



Fourth Quarter 2017

QUARTER AND YEAR IN REVIEW

To call the past half-decade of domestic equity markets gains robust is assuredly an understatement, with such a strong and even-tempered march higher rare to uniqueness in history. The centers of investor attention, global central banks maintain steady and resolute control over modest shifts in monetary policy, while global macroeconomic dynamics remain firmly on the side of positive. Investors seem devoid of undue stress that errors in judgement or errant drifts from trend will disrupt the present lack of tension. Still, with caution sourced from history fraught with storms succeeded by such calm, we'll note that the future holds equivalent potential to delight and disappoint. While we welcome a new year already off to a strong start, we will remain vigilant of shifts relevant to our portfolio positioning and offer the friendly reminder that peace and patience with market exposure is unique to the individual and well-worth regular revisits with trusted advisors.

Record of Records

Business and consumers alike are confident that the future is bright and that confidence was on display in yet another quarter of robust gains in global equity markets, capping a year that saw returns among the strongest of the past century. Yet another three months of record-setting achievement in the S&P 500 Index established a new record unique to 2017. Last year is the only full calendar year in the history of the S&P 500 Index during which every month saw a positive total return, with each establishing a new peak for the index.

Expansion Keeps Us Aloft

Gaining 3.0%, year-on-year through the end of the third quarter, according to World Bank estimates, the global economy was setting few records. But, similarly few were disappointments. Steady-as-it-goes trends offered central bank policy makers welcome confirmation of past decisions, along with the confidence to continue along present courses, without too-great a worry that and changes to plan will disorient investors (that audience having been their primary focuses since the Great Recession).

Wary of a Turn

Wise folks that they are, however, monetary policy makers understand that the territory remains largely unmapped and that features of economies and markets leave them open to upset. Inflation remains stubbornly low, but expectations are on the rise. That's the point of recent changes in tone and practice, but will the pace become too quick? And while the loftiness of present market valuations seems lost on few, capitulations to the bull on the rise. When will the market turn? Of course, this is no "hoping" for any downturn. We simply must be honest to the potential. Though we seem a ways away from any tumult-inducing metrics, proper fit of market exposure for individual situations will remain top of mind.

Figure 1: Year Summary

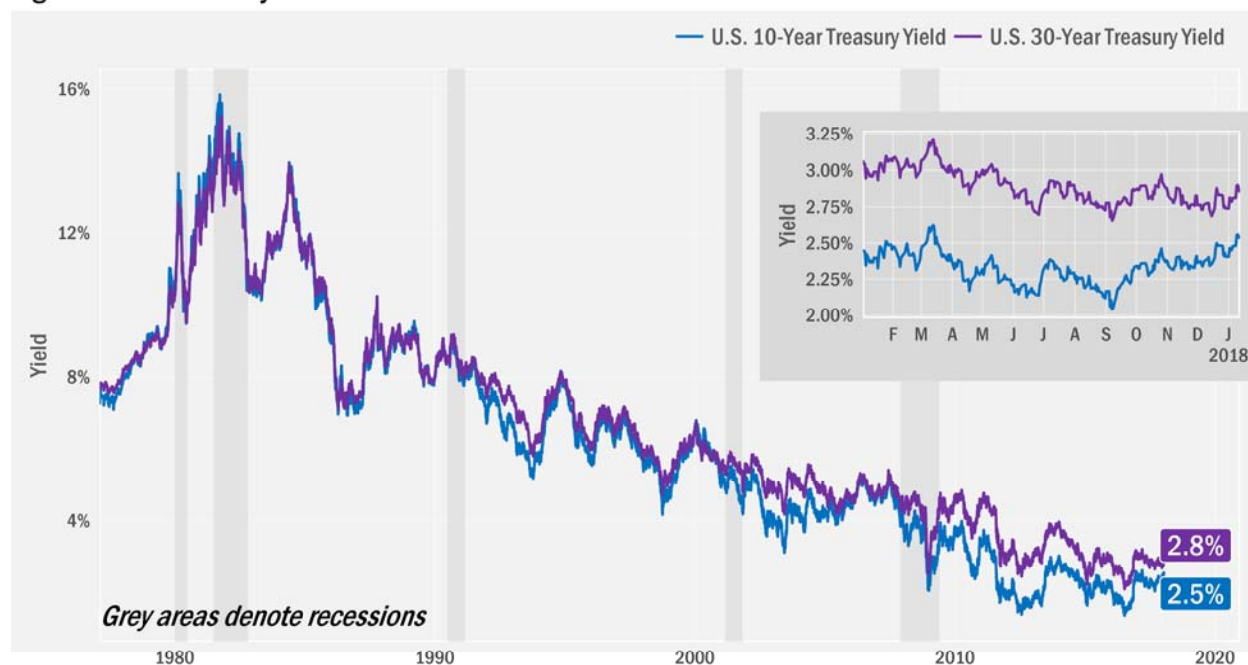
Overall Take			
↑	↑	Equity: It's a good year all around when the worst that you can say for U.S. stocks, which turned in a gain during each month of the year, is that they still managed to underperform their global peers	
	↑	Fixed Income: Declining yield spreads boosted performance of corporate bonds, versus Treasury, during a year that saw reasonably solid and steady performance from the broader bond market	
Equity			
↑	Domestic Unbroken streak of monthly ups. Though Value and Size disappointed, tilts did not leave portfolios too far from the broader result		↑
		International Besting those seen by U.S. stocks, global equities turned in a stellar year, with emerging market stocks shining particularly bright	

Macro Focus

The global macroeconomy, while far from booming, truly is in expansion mode, now growing at a pace per World Bank estimates at or near full capacity. In the latter part of the year, and coming to the idea a good bit later than had equity markets, fixed income markets began to reflect that stronger growth. That is, longer-term bonds, yields on which can be seen as more reflective of broader expectations for long-term growth, began rising, a trend that has persisted into 2018. While these trends can be deleterious to bond returns in the near-term, as bonds prices move opposite to changes bond yields, the rate of those rises has yet to prove greatly disruptive.

While the turn up at the end is easy to miss, far more obvious in Figure 2 is the fact that present yields on 10-year and 30-year Treasury bonds remains well below historical levels. Nonetheless, we do not expect even in the medium term that yields will soar from present ranges. It's true that economic growth is stronger. But, while going-forward expectations for growth remain optimistic, they also remain true to the idea that global demographics may constrain growth to levels lower than we have seen in the past. Additionally, inflation expectations, while rising, are not in a place or on a path that at the present would give cause for greatly higher longer-term yields. The upshot is that rising yields may impart increased volatility to fixed income markets, but should give those with heavier allocations to fixed income a healthier return for invested dollars.

Figure 2: U.S. Treasury Yields



From 01.02.17 to 01.12.18. SOURCE: Bloomberg

Equity Market Review

With 2017 now in the history books, we’ve been reminded by so many year-end market reviews how extraordinary a year it was from an equity returns standpoint. Last year’s gain of 21.8% more than doubled the average annualized gain of 10.1% for the S&P 500 Index over the past 92 years. Topping that tally, though, equity markets outside of the U.S., as represented by the MSCI All Country World ex. USA Index, gained more than 27%, as strong local-market returns were boosted by a weakening U.S. dollar tailwind. Again topping the regional market billboard, emerging markets outperformed U.S. and non-U.S. developed markets during the quarter, bringing the year-end gain to 37.3%.

Looking at style factors, performance details for which we include in Figure 3 and Figure 4, Value stocks underperformed around the globe over the course of the year. With regard to the Size factor, though, performance was mixed. Small-caps performed better than large caps outside the U.S., but underperformed in the domestic market.

Figure 3: Trailing Equity-Market Performance

The tables below display the relative performance of different segments of the U.S. and international stock markets. Broad market performance is shown in the upper left of each group (3-month and 1-year periods). The remainder of the table displays the performance of various segments, including large-, mid- and small-cap stocks, Value and Growth stocks, and combinations of each. Segments that outperform (underperform) the broader market are shaded in blue (grey) in depth according to their respective relative performance.

U.S. Stocks	3-Month Period ended 12.31.17				1-Year Period ended 12.31.17			
			Value	Growth			Value	Growth
	All Stocks	6.5%	6.2%	6.7%	All Stocks	21.1%	15.0%	26.5%
Large	6.6%	6.3%	6.8%	Large	21.8%	15.4%	27.4%	
Mid	6.3%	5.4%	7.1%	Mid	16.2%	12.3%	19.9%	
Small	4.0%	4.0%	3.9%	Small	13.2%	11.5%	14.8%	

International Stocks	3-Month Period ended 12.31.17				1-Year Period ended 12.31.17			
			Value	Growth			Value	Growth
	All Stocks	5.2%	4.5%	6.0%	All Stocks	27.8%	23.6%	32.2%
Large	4.8%	4.0%	5.7%	Large	26.7%	22.0%	32.2%	
Mid	5.7%	5.3%	5.9%	Mid	29.3%	26.1%	31.5%	
Small	6.6%	5.9%	7.2%	Small	31.6%	29.7%	33.6%	

From 12.31.16 to 12.31.17. Data are total returns for the period shown. Past performance is not indicative of future results. Investing in securities involves risk, including risk of losing some or all the invested capital. One cannot directly invest in an index. Index performance reflects the reinvestment of dividends, but does not reflect the expenses associated with the management of an actual portfolio. Please see additional important information regarding indexes at the end of this report. SOURCE: SRCM using data from Bloomberg

Figure 4: Trailing Broad Equity-Market Performance

Broad Equity-Market Indexes						
	3 Month	YTD	1 Year	3 Year	5 Year	10 Year
Global	5.73	23.97	23.97	9.30	10.80	4.65
World ex. U.S.	5.23	27.81	27.81	8.38	7.22	2.20
World ex. U.S. Small-Cap	6.56	31.65	31.65	11.96	10.03	4.69
U.S.	6.53	21.13	21.13	11.41	15.74	8.69
U.S. Large-Cap	6.64	21.83	21.83	11.41	15.79	8.50
U.S. Mid-Cap	6.25	16.24	16.24	11.14	15.01	9.97
U.S. Small-Cap	3.96	13.23	13.23	12.00	15.99	10.43
Developed Markets	4.23	25.03	25.03	7.80	7.90	1.94
Emerging Markets	7.44	37.28	37.28	9.10	4.35	1.68

Value Component of Equity Indexes						
	3 Month	YTD	1 Year	3 Year	5 Year	10 Year
Global	4.84	18.26	18.26	7.66	9.46	3.63
World ex. U.S.	4.47	23.63	23.63	7.01	6.14	1.72
World ex. U.S. Small-Cap	5.93	29.72	29.72	11.51	9.87	5.11
U.S.	6.17	14.99	14.99	9.54	14.32	7.13
U.S. Large-Cap	6.33	15.36	15.36	9.47	14.24	6.80
U.S. Mid-Cap	5.36	12.32	12.32	9.88	14.83	9.46
U.S. Small-Cap	4.03	11.51	11.51	10.97	15.52	9.99
Developed Markets	3.24	21.44	21.44	6.35	6.95	1.15
Emerging Markets	6.84	28.07	28.07	6.21	1.75	0.91

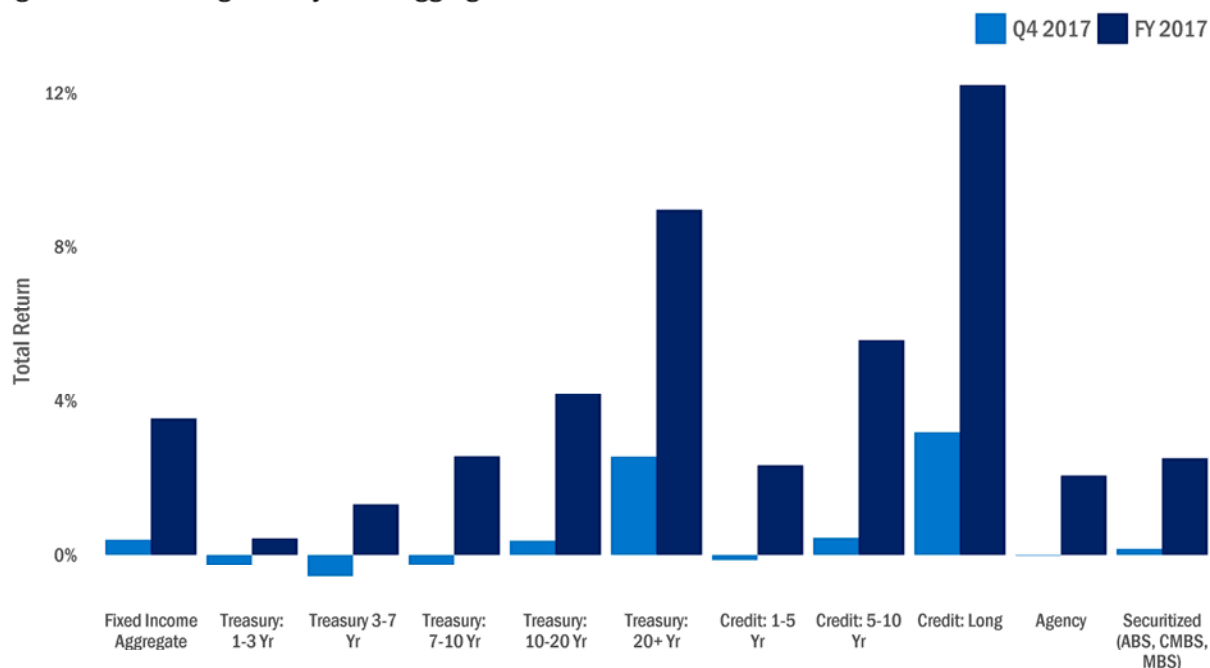
Value Component Vs. Aggregate Equity Indexes						
	3 Month	YTD	1 Year	3 Year	5 Year	10 Year
Global	-0.89	-5.71	-5.71	-1.63	-1.34	-1.02
World ex. U.S.	-0.75	-4.18	-4.18	-1.37	-1.08	-0.47
World ex. U.S. Small-Cap	-0.63	-1.92	-1.92	-0.45	-0.16	0.42
U.S.	-0.36	-6.14	-6.14	-1.87	-1.42	-1.55
U.S. Large-Cap	-0.32	-6.47	-6.47	-1.94	-1.55	-1.69
U.S. Mid-Cap	-0.89	-3.92	-3.92	-1.27	-0.18	-0.51
U.S. Small-Cap	0.07	-1.72	-1.72	-1.02	-0.47	-0.44
Developed Markets	-0.99	-3.59	-3.59	-1.44	-0.95	-0.79
Emerging Markets	-0.60	-9.22	-9.22	-2.89	-2.60	-0.77

From 12.31.07 to 12.31.17. Total return data for are annualized for periods greater than 1 year. Past performance is not indicative of future results. Investing in securities involves risk, including risk of losing some or all the invested capital. One cannot directly invest in an index. Index performance reflects the reinvestment of dividends, but does not reflect the expenses associated with the management of an actual portfolio. Please see additional important information regarding indexes at the end of this report. SOURCE: SRCM using data from Bloomberg

Fixed Income Market Review

After a sharp steepening in the second half of 2016, through the year we experienced a broader flattening of the domestic yield curve, though rates remained broadly higher at the end of 2017 than they were in the summer of 2016. The yield curve shows interest rates across a range of duration (years to maturity). A flattening of the curve generally means that longer-term yields have fallen relative to shorter-term yields. This year, longer-term yields fell as shorter-term yields rose along with the Federal Reserve’s decisions to lift its range for the federal funds target rate. Given more positive outlooks for growth, corporate bond exposures (credit exposures) performed well relative to Treasuries. And longer-term bonds performed better than shorter-term bonds (again, as bonds prices move opposite to changes bond yields). Detail regarding the returns for various components of the U.S. investment-grade bond market are shown in Figure 5.

Figure 5: Bloomberg Barclays U.S. Aggregate and Sub-Index Performance



From 09.30.17 to 12.31.17. SOURCE: SRCM using data from Bloomberg

SRCM Portfolio Context

Detailed in Appendix 1, the performance of our portfolios inclusive of fees as measured within our Global All Asset Target Risk Series composites was broadly in-line to modestly better than respective benchmarks over the fourth quarter. For the full year, though, lighter-than-benchmark exposure to non-U.S. equity markets, in addition to domestic tilts toward small-cap stocks and value stocks, led to modest to moderate underperformance, relative to the benchmarks. Within fixed income, a heavier emphasis on corporate investment-grade bonds fortified returns across the portfolios both for the quarter and the year. Exposure to credit and duration increases with the exposure to equity in our portfolios, so the positive influence of credit- and duration-related factors increased inversely to the exposure to fixed income along the Target Risk Series.

Additional composite performance details are available upon request.

Been Here Before

With yet another all-time-peak for the index reached near the middle of December and with January off to a strong start, we weren't surprised to see widening concerns that the next big fall will be deeper and sooner as a result. Perhaps...no one can be sure. We will note, though, that those with near-term uses for invested money may find sound advice in seeking a bit more security among those investments. Of course, that's always true, no matter the present state of the market. Similarly, we continue to believe that those with longer-term investment time horizons will find commensurate reward for tolerance-appropriate exposure to market risk and disciplined endurance for market volatility we likely are to experience along the way.

Appendix 1: SRCM Composite Performance, as of 12.31.17

Gross-of-Fee Total Return

	3 Month	1 Year	3 Year	5 Year	Since Inception	Inception Date
Global Fixed Income	0.25	3.38	2.09	1.25	3.72	02.28.09
Global All Asset 10/90	0.43	4.42	2.34	2.42	3.45	07.31.10
Global All Asset 20/80	1.30	6.03	3.73	3.85	5.27	06.30.09
Global All Asset 30/70	1.83	7.67	4.52	4.76	4.90	04.30.10
Global All Asset 40/60	2.49	9.86	5.24	5.93	7.78	05.31.09
Global All Asset 50/50	3.21	11.80	6.06	6.92	5.86	08.31.08
Global All Asset 60/40	3.57	13.21	6.90	8.27	11.56	02.28.09
Global All Asset 70/30	4.44	15.69	7.84	9.61	11.49	01.31.09
Global All Asset 80/20	4.91	17.89	8.54	10.72	11.97	06.30.09
Global All Asset 90/10	5.39	19.17	9.78	11.81	11.81	12.31.12
Global Equity	6.02	21.28	10.29	NA	9.21	03.31.14

Net-of-Fee Total Return

	3 Month	1 Year	3 Year	5 Year	Since Inception	Inception Date
Global Fixed Income	0.10	2.53	1.25	0.42	2.91	02.28.09
Global All Asset 10/90	0.18	3.38	1.32	1.40	2.43	07.31.10
Global All Asset 20/80	1.13	5.25	2.84	2.89	4.30	06.30.09
Global All Asset 30/70	1.57	6.71	3.60	3.83	4.00	04.30.10
Global All Asset 40/60	2.25	8.87	4.31	4.98	6.79	05.31.09
Global All Asset 50/50	3.02	10.98	5.21	6.02	4.85	08.31.08
Global All Asset 60/40	3.33	12.19	5.95	7.28	10.48	02.28.09
Global All Asset 70/30	4.20	14.65	6.85	8.58	10.69	01.31.09
Global All Asset 80/20	4.68	16.86	7.56	9.69	10.90	06.30.09
Global All Asset 90/10	5.16	18.10	8.70	10.66	10.66	12.31.12
Global Equity	5.80	20.17	9.25	NA	8.09	03.31.14

Benchmark Total Return

	3 Month	1 Year	3 Year	5 Year	Since Inception	Inception Date
Global Fixed Income	-0.30	1.27	1.27	1.10	2.23	02.28.09
Global All Asset 10/90	0.30	3.39	2.09	2.07	2.42	07.31.10
Global All Asset 20/80	0.90	5.54	2.90	3.04	4.03	06.30.09
Global All Asset 30/70	1.51	7.72	3.71	4.01	4.12	04.30.10
Global All Asset 40/60	2.11	9.94	4.52	4.99	5.87	05.31.09
Global All Asset 50/50	2.71	12.19	5.33	5.96	5.01	08.31.08
Global All Asset 60/40	3.32	14.48	6.13	6.93	9.73	02.28.09
Global All Asset 70/30	3.92	16.80	6.93	7.90	9.93	01.31.09
Global All Asset 80/20	4.52	19.16	7.72	8.87	9.62	06.30.09
Global All Asset 90/10	5.13	21.55	8.51	9.83	9.83	12.31.12
Global Equity	5.73	23.97	9.30	NA	8.23	03.31.14

From the inception of each composite through 12.31.17 All returns are expressed in U.S. dollars. All performance data are calculated using monthly intervals. Data shown are percentages. Past performance is not indicative of future results. Investing in securities involves risk, including risk of losing some or all the invested capital. There is no guarantee that any investment or investment strategy will achieve its objective. Gross-of-fee performance data reflect any reinvestment of income and exclude all SRCM advisory- and investment management-related fees, but include transaction fees and fees charged by the underlying funds. Performance data covering periods longer than one year are annualized. Net-of-fee performance data reflect any reinvestment of income, in addition to all actual costs related to the management of portfolios within the composite. These costs include transaction fees, fees and expenses within the underlying mutual funds and exchange-traded funds, and the advisor's fee, which includes the fees for the management and monitoring of the portfolios. With the exceptions of the Global Fixed Income and Global Equity Composites, the benchmarks for which are 100% the fixed income index and 100% the equity index, in that order, the benchmark for each composite is composed of a fixed split between the equity index and the fixed income index in the same proportion of the target weights for equity and fixed income in each strategy. For example, the benchmark for the Global All Asset 60/40 Composite is composed of 60% the equity index and 40% the fixed income index. The equity index used for this presentation is the MSCI ACWI Index, which captures large- and mid-cap representation across 23 Developed Markets countries and 23 Emerging Markets countries. The fixed income index used for this presentation is the Bloomberg Barclays U.S. 1-5 Year Government/ Credit Bond Index, which is a broad-based benchmark that includes investment grade, U.S. dollar-denominated, fixed-rate Treasuries, government-related and corporate securities with maturities between 1 and 5 years. One cannot directly invest in an index. Index performance reflects the reinvestment of dividends, but does not reflect the expenses associated with the management of an actual portfolio. Please see additional important information regarding indexes at the end of this report. The performance data presented are annualized for periods greater than 1 year. SOURCE: SRCM using data from Bloomberg

Important Information

Investing involves risks including the possible loss of principal. Past performance is not indicative of future results.

One cannot invest directly in an index. Index performance does not reflect the expenses associated with the management of an actual portfolio.

Asset classes and their respective indexes mentioned in this report include the following:

International (global non-U.S. dollar-denominated) fixed income: The Bloomberg Barclays Global Aggregate Index is a multi-currency benchmark that measures global investment grade debt and includes fixed-rate treasury, government-related, corporate and securitized bonds from developed and emerging markets issuers while excluding U.S. dollar-denominated debt.

Domestic (U.S.) fixed income (Fixed Income Aggregate): The Bloomberg Barclays U.S. Aggregate Bond Index is a broad-based benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market. Components of the index include Treasury, Corporate, Agency and Securitized bonds.

Global equity: The MSCI All Country World Index (ACWI) captures large- and mid-cap representation across 23 Developed Markets and 23 Emerging Markets countries. The index covers approximately 85% of the global investable equity opportunity set.

International equity: The MSCI ACWI ex. USA Investable Market (IMI) Index captures large- and mid-cap representation across 22 Developed Markets countries and 24 Emerging Markets countries. The index covers approximately 99% of the global equity opportunity set outside the U.S.

International small-cap equity: The MSCI ACWI ex. USA Small Cap Index captures small-cap representation across 22 Developed Markets countries (excluding the U.S.) and 23 Emerging Markets countries. The index covers approximately 14% of the global equity opportunity set outside the U.S.

International small-cap value equity: The MSCI ACWI ex. USA Small Cap Value Index captures small-cap securities exhibiting overall value style characteristics across 23 Developed Markets countries and 23 Emerging Markets countries.

Developed markets equity: The MSCI EAFE Index captures large- and mid-cap representation across Developed Markets countries around the world, excluding the United States and Canada. The index covers approximately 85% of the free float-adjusted market capitalization in each country.

Emerging markets (EM) equity: The MSCI Emerging Markets Index captures large- and mid-cap representation across 23 Emerging Markets countries. The index covers approximately 85% of the free float-adjusted market capitalization in each country.

The value investment style characteristics for MSCI index construction are defined using three variables: book value to price, 12-month forward earnings to price and dividend yield.

Domestic (U.S.) equity: The S&P Composite 1500 Index represents approximately 90% of the investable U.S. equity market. The S&P Composite 1500 Value Index is composed of those stocks exhibiting relatively stronger Value characteristics among the constituents of the S&P Composite 1500 Index. The S&P Composite 1500 Growth Index is composed of those stocks exhibiting relatively stronger Value characteristics among the constituents of the S&P Composite 1500 Index.

Domestic (U.S.) large-cap equity: The S&P 500 Index measures the performance of the large-cap segment of the U.S. equity market. The S&P 500 Value Index is composed of those stocks exhibiting relatively stronger Value characteristics among the constituents of the S&P 500 Index. The S&P 500 Growth Index is composed of those stocks exhibiting relatively stronger Growth characteristics among the constituents of the S&P 500 Index.

Domestic (U.S.) mid-cap equity: The S&P MidCap 400 Index measures the performance of the mid-cap segment of the U.S. equity market. The S&P MidCap 400 Value Index is composed of those stocks exhibiting relatively stronger Value characteristics among the constituents of the S&P MidCap 400 Index. The S&P MidCap 400 Growth Index is composed of those stocks exhibiting relatively stronger Growth characteristics among the constituents of the S&P MidCap 400 Index.

Domestic (U.S.) small-cap equity: The S&P SmallCap 600 Index measures the performance of the small-cap segment of the U.S. equity market. The S&P SmallCap 600 Value Index is composed of those stocks exhibiting relatively stronger Value characteristics among the constituents of the S&P SmallCap 600 Index. The S&P SmallCap 600 Growth Index is composed of those stocks exhibiting relatively stronger Growth characteristics among the constituents of the S&P SmallCap 600 Index.

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Overall market risk, including volatility, may affect the value of the individual instruments in which the strategy invests. Different types of investments involve varying degrees of risk, and there can be no assurance that any specific investment will be either suitable or profitable for a client's investment portfolio. Diversification does not protect against loss in declining markets.

Investing in foreign currency-denominated and/or foreign domiciled securities may involve increased overall risk due to currency, economic and political risks. Such risks may be particularly pronounced among emerging markets.

Changes in interest rates affect the values of fixed income securities, with the prices of bonds and funds that own bonds generally falling as interest rates rise. This tendency to decline as interest rates rise increases with the maturity of the bond, often reflected in a metric known as duration. Longer-duration bonds generally are more sensitive to changes in interest rates, leading to their tendency also to be more volatile.

The strategies mentioned invests primarily in mutual funds and exchange traded funds (ETFs) that are offered by prospectus only. Investors should consider the investment objectives, risks, charges and expenses carefully before investing. The prospectus, which contains these and other important details, should be read carefully before investing. The strategy is subject to management risk and investor's return and principal value of investment fluctuate, such that an investment, when liquidated, may be worth more or less than its original value. ETFs trade like stocks and may trade for less than their net asset values. Detail regarding the performance calculation and portfolio valuation methodologies, in addition to detail regarding individual and aggregate fees charged by the funds represented within this composite are available upon request. Actual fees incurred for individual portfolios may vary.

SRCM advisory fees are described in Form ADV Part 2A., which may be found at www.srcmadvisors.com.

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