Investment Report Summary for CMA, 1st Quarter 2018, prepared by John Howle

U.S. Capital Advisors

1. **2018 YTD CMA Investment Portfolio Total Return:** (as of 03/29/18)
   - 2018 YTD Investment Income net of fees: $5,625
   - 2018 YTD Portfolio Value Growth net of fees: <10,572>
   - 2018 YTD Total Return: <2.70%>

   - Segment Blended Benchmark: <1.80%>

     Note: slight underperformance YTD due to a widening of the closed-end fund discounts. Our past outperformance in prior years was in part due to the positive effects of the narrowing of closed-end fund discounts.

2. **CMA Historic Investment Portfolio Total Return** (net of fees)

   - 2017: 11.50%
   - 2016: 9.20%
   - 2015: <10.80%>
   - 2014: 8.72%
   - 2013: 12.61%
   - 2012: 15.98%

3. **CMA Investment Portfolio Value Growth:**

   - 12/31/15: $661,398
   - 12/21/16: $696,996
   - 12/29/17: $757,478

4. **CMA Investment Portfolio Growth Calculation YTD:**

   - **Beginning Value: $757,478** (12/31/17)
     - Withdrawals: <$21,242>
     - Fees: <1,864>
   - **Sub Total: $734,372**
     - Contributions: $30,000
     - Investment Income: $7,489
     - Portfolio Gain/Loss: <24,955> <3.29%>
   - **Ending Value: $746,906 (03/29/28)**

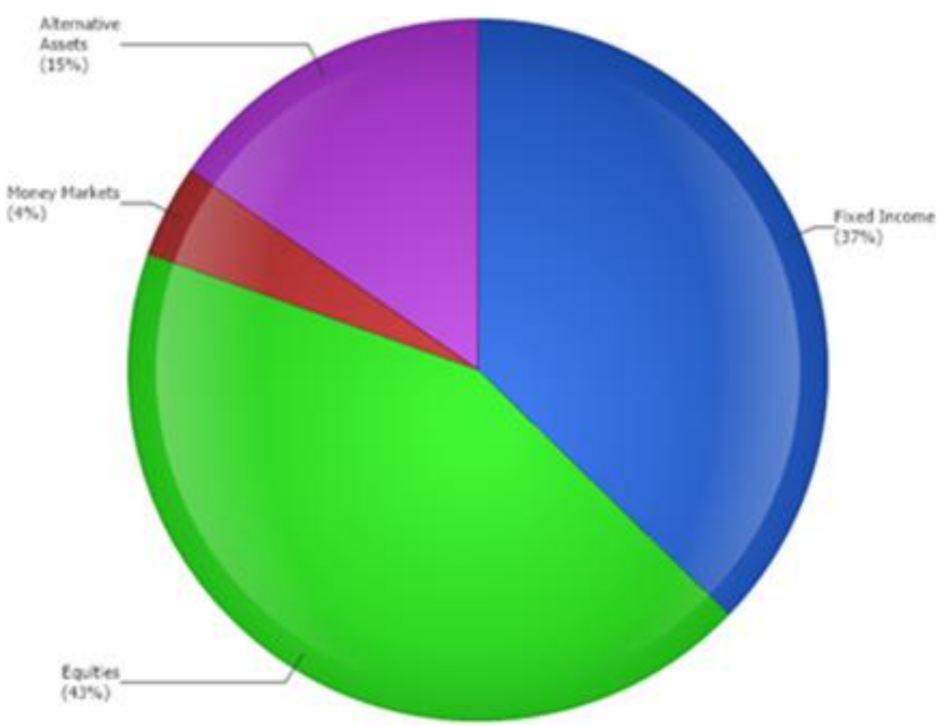
5. Index Returns 2018 YTD: (as of 03/29/18)

- **Bond Markets:**
- Bloomberg Barclays **Aggregate Bond** Index: **<1.46%>**
- Bloomberg Barclays **Investment Grade Corp Bond** Index: **<2.32%>**
- Bloomberg Barclays **High Yield Corp Bond** Index: **<0.86%>**
- Bloomberg Barclays **Mortgage Bond** Index: **<1.19%>**
- Bloomberg Barclays **Taxable Municipal Bond** Index: **<1.03%>**

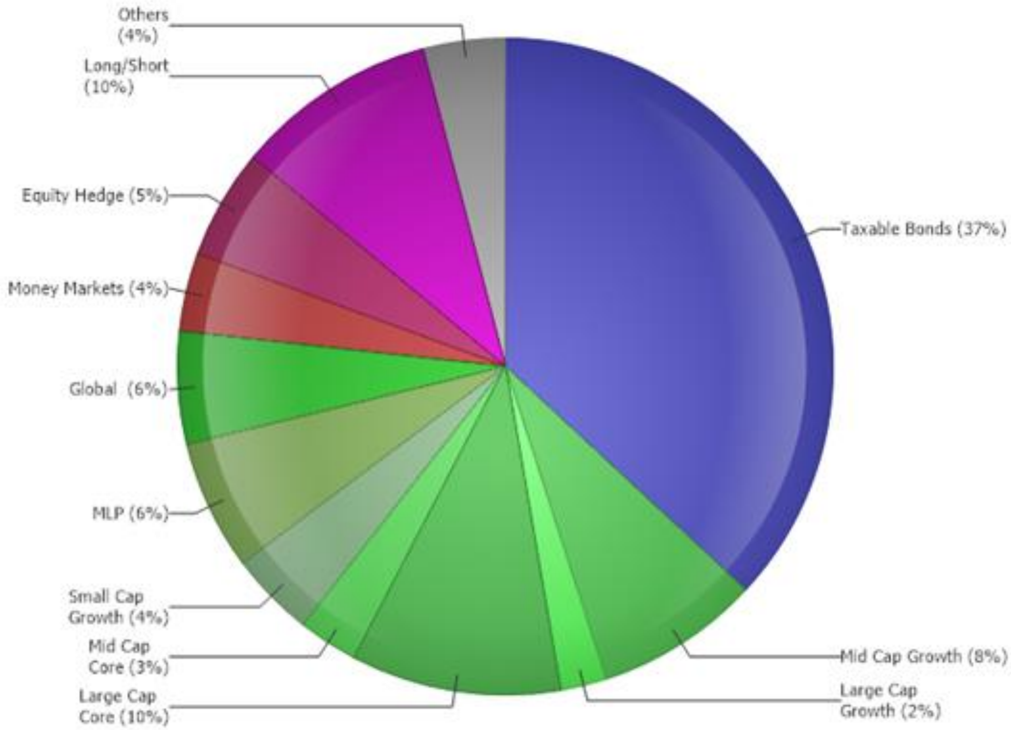
- **Equity Markets:**
- **S&P 500 Index: <.76%>**
- **Dow Jones Index: <1.96%>**
- **NASDAQ Index: 2.59%**
- **MSCI World Index: 1.21%**

6. Asset Allocation:

- **Class Allocation:**



- **Segment Allocation:**



Uncertainty☹ Markets hate uncertainty and that is playing out in just about all markets with increasing volatility. Remember the days of tax cuts, synchronized global growth, increasing earnings and fiscal stimulus? What happened? Knowing that the market trades on fear and greed, you have to ask what changed that mood so quickly? I believe the markets now fear that a combination of the Fed raising short-term rates while at the same time reducing their balance sheet is restrictive to future growth and supports the age-old market axiom of 'don't fight the fed'. Throw in tariffs and trade war fears, the White House's negative comments on Amazon and inflation fears, and you have the makings of a good correction.

Although I do not see the beginnings of a bear market, I don't believe we are going to see returns anywhere near what we saw last year. And even though my expectations are that equities will outperform bonds for 2018, I don't think it will be by much and it will most likely be a choppy ride getting there. The Fed has signaled a possible 3 more rate hikes this year, which at a rate of 25bps per hike would take us to a Fed funds rate of 2.50% which higher than the 3-year Treasury and only 30bps below the 10-year Treasury yield as of 04/03/18. If longer Treasury rates don't ratchet up with the Fed's action *(and currently they are not, and I believe they won't),* we will see a very flat yield curve by the end of the year. That in turn could be signaling a coming recession. My feeling is that the inflation rate is key to both the Fed's action and how the Treasury market responds. Will rates rise because the market fears that the Fed is behind the curve in relation to inflation? Or will rates fall because the market feels that the Fed is holding inflation in check and restricting growth?

Given that we have fallen from an S&P 500 average p/e ratio of 20 to the current 17, the equity valuations should look more compelling when earnings materialize over the next 3 quarters. 1st quarter earnings are still expected to come in at around a 17% growth rate. However, we will have to see if we start to get any adjustments to earnings growth rates due to changes related to trade.

Strategy: I will continue to look for opportunities to slowly reduce risk in both equities and fixed income. This doesn't mean abandoning the equity market but simply looking for balance to help dampen overall volatility. In fixed income I will continue to move to a barbell approach, which is a combination of short term bonds combined with longer term bonds while attempting to avoid the intermediate area of the market. The short end of the barbell strategy offers us flexibility to take advantage of any potential price dislocations. When you get price volatility like we like we have seen lately, the chances for an opportunity increase as well.

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