLOBL NAT RES	0.62%	-4.65%	-4.65%	1.94%	-2.81%	-24.89%
LIPPER PRECIOUS METAL FUND	1.33%	-7.33%	-7.33%	4.14%	-34.47%	-46.73%
MSCI WORLD REAL ESTATE	2.00%	-3.94%	-3.94%	6.42%	25.84%	40.31%
LIPPER REAL ESTATE FUND	3.10%	-6.48%	-6.48%	3.27%	28.04%	58.96%

THE GLOBAL ECONOMY – CONTINUES TO STRENGTHEN

"Global economic activity continues to firm up… ." International Monetary Fund [IMF], World Economic Outlook Update [WEOU], January, 2018. Both the IMF and Organization for Economic Cooperation and Development [OECD], in its Interim Economic Outlook of March, 2018, estimate that global growth in 2017 reached 3.7%. This represents a small uptick from our (and their) previous projections as the developing world maintained its growth trajectory while Germany, Japan, Korea and the United States led faster growth projections in the developed world. According to the WEOU, an astonishing 120 countries, accounting for three quarters of world GDP, saw a growth increase in 2017 over 2016. The expansion is broad, albeit somewhat shallow, and is expected to continue in this year and the next, reaching almost 4%. Growth will be driven primarily by upward revisions in the developed world.

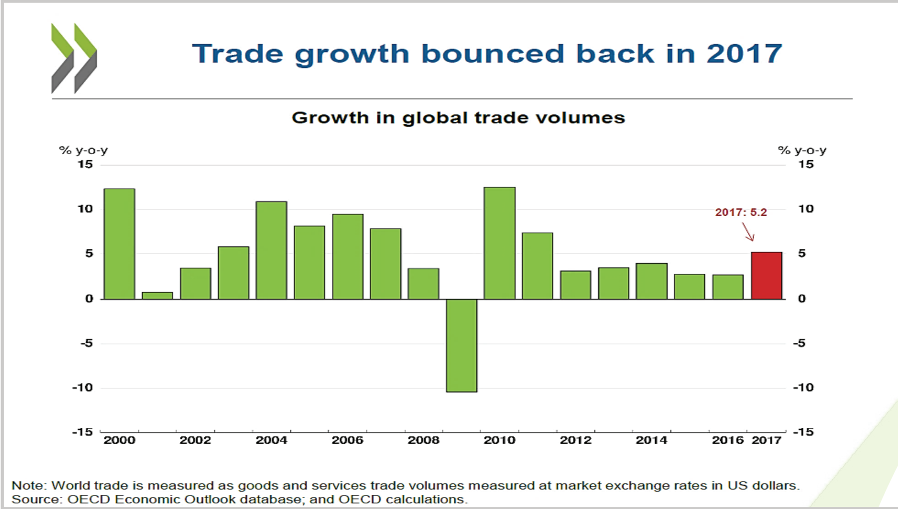


Source: OECD Interim Economic Outlook March 2018

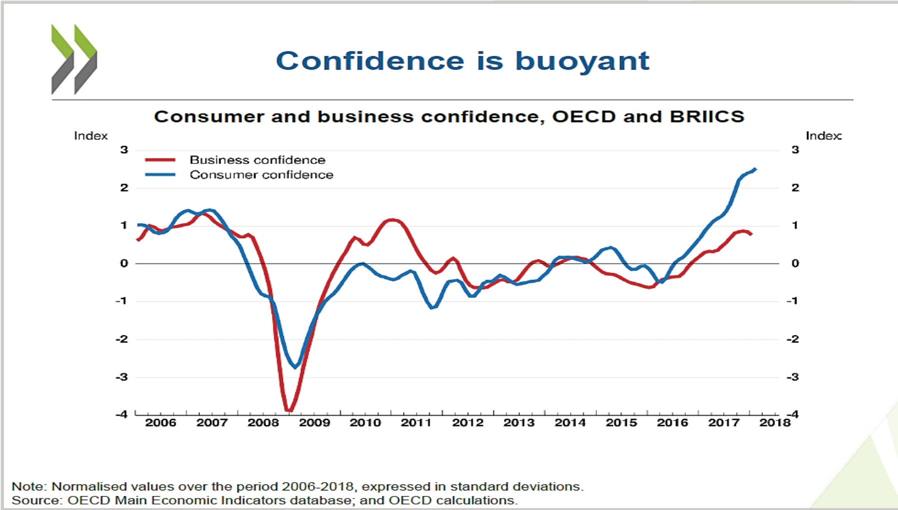
THE GLOBAL ECONOMY – CONTINUES TO STRENGTHEN

Tax reductions, high confidence and robust job availability are expected to propel the United States growth rate to an acceptable 2.7%-3%. The Eurozone is benefiting from accommodative fiscal and monetary policy leading to growth projections of 2.2%-2.4%. Germany remains strong and France's prospects have improved dramatically due to economic reforms. Emerging Europe continues to see robust growth more than partially attributable to Poland and Turkey. Canada and Mexico remain on a medium growth track. Japan continues its above-trend growth supported by healthy corporate profits, oceans of quantitative easing and strong exports. U.K. growth remains tepid on the back of Brexit dislocations. Chinese growth is projected to remain in the low-mid 6% range as India eclipses China as the fastest growing big developing economy with GDP projections exceeding 7%. Latin America is recovering everywhere but Venezuela, while growth in the Middle East and Africa strengthens slightly to the mid 3% range. Global trade and investment have surged, confidence is ebullient, boding well for comfortable growth in the near term.

Longer term, high debt levels, extended asset prices, the slow rollback of quantitative easing and the escalation of trade tensions pose not insignificant risks to the slow-growth calm.



Source: OECD Interim Economic Outlook March 2018

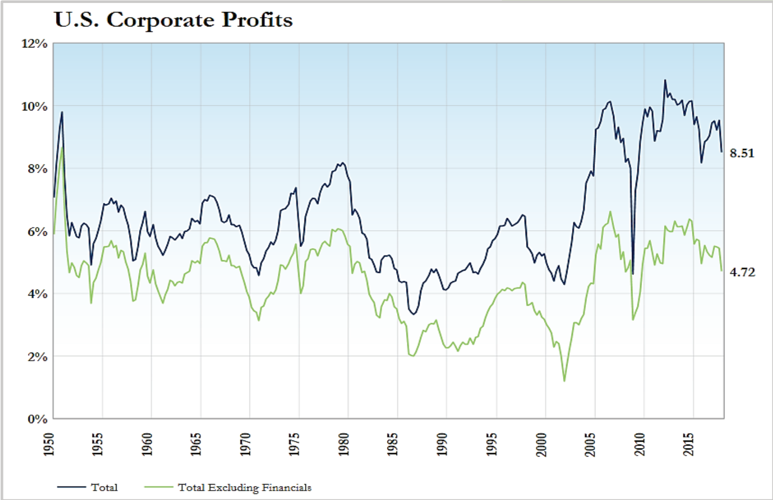


Source: OECD Interim Economic Outlook March 2018

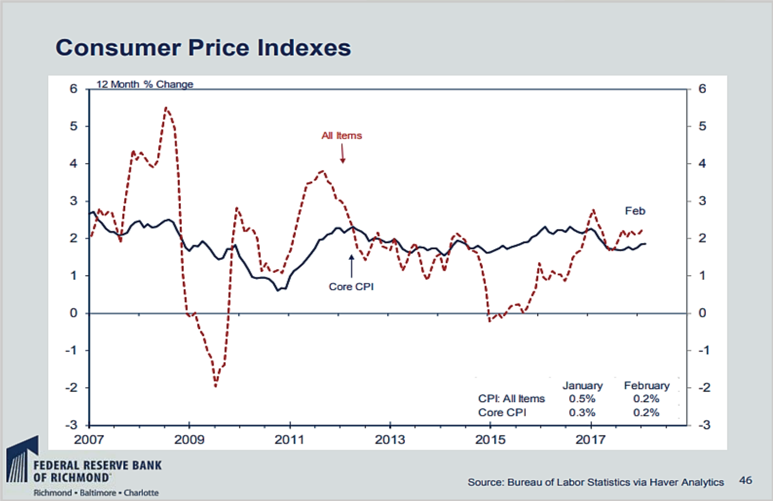
THE U.S. ECONOMY – STEADY AS SHE GOES

Our fourth quarter projection for 2017 U.S. GDP growth of 2.3% was spot-on as the Conference Board and OECD are using also the 2.3% number. We think that our 2.8% projection for 2018 may be a tiny bit light, as U.S. tax cuts enacted just months ago aid corporate profits, and more government spending primes the pump. The OECD has raised its estimated U.S. GDP growth number to 2.9%, the Conference Board remains at 2.8% and the recently released Congressional Budget Office Economic Outlook is using a 3.3% rate. Regardless, 2018 growth should be a bit stronger than last year and we will use a 2.9%-3.1% projection. However, the first quarter number is likely to come in light as high confidence and tax cuts are partially undermined by market volatility, a slight slowing in other countries' growth and the threat of trade conflict. All members of the Federal Open Market committee agreed that both economic outlook and prospect of more inflation had strengthened when their March deliberations were released in April.

We are in the unusual position of seeing fiscal stimulus quite late in the cycle and with unemployment historically low. This is likely to lengthen the cycle. Corporate profits remain historically high and U.S. inflation is approaching the Fed's 2% target. Although inflation slipped in March due to an already-over decline in oil prices, the core rate has risen at a 2.4% rate over the prior twelve months. With oil prices again rising, wages climbing and tax cuts in effect, inflation might be expected to continue to grow. However, the demographic headwinds of an aging population are expected to partially mitigate this response over time.



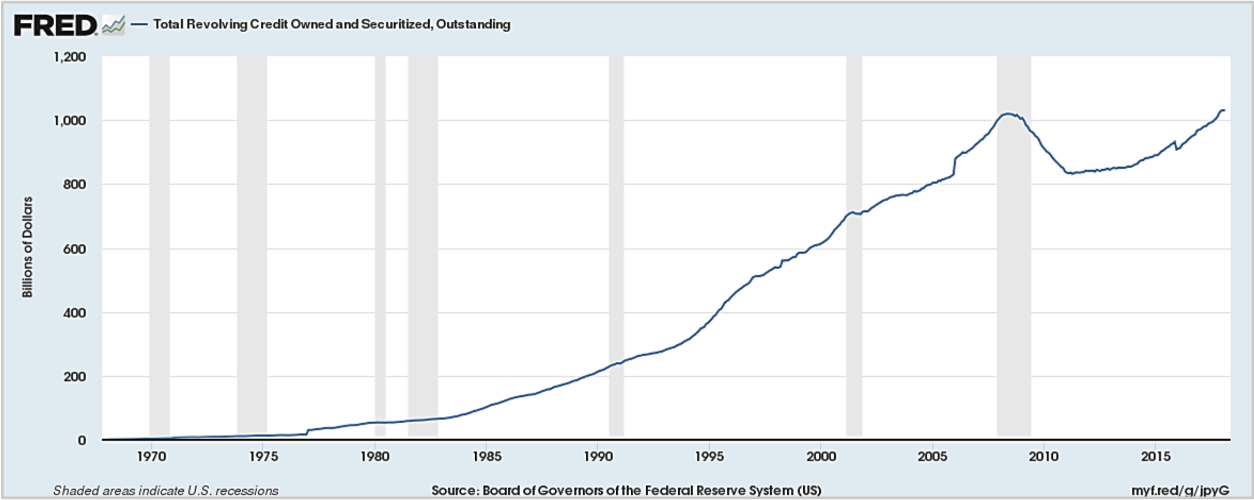
Source: Thomson Reuters Datastream Through December 2017



Source: Federal Reserve Bank of Richmond Through February 2018

THE U.S. ECONOMY – STEADY AS SHE GOES

Additionally, consumer sentiment is high and housing values are rising in most places. The service economy is steaming ahead and manufacturing continues to log new highs. But against this very good-news backdrop there are some warning signs. The savings rate remains firmly under 5% and the Fed has increased the interest rate it controls six times over the past few years with at least two more increases likely this year. As well, the gap between the haves and have-nots in this country has grown faster since 1980 than in any OECD country. One of our favorite economists, Stephanie Pomboy, recently noted in a Barron's interview that a large group of Americans are dis-saving, merely to meet the cost of basic necessities. This tendency is reflected in credit card debt having reached a new high, after its' meaningful dip post-2008.

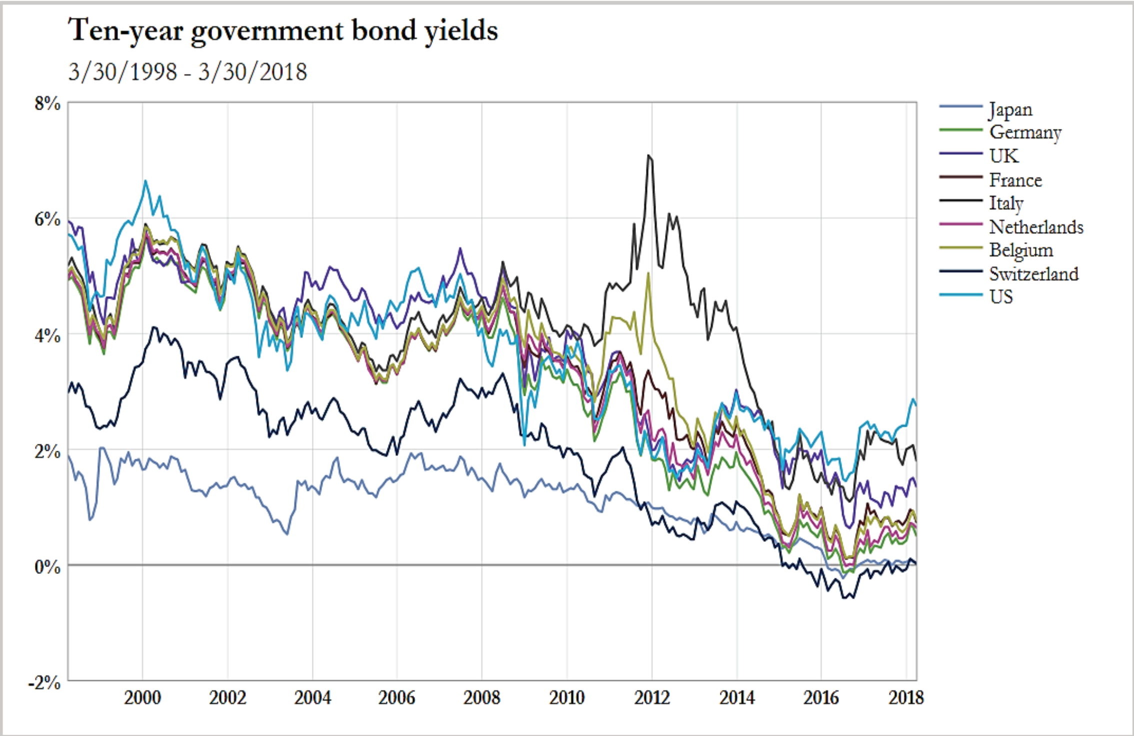


Source: FRED Economic Data

Through February 2018

INTEREST RATES AND BONDS

Globally, interest rates rose sharply in the beginning of the year, a bit after hitting their nadir in 2017.

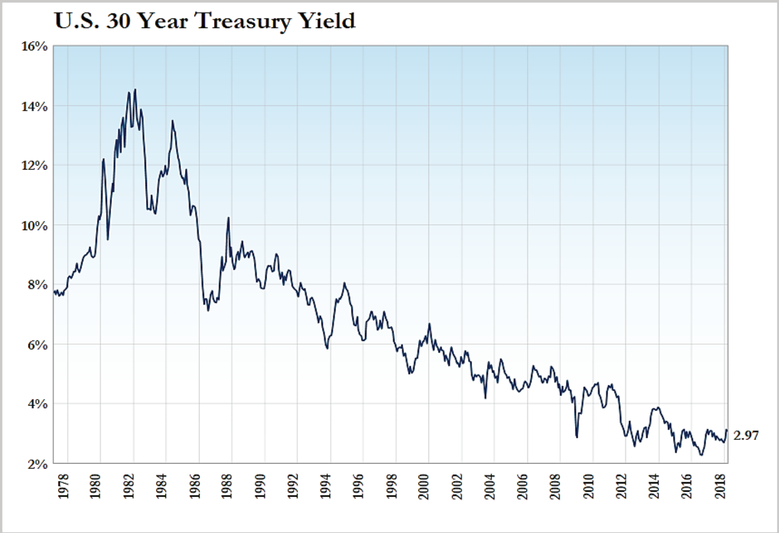


Source: Thomson Reuters Datastream

Through March 2018

INTEREST RATES AND BONDS

They have since pulled back somewhat and continue to hover at historically low levels. The advent of Central bank quantitative easing reductions makes this an opportune time for rates to rise further, if they will. This is particularly true in the U.S. as our Central bank has also been raising interest rates since 2015. Again, we watch for a sharp and sustained upside breakthrough of the 2013 and 2011 interest rate levels before beginning to conclude that interest rates are finally reversing their over thirty-five year, downtrends.



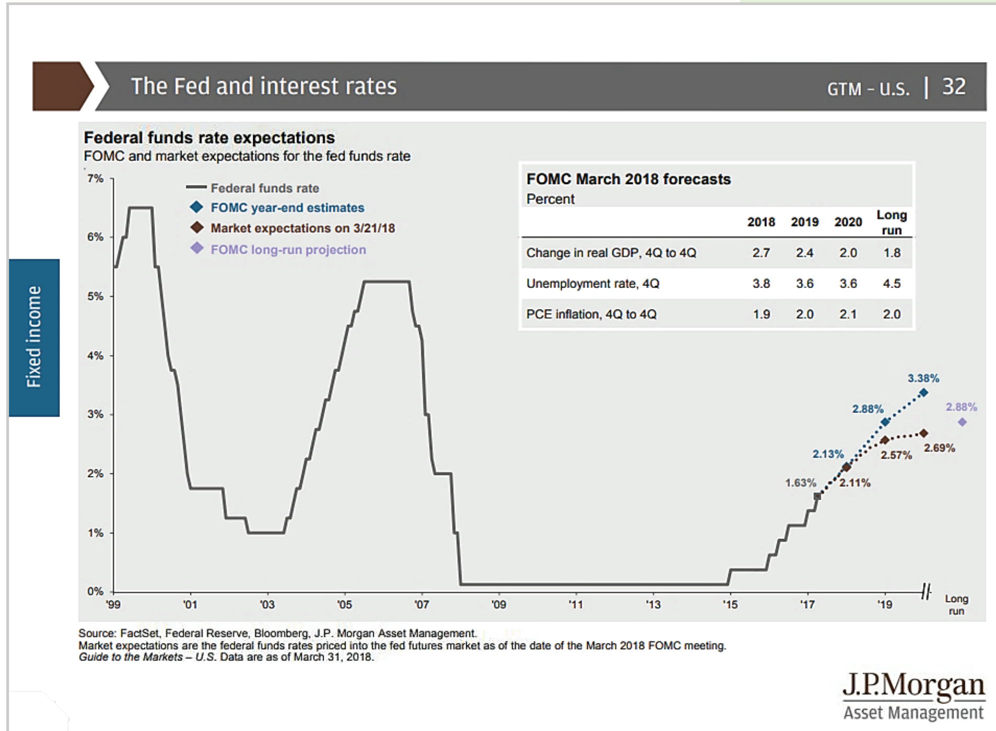
Source: Thomson Reuters Datastream Through March 2018

Source: Thomson Reuters Datastream Through March 2018

INTEREST RATES AND BONDS

Inflation can also be problematic for bond returns and the Central banks of the world are striving mightily to ensure that inflation rates move up close to two percent, a level that is thought to be ideal and which the developed world hasn't seen for years. As in past recoveries, there is a risk of overheating, but that threat does not appear imminent. It is likely that the tidal wave of aging populations coupled with technological innovations may exert a commensurate slowing effect. A chart reflecting the six federal funds rate increases already instituted plus those expected, appear right.

Accordingly, we remain comfortable that safer bonds and notes can maintain relative portfolio ballast but we have gotten choosier about less well-rated credits. Global and emerging market paper still appear attractive, as do certain less conventional income generators. The ECB has reiterated its worry that ratcheting down QE and/or up, interest rates, could derail the more fragile recovery there.



Source: J.P.Morgan, *Guide to the Markets*, March 31, 2018

MARKET REVIEW

The global economy is experiencing synchronous slow growth and the U.S. economy continues on a slow growth trajectory. S&P 500 corporate profits are expected to log a 17% increase in the first quarter; partially assuaging valuation concerns. Interest rates have pulled back somewhat despite U.S. issuance of more short term debt and recent economic indicators reflect a slight loss of momentum. It is unusual to experience tax cut stimulus near the end of a long growth cycle but that is exactly the situation now. This is the time to make sure your asset allocation is right for you. Our allocations lean to conservatism and we have been rebalancing regularly.

EQUITIES

Going nowhere fast! As we have predicted, the slowing of quantitative easing (money printing) has resulted in more volatility. Stock markets blazed in January only to fall hard and then rise in February, and rise and then fall in March. The disparity between the returns of 'growth' and 'value' stocks remains wide, despite narrowing a bit in March. U.S. growth stocks are up between +3.54% (small cap growth) and +1.94% (large cap growth). Midcaps are following this playbook with midcap growth +2.75% and mid cap value -2.65%. U.S. small cap value stocks are down, -3.15% and large cap value stocks lost -2.83%. The S&P500 is now negative year-to-date, down -0.76%, while high dividend payers, being treated as a bond surrogate, are down -3.20%. International is closing in on U.S. returns as EAFE has lost -1.70% and Europe is down -1.98% but emerging and frontier markets maintain their lead; up +1.28% and +4.98% respectively.

FIXED INCOME

Fixed income returns remain mostly negative across-the-board but are not nearly as bad as the rhetoric would imply. Corporate bond returns have slightly underperformed Treasury and municipal bonds. Although March reversed this trend, returns year-to-date generally followed duration lower. Short Treasuries are down -0.38%, 3 year municipals are up +0.11% and 1-3 year corporate paper is down -0.31%. The 10-20 year Treasury Index is down -2.47%, Barclays Intermediate Corporate Bond Index fell -1.50% and the Bloomberg/Barclay Municipal 10yr Index has lost -1.61% year-to-date. TIPS fell -0.79%, which is surprising given the growth of inflation-aware sentiment, emerging market paper (EMBI) is down -2.04% and high yield bonds lost -0.86% through March.

REAL ASSETS

"The home price surge continues" according to David Blitzer, Chairman of the Index Committee at S&P Dow Jones Indices, upon the March 27, 2018 release of the S&P Case-Shiller home price indices for January. The 20-City Composite posted a +6.4% January increase, and even Chicago saw a +2.4% January increase. The supply of houses for sale is very low and affordability is good. More broadly, world real estate fell almost -4% while U.S. funds investing in real estate dropped -6.48%, as shopping center REIT's in particular, continued to suffer. Precious metals, natural resources, and global real estate all rose for the month of March but fell for the quarter. Softs generally rose strongly with cocoa up +35%, corn up +10.55%, soybeans up +9.77% and wheat up +5.62%.

ALTERNATIVES

Alternatives have held up well. The HFRX Hedge Fund Index has done better than stocks, losing only -1.02% in the quarter while the HFRI Index is up +0.57% for the quarter-to-date. Long/Short Equity gained +1.01%; Multi-Strategy was up +1.66% and Global Macro gained +0.57% in the quarter. Non-correlated strategies are becoming more attractive as long term return projections flatten. However, non-correlated does not mean inversely correlated so that these investments could fall while equities or bonds are also falling. Keep in mind that Treasury inflation protected securities are also non-correlated and are a lot cheaper than most other choices in the non-correlated category.

CURRENCIES

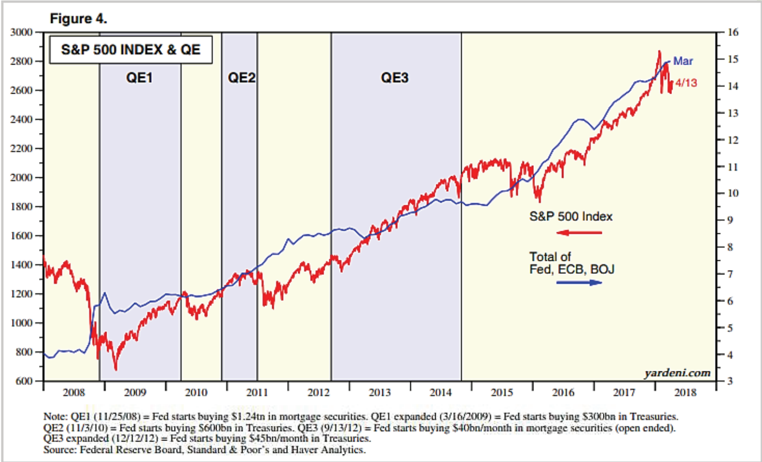
The dollar is down -1.8% in the first quarter, as measured by the six-currency DXY and is down over -10% against the same index over the prior twelve months. Should growth continue at a lesser pace abroad, and interest rates continue to be lifted here, the dollar may begin some stabilization against currencies such as the Euro and Japanese yen. The dollar remains the go-to currency in times of trouble.

CONCLUSION

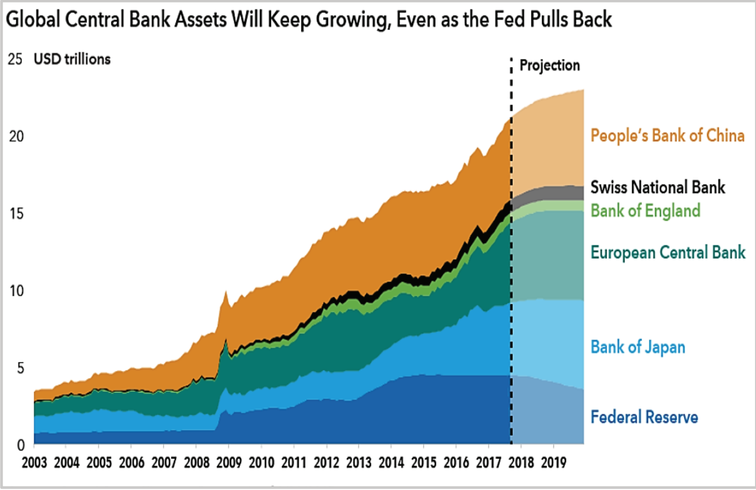
We continue to regard the reduction of global quantitative easing as the single largest threat to world markets. There is a strong correlation between money printing and stock markets.

While our Fed has begun pulling back and the Eurozone is printing at a highly reduced rate, other central banks have kept the spigots open. However, the overall growth rate is slowing. Even though expectations for policy rates are not very high, they do indicate a slow, small upward progression.

We continue to experience what we have long posited, the volatility which comes with a reduction of quantitative easing and a global debt build-up. Without the salubrious opiate of easy money we are returning to normal levels of volatility. We anticipate more of the same.



Source: Yardeni Research Through March 2018



Source: Capital Group, Thomson Reuters. As of 08/31/2017.

TWENTY YEAR VIEW OF ASSET CLASS RETURNS

Annual Returns of Key Indices (1998-2017) Ranked in Order of Performance (Best to Worst)

1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Large Cap Growth 42.15%	Small Cap Growth 43.09%	Real Estate 31.04%	Small Cap Value 14.03%	Cmdty 23.86%	Small Cap Growth 48.53%	Real Estate 33.16%	Cmdty 17.54%	Real Estate 43.72%	Large Cap Growth 11.81%
Large Cap Core 28.58%	Large Cap Growth 28.25%	Cmdty 24.21%	Real Estate 12.35%	Fixed Income 10.26%	Small Cap Value 46.02%	Small Cap Value 22.25%	Real Estate 13.82%	Small Cap Value 23.48%	Cmdty 11.09%
Int'l 20.00%	Int'l 26.96%	Small Cap Value 22.83%	Fixed Income 8.44%	Real Estate 3.58%	Int'l 39.17%	Int'l 20.69%	Int'l 13.50%	Int'l 23.47%	Int'l 8.62%
Large Cap Value 14.68%	Large Cap Core 21.04%	Fixed Income 11.63%	Small Cap Growth -9.23%	Small Cap Value -11.43%	Real Estate 36.18%	Large Cap Value 15.71%	Large Cap Value 7.10%	Large Cap Value 22.24%	Small Cap Growth 7.05%
Fixed Income 8.69%	Cmdty 18.60%	Large Cap Value 6.08%	Large Cap Value -11.71%	Int'l -15.94%	Large Cap Value 31.77%	Small Cap Growth 14.31%	Large Cap Growth 5.26%	Large Cap Core 15.77%	Fixed Income 6.97%
Small Cap Growth 1.23%	Large Cap Value 12.72%	Large Cap Core -9.11%	Large Cap Core -11.88%	Large Cap Value -20.85%	Large Cap Core 28.67%	Large Cap Core 10.88%	Large Cap Core 4.88%	Small Cap Growth 13.35%	Large Cap Core 5.48%
Small Cap Value -6.45%	Fixed Income -0.82%	Int'l -14.17%	Large Cap Growth -12.73%	Large Cap Core -22.10%	Large Cap Growth 25.65%	Cmdty 7.64%	Small Cap Value 4.71%	Large Cap Growth 9.07%	Large Cap Value -0.17%
Real Estate -17.01%	Small Cap Value -1.49%	Large Cap Growth -22.08%	Int'l -21.44%	Large Cap Growth -23.59%	Cmdty 22.66%	Large Cap Growth 6.13%	Small Cap Growth 4.15%	Fixed Income 4.33%	Real Estate -4.65%
Cmdty -30.52%	Real Estate -2.58%	Small Cap Growth -22.43%	Cmdty -22.32%	Small Cap Growth -30.26%	Fixed Income 4.11%	Fixed Income 4.33%	Fixed Income 2.43%	Cmdty -2.71%	Small Cap Value -9.78%

2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Fixed Income 5.24%	Real Estate 41.25%	Small Cap Growth 29.09%	Fixed Income 7.84%	Real Estate 29.85%	Small Cap Growth 43.30%	Real Estate 14.73%	Large Cap Growth 5.67%	Small Cap Value 31.74%	Large Cap Growth 30.21%
Small Cap Value -28.92%	Large Cap Growth 37.21%	Small Cap Value 24.50%	Large Cap Growth 2.64%	Small Cap Value 18.05%	Small Cap Value 34.52%	Large Cap Core 13.69%	Large Cap Core 1.38%	Large Cap Value 17.34%	Int'l 25.03%
Cmdty -36.61%	Small Cap Growth 24.47%	Real Estate 20.03%	Large Cap Core 2.11%	Large Cap Value 17.51%	Large Cap Growth 33.48%	Large Cap Value 13.45%	Fixed Income 0.55%	Large Cap Core 11.96%	Small Cap Growth 22.17%
Large Cap Value -36.85%	Int'l 27.75%	Large Cap Growth 16.71%	Large Cap Value 0.39%	Large Cap Core 16.00%	Large Cap Value 32.53%	Large Cap Growth 13.05%	Real Estate -0.41%	Cmdty 11.77%	Large Cap Core 21.83%
Large Cap Core -37.03%	Large Cap Core 26.50%	Cmdty 16.67%	Small Cap Growth -2.91%	Large Cap Growth 15.26%	Large Cap Core 32.39%	Fixed Income 5.97%	Int'l -0.81%	Small Cap Growth 11.31%	Real Estate 15.01%
Large Cap Growth -38.44%	Small Cap Value 20.58%	Large Cap Value 15.51%	Small Cap Value -5.50%	Small Cap Growth 14.59%	Int'l 22.78%	Small Cap Growth 5.60%	Small Cap Growth -1.38%	Large Cap Growth 7.07%	Large Cap Value 13.66%
Small Cap Growth -38.54%	Large Cap Value 19.69%	Large Cap Core 15.06%	Real Estate -8.14%	Int'l 13.55%	Real Estate 2.23%	Small Cap Value 4.22%	Large Cap Value -3.83%	Real Estate 4.62%	Small Cap Value 7.84%
Int'l -43.38%	Cmdty 18.72%	Fixed Income 6.54%	Cmdty -13.37%	Fixed Income 4.22%	Fixed Income -2.03%	Int'l -4.90%	Small Cap Value -7.48%	Fixed Income 2.65%	Fixed Income 3.54%
Real Estate -48.90%	Fixed Income 5.93%	Int'l 4.90%	Int'l -14.82%	Cmdty -1.14%	Cmdty -9.58%	Cmdty -17.04%	Cmdty -24.70%	Int'l 1.00%	Cmdty 1.70%

The Barclays US Aggregate Bond Index is an unmanaged market-weighted index that consists of U.S. Government and agency securities, mortgage-backed securities issued by the Government National Mortgage Association, the Federal Home Loan Mortgage Corporation, or the Federal National Mortgage Association, and investment-grade (rated BBB or better) corporate bonds, all of which will mature within 30 years.

The Russell 2000 Growth Index consists of small-cap companies that have higher price-to-book ratios and higher forecasted growth values.

The Russell 1000 Growth Index consists of large-cap companies that have higher price-to-book ratios and higher forecasted growth values.*

The Russell 2000 Value Index consists of small-cap companies that have lower price-to-book ratios and lower forecasted growth values.

The Russell 1000 Value Index consists of large-cap companies that have lower price-to-book ratios and lower forecasted growth values.*

The Morgan Stanley Capital International (MSCI) EAFE Index is an unmortgaged index that measures the total returns of developed foreign stock markets in Europe, Asia, and the Far East.

The S&P 500 Index is an unmanaged index that consists of the common stocks of 500 large-capitalization companies, within various industrial sectors, most of which are listed on the New York Stock Exchange.

The Bloomberg Commodity Index reflects the return of underlying futures prices of 22 physical commodities. (Cmdty)

The FTSE EPRA/NAREIT Global Real Estate Index is designed to represent general trends in eligible real estate equities worldwide.*

*As of 1/1/05, the Russell 1000 Growth and the Russell 1000 Value replaced the S&P/Barra Growth and the S&P/Barra Value, respectively. As of 1/1/06, the FTSE EPRA/NAREIT Index replaced the Wilshire U.S. REIT Index. Through 2004 on this chart, the S&P/Barra indices were used for Large Cap Growth and Large Cap Value. Through 2005 on this chart, the Wilshire U.S. REIT Index was used for Real Estate.

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