Investment Briefing

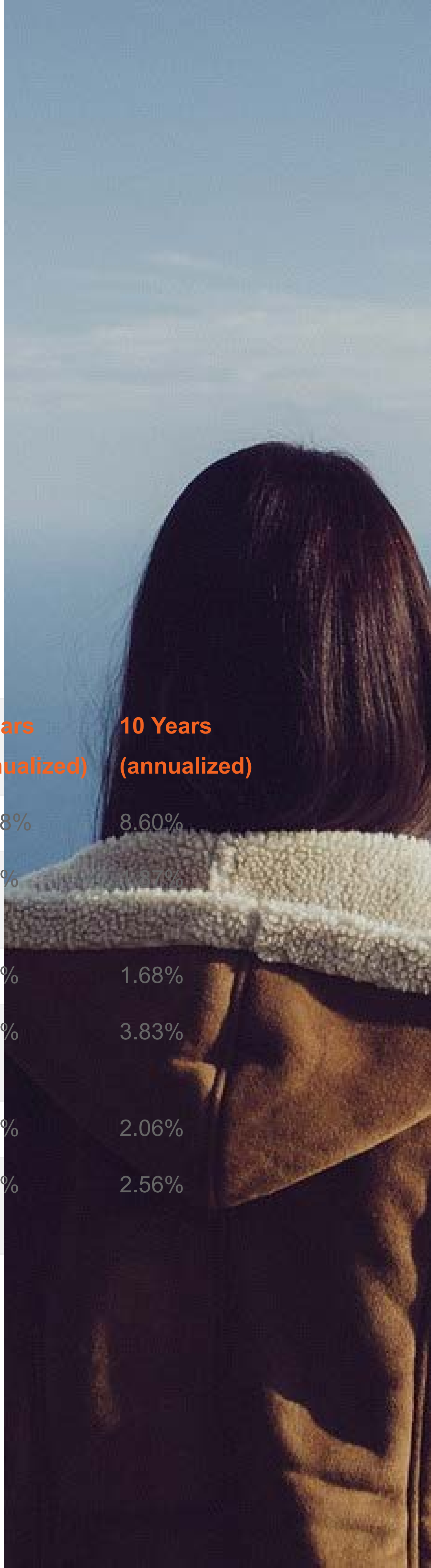
Fourth Quarter 2017

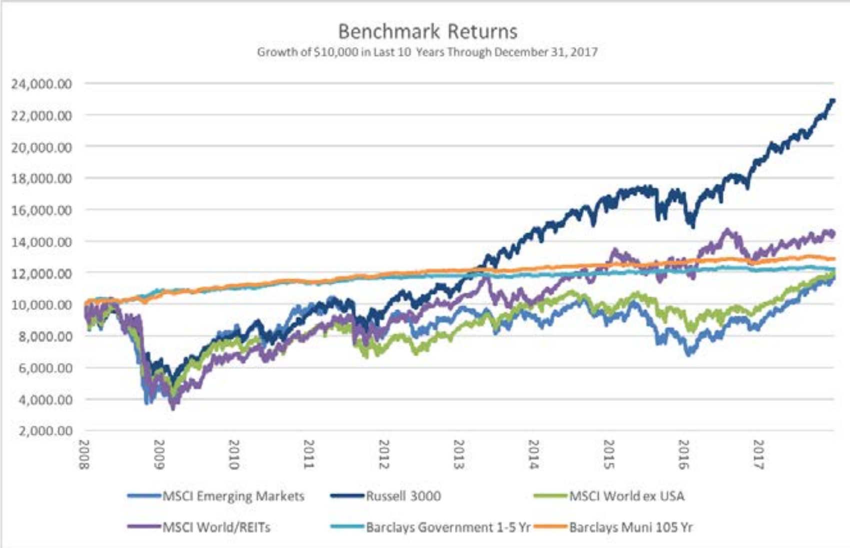
Introduction

Most major asset classes were again up in the fourth quarter, completing a very strong year for most stock markets.

International stock markets outperformed the U.S., also continuing the prior quarters' trend. Emerging markets have had the best returns over the last 12 months, while U.S. markets are still the highest for periods of five and ten years. Bond indexes were slightly down for the quarter, finally succumbing to interest rate increases.

Asset Class[1]	**4th Quarter**	**2017**	**5 Years (annualized)**	**10 Years (annualized)**
U.S. Stocks (Russell 3000)	6.347%	21.13%	15.58%	8.60%
International Developed (MSCI World ex U.S.)	4.23%	24.21%	7.46%	1.87%
Emerging Markets (MSCI EM)	7.44%	37.28%	4.35%	1.68%
Real Estate Investment Trusts (MSCI World REITs)	3.73%	10.28%	7.27%	3.83%
Taxable Bonds (Barclays 1-5 Yr Gov)	-0.40%	-0.69%	0.74%	2.06%
Municipal Bonds (Barclays Muni 1-5 Yr)	-0.64%	1.90%	1.23%	2.56%





References

1. Return data and charts are from Morningstar Direct.

U.S. Stocks: Land May be In Sight Soon

Like a cruise ship steadily approaching its destination, U.S. Stocks performed very well in Q4 with the Russell 3000 up almost 7%. This topped a year that saw an unusual phenomena in that every month's returns were positive in the S&P 500.

While all major stock classes were up (large and small, growth and value), large growth companies continued apace with returns of over 8% for Q4. Russell's large growth index was up over 30% for the year, reflecting the strong performance of large tech companies.

Technology stocks led performance of the U.S. markets in 2017, specifically the FAANG stocks (Facebook, Amazon, Apple, Netflix and Google). Their performance

was no less than fantastic, with the high being Amazon's. A $10,000 investment in Amazon on January 1, 2017 would have appreciated by 56% to $15,600 by year-end. Even the lowest of the group, Google's parent Alphabet, appreciated by an amazing 32% for the year. The S&P 500 index is now dominated by the tech sector, comprising over 24%. There are 10 industry sectors in the index and the all-time tech sector high was in 1999/2000 when it comprised 33% of the S&P 500.

Looking ahead, further stimulus for the stock markets may come from the tax bill that Washington passed at the end of the year. How much longer this cruise will last isn't clear, but there are some signs that the end of the trip may be in sight. Many pundits are expecting continued strong growth for 2018 with a very low probability of recession until sometime in 2019. At some point, the U.S. stock market will anticipate a recessionary slow down. When it does, U.S. stocks' relatively high-priced shares, especially the tech companies, could magnify a negative reaction.

Issues that may eventually come up to challenge this otherwise optimistic market are:

- A slowing economy due to the Federal Reserve's increasing interest rates.
- A resurgence of inflation as unemployment continues to decline.
- A return to "normal" market volatility where stocks once again react to negative news.

Finally, we must note that the Growth style (driven by technology stocks) won the return race in 2017. As mentioned above, it has been a strong run. Note that the last time tech had such a strong run (in 1999/2000), it was immediately followed by one of Value's strongest periods. We don't know that something similar will happen again, but we do know that the Value style has a high probability of rebounding based on the market's performance over the last 90 years.

International Developed Stocks: Full Speed Ahead

This ship has left the port and is under full power to its warm destination where everyone is friendly.

International developed markets continued their strong performance in Q4 and finished the year ahead of the U.S. Both European and Japanese stocks appreciated as their economies continued to improve while expanding the wave of the ongoing global recovery. Europe was led by an increasingly optimistic German populace and manufacturing sector as Eurozone manufacturers hit a 20-year high in output. Looking forward, many expect growth in the Eurozone to be between 2% and 3% in 2018.

Japan's Nikkei achieved a 21-year high as Prime Minister Shinzo Abe easily won reelection. A new free-trade agreement was signed by the Eurozone and

Japan, further bolstering their outlooks. While Japan still has many issues including a dependency on global growth, many indicators are pointing towards another healthy year.

So, what can send this ship off course? Low unemployment, especially in tightening areas such as Germany, could lead to increased inflation and to a tightening of monetary policy by the European Community Bank. As in the U.S., this would mean higher interest rates and an eventual slowdown in growth.

Emerging Markets: Sailing

The wind is at our backs and all sails are stretching to their maximum capacity.

As the chart shows, emerging markets had a volatile quarter, but ended as being one of the best places to have money in stocks. For the year, EM was up by over 37%. It is about time. As our opening table shows, EM still holds last place for its performance over the last 10 years. While China was one of the best performers in 2017 (at +50.67%), Poland was higher (at 53.56%). In fact, of the 24 stock markets currently considered to be part of EM, 13 of them saw their markets grow by more than 30% in 2017.

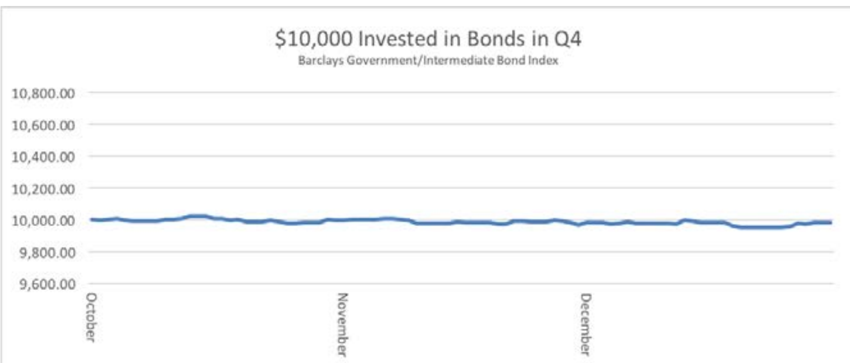
This favorable wind can shift very quickly, though, and emerging markets comprises countries that have diverse economies in different points of their business cycles. For example:

- Both Brazil and Russia are coming out of downturns and are in modest recoveries

- South Korea and India have continued to grow at a healthy pace
- While China has grown rapidly, it has many state-owned enterprises with debt issues that the government needs to clean up. While debt has grown rapidly in China, it is not to a danger point, but it is something that needs to be kept on any list of economic risks.
- Upcoming elections in Brazil and Mexico could lead to instability.
- Negotiations over Brexit and the North American Free Trade Agreement (NAFTA) could negatively impact emerging markets as would a slowdown in the developed countries.

Bonds: In Port

While bonds were generally down a little in Q4, they finished the year with positive returns.



Vista's bond portfolios turned in positive performance and generally beat their benchmarks.

As growth continues to increase on a global basis, bonds in general have a challenging future in the short-term. That said, no one can consistently predict interest rates, let alone the effect of future economic growth on bond prices. We will continue to keep our stance in intermediate bonds since they deliver what we believe are the best returns for their comparatively low level of risk.

The positive news going forward is that maturing bond proceeds will be reinvested at higher interest rates as global rates continue to rise. As with other asset classes, it's always important to allocate assets based on long-term expectations instead of attempting to profit from short-term moves or expectations.

Summary: 2017: A Year to Get Us Where We're Going

- Who would have been able to predict that the U.S. would have another great year, let alone that international markets would outperform it?
- Who would have thought that the Growth style would outpace Value after Value's great success in 2016?
- And what about bonds having a mostly positive performance in the midst of all this while the Federal Reserve moves its levers to increase interest rates?

All of this points to the difficulty for any investors who believe they can out-think the collective actions of the market. This is yet another year that only the very lucky market timer would have outperformed the benchmarks.

With many asset classes returning double digit returns, most people's financial plans are looking better now than they did at the beginning of the year. Of course, those plans are designed for the long term, so when we experience a downturn, the plans have taken those into account as well. However, the fact is that most of us should feel better (at least financially) having had a nice quarter topping a great year in the markets.

Thanks

We hope this briefing brings a little more light to the numbers in your reports. As always, we look forward to any questions you may have. Thank you for your trust in Vista.

Your Vista Wealth Management Team

Source of all charts and data: Morningstar Direct

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