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FOURTH QUARTER COMMENTARY
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Stocks again had strong quarterly returns with large and mid cap growth stocks leading the way. The S&P 500 earned 6.64% for the quarter and 21.8% for the year. Large cap growth stocks performed best for the year with the large cap growth index gaining over 30%, while the small cap value index earned 7.84%. As we have pointed out, this was the reverse of results for 2016 when small and mid cap value stocks led the market. Foreign stocks also had excellent returns this year for the first time in three years aided by a weak dollar. The EAFE index gained over 25%.

Results varied widely by sector within the S&P 500. Technology stocks earned over 34% followed by healthcare stocks up over 26%. Energy stocks lost 5.7% on average and telecommunication services stocks lost nearly 12%.

Hedge fund returns varied widely by style with generally good results for the more aggressive long/short equity funds. Credit and distressed funds generally performed as expected.

Interest rates rose for shorter maturities causing flat to negative market returns for portfolios with shorter durations. Interest rates for longer maturities were more stable than shorter maturities. The continued absence of inflation pressures kept rates on longer maturities from rising. The yield curve has become flatter and we continue to be aware of potential negative implications from a flat yield curve. The following are treasury yields for various maturities over the past year:

MATURITY	12/31/16	9/29/17	12/29/17
3 Month	0.50%	1.06%	1.39%
2 Year	1.19%	1.47%	1.88%
10 Year	2.45%	2.33%	2.41%
30 Year	3.07%	2.86%	2.74%

The two most frequent questions clients are asking relate to the sustainability of the stock market rally (or the inevitability of declining stock prices) and the Bitcoin phenomenon. We will address both here.

Few investors predicted the strong rally which occurred in 2017. We have noted in past commentaries what we believe are the reasons for the strong market and why we do not believe a bear market is likely over the short term. The key reasons are:

- Corporate earnings growth accelerated in 2017. The estimated growth rate of earnings among companies in the S&P 500 was 9% - 10%, the highest rate since 2011. We believe this strong trend will continue in 2018;
- Economic growth was strong globally in 2017 and in fact was the strongest since 2011. Nearly all countries participated and growth is expected to continue this year;
- Despite the Fed increasing interest rates, global monetary policy is still generally stimulative as the central banks in Europe and Japan are still purchasing bonds to keep liquidity high. Low inflation has allowed the Fed to raise rates without longer term yields rising;
- Low volatility is a key characteristic of this rally. There has not been a correction in two years and there were no significant sell-offs of over 1%;
- The long anticipated tax bill passed in December reducing corporate taxes significantly. We believe stocks have mostly priced in these lower tax rates. In addition, corporations may repatriate cash from overseas;
- High geopolitical tensions have not affected the markets.

On a historical basis, many stocks are expensive and the overall market is not cheap, but the economic factors which can lead to a bear market are not present. While a market correction (at least a 10% decline) is always possible and probably healthy, we cannot predict what will precipitate a sell-off unless earnings begin to disappoint or a significant geopolitical event occurs. It is also hard to expect market gains of more than 5% - 10% this year given the current levels of stock prices.

The hottest speculative craze in the market has been the trading of Bitcoins. Without getting too technical, here are some key points about Bitcoins:

- It is a system designed to let people exchange value directly over the internet – a digital form of money – except there is no government or central bank printing it, standing behind it, or regulating it;
- Bitcoin is basically a software program that is run on an interlinked network of computers. The program contains a ledger that is visible to the public and all transactions are permanently recorded there. This ledger is called the blockchain. It could just be considered a spreadsheet maintained by a group of users;
- Bitcoin allows you to have an account called a “wallet” that holds your Bitcoins. There are serious security problems with these “wallets” since they can be hacked and the Bitcoins stolen;
- At this point Bitcoin is not a currency, nor a store of value. It is an asset as long as people believe it has value. Some people believe that it is going to become a global currency and will one day be widely accepted;
- The rise in the value of Bitcoins had led to the creation of other “cryptocurrencies” in the market.

The whole subject of cryptocurrencies is very controversial. Are they really going to become an accepted currency or is it the latest in the history of speculative bubbles that eventually burst like tulip mania in the 1600's? JPMorgan Chase CEO James Dimon called Bitcoin a fraud last spring and Warren Buffet has questioned whether governments would let it keep growing.

We remain skeptical of Bitcoin as an enduring asset and store of value. It is hard to resist an investment that has provided unbelievable returns, but since it is extremely speculative, highly volatile, poorly regulated, and easily subject to hacking, we have chosen to avoid it. None of our equity managers or hedge funds have invested in this category, though they do own stocks in companies like Microsoft who are involved in blockchain technology. We pride ourselves in being good assessors of risk, and the risk in this category appears very high and difficult to judge.