DANN ASSET ADVISORS, LLC

First Quarter 2017 Update

April 14, 2017

1Q17 Highlights

- Stock market advances with strongest quarter since 2015
- Economic sentiment improves even though first quarter GDP likely up only modestly
- Failure to repeal Obamacare may imply difficulty implementing Republican economic agenda
- Fed seems increasingly confident in better growth, more rate increases coming

The table below summarizes the performance of some key indices during the first quarter:

Market Performance Index	% Ch. 1Q17
S&P 500	6.1
MSCI Developed Markets (excl US)	7.3
MSCI Emerging Markets	11.4
MSCI All Country World	6.9
US Aggregate Bond (1)	0.8
Liquid High Yield (1)	2.3
US Dollar Emerging Markets Bond (1)	4.0

(1) Barclays indices

Equities. The 6.1% gain for U.S. stocks (as measured by the large company S&P 500 index) was the biggest quarterly advance since the fourth quarter of 2015. We believe gains were spurred by a combination of expectations for economically friendly initiatives from Washington and a general pick up in consumer and business sentiment (not yet reflected in economic numbers) that growth will improve.

In contrast to the fourth quarter, when cyclical stocks trounced growth, the first quarter was led by growth sectors like technology and healthcare. Also different was that large company stocks led small, with the Russell 2000 index of smaller companies up only 2.5%. Finally, interest rates were little changed during the quarter. Taken together, these market dynamics may indicate reduced expectations for substantial economic stimulus from Washington.

International markets on the whole rose more than the U.S., bouncing back strongly from fourth quarter declines. As with the U.S. market, these gains may reflect a tempering of the initial conclusions (e.g., continued dollar appreciation, substantial changes to NAFTA) immediately drawn from Trump's election. International markets remain less expensive than the U.S. and growth in some international economies has been better than expected.

Fixed income. Ten year Treasury yields bounced between 2.32% and 2.61% during the quarter, ending at 2.40% and just a bit below the 2.45% level of December 31. Two year Treasury yields rose very modestly. While the bond market had a significant decline in the fourth quarter in reaction to the election, its stability thus far in 2017 is not wholly consistent with the stock market's gain. As indicated above, the Barclays Aggregate Bond index returned 0.8% for the quarter, reflecting high-quality bond price stability and still historically low yields. More speculative, higher yielding sectors of the bond market fared better.

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General comments. At its peak in late February, the S&P 500 had rallied roughly 15% from the November election, at least partly in anticipation of economically friendly policies to be enacted by the Republican controlled government. These policies included corporate and potentially individual tax cuts, infrastructure spending and reduced regulation. In addition to spurring economic growth, these actions presumably would lead to higher corporate earnings and stock prices.

At March 31, the S&P 500 was trading at 18x next year's consensus earnings estimates, on the high side of fair value. Given valuation, we believe the stock market needs accelerating, better than expected economic growth to move higher from here over the near term. As discussed in the Economy section below, we judge that growth may in fact surprise to the upside over the short term. Still, given the magnitude of the market's move since the election, we believe at least some of the gain (acknowledging that there's no way to measure) reflects the market's assuming and discounting the success of Republicans' stated economic initiatives.

As demonstrated by the Republicans' failure to repeal/replace the Affordable Care Act, delivering on campaign promises may be more challenging than expected. Ironically, it's possible that this failure could lead the Trump administration to moderate some of its positions and potentially even work with Democrats in an effort to get some of its agenda and priorities through Congress. Admittedly, this is a long shot but, in our opinion, could be the positive surprise of the year. Absent progress in Washington our guess is that the U.S. market ends the year at or below current levels. Of course, we'd be happy to be proved wrong. And regardless of what happens over the near term, long term the stock market remains the place to be in our opinion.

Market sectors. The best performing broad U.S. market sectors during the first quarter were technology, healthcare and consumer cyclical companies. Apple is by far the largest company in the tech sector and it gained 23% in the quarter. However, tech strength was broad based, as investors seemed to search for growth. Healthcare had a strong bounce-back quarter after having been the worst performing sector in 2016. As with technology, this may reflect investors searching for reliable growth. Consumer cyclical companies don't neatly fit with the growth theme (bricks and mortar retail certainly has been under pressure), but Amazon accounts for more than 10% of the sector and rose 17% in the quarter. Other top stocks in this sector (e.g., Comcast, Starbucks) have relatively stable business models.

Focusing further on growth, it's worth noting that the "FANG" stocks (Facebook, Amazon, Netflix and Google, now Alphabet) that led the market in 2015 again were strong in the just ended quarter, appreciating 15% on average. This may indicate a narrowing of market strength, which could lead to volatility down the road.

The first quarter's worst performing sectors were energy, telecommunications and REITs. The energy sector declined more than 5%, as oil prices fell with increased U.S. production and doubts about non-U.S. producers adhering to quotas. Telecommunications and REIT stock prices often move inversely to changes in interest rates – with rates relatively stable in the quarter this was not the reason. More specifically, Verizon represents more than 20% of the telecomm sector; it declined due to its acquisition of Yahoo and tough competitive conditions. REITs we believe suffered because of problems in retail, an important subsector of REIT indices.

Portfolio Positioning

We continue to believe the risk (a decline in principal) of having significant longer term bond exposure outweighs the current benefit of modestly higher income. In addition, high yield markets

seem fully valued to us. Accordingly, we made no significant changes in fixed income during the first quarter and portfolios remain predominantly in investment grade mutual funds, with durations averaging less than three years.

We also had a quiet quarter for most equity-only accounts, with the major transaction being the sale of an energy focused exchange traded fund (ETF). We sold the ETF primarily because of the significant pick up in U.S. drilling over the past six months as oil prices hovered in the $50-$55 per barrel range. We believe that absent a significant geopolitical event in the Middle East, continued drilling by U.S. producers will act as a cap on energy prices making it tough for the sector to perform well following its market-leading gains in 2016. The only other transaction was the sale of a small part of a large cap U.S. mutual fund to raise some cash following the market's 15% gain since the election. As mentioned above, we believe the U.S. market is on the high side of fair value at this point.

Economy

U.S. GDP grew 2.1% in the fourth quarter, a deceleration from relatively robust growth of 3.5% in the third quarter. For all of 2016, GDP expanded 1.6%, the weakest performance since 2011, and compared with 2.6% in 2015. First quarter 2017 GDP will be reported late in April and the consensus is projecting growth of roughly 2%. The range of expectations for the quarter is wider than usual, with different Fed districts estimating growth of 1% to 3% depending on the specific economic data that they believe is most relevant.

More broadly on the economy, we note that consumer spending now has increased at a pace of 3.0% or more in each of the past three quarters. The unemployment rate, most recently at 4.5%, is at a level the Fed considers, with qualifications, near "full" employment. And finally, the manufacturing/industrial side of the economy again is growing after a significant downturn in 2015-2016 caused by low energy prices and the stronger U.S. dollar.

Given the foregoing, we believe it's possible first quarter growth will come in stronger than current estimates. We also note that consumer sentiment is at its highest level since 2000 implying second quarter growth may accelerate further if sentiment turns to reality. We always acknowledge that we're not economists and have no edge in understanding the economy. Still, in our opinion we may be in the midst of a brief, cyclical sweet spot for growth – spurred largely by easy comparisons with a difficult 2016 that was held back by uncertainty around the election and the industrial downturn we've referenced in prior updates. Absent progress in Washington, we'd expect more moderate growth by the fall. And with a more unpredictable administration in place there is always the potential for unexpected domestic and international developments.

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