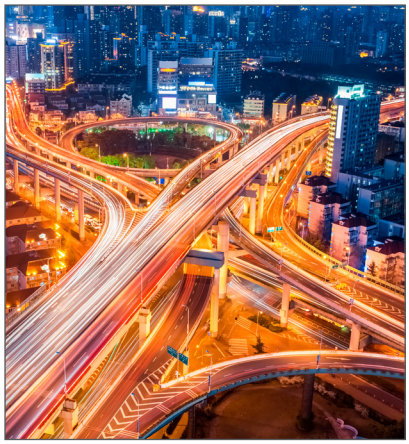
SPRING NEWSLETTER

We are officially one-quarter through the year 2017, and it's certainly been eventful. Time has flown by. The DOW hit 20,000 then 21,000 for the first time ever. Importantly, earnings growth and an accelerating global economy have been the primary drivers of this rally. The anticipation of pro-growth policies like Tax reform and looser regulation are the sweeteners. Business cycles are the biggest drivers of Markets not politics. The foundation for this Market remains strong.

SPRINGING AHEAD

It's been a contentious start for the new Trump administration. Its first major test came with Health Care reform. It failed. The Market was rattled throughout the process. It is certainly used to Republicans and Democrats disagreeing. But the internal discord within the Republican Party on Health Care raised questions again about anything getting done in Washington. It was also a natural time for the Market rally to take a breather before going higher in the Spring.

INFRASTRUCTURE



The White House is shifting its focus toward tax reform. It appears as though a tax bill could be linked with infrastructure to appeal to the Democrats for a bipartisan deal. Our nation's roads, bridges and tunnels need major upgrades. An infrastructure bill would create new American jobs. Repatriating offshore corporate cash could help pay for it. The President is looking for a victory and knows something about building things. The Market likes the idea of this combo. It's certainly investable.

BREXIT AND BEYOND

The United Kingdom officially announced its exit from the European Union by formally invoking Article 50 of the Lisbon Treaty. It now has 2 years to negotiate the terms. It won't be easy, nor smooth. Change has definitely been the theme throughout Europe. Importantly, the British economy and stock market have responded positively. Brexit triggered other nationalist movements on the continent. France holds an important election this Spring while Germany heads to the polls in the Fall. **The future of the European Union hangs in the balance and hinges on the ballots.**

INTEREST RATES

Central banks have been a central figure in this 8-year Bull Market. It was born with interest rate cuts. It's maturing with rate hikes. It's an important sign of health and strength. The Yellen-led Fed wouldn't be tightening if they were concerned about recession. The global economy is growing. Inflation is finally picking up. Unemployment is low. Rates are rising for the right reasons.

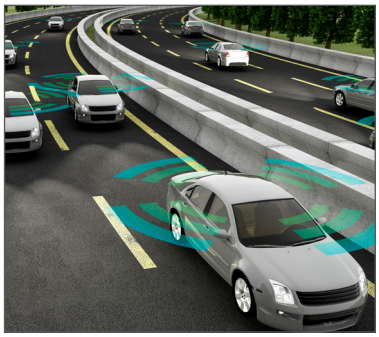
GOING GLOBAL

With the DOW and S&P at all-time highs, it's natural that investors are worried that stocks have gone too far, too fast. We do still see them going higher in 2017. As you know, we are in constant pursuit of new ideas and identified compelling investment opportunities overseas again. International markets have underperformed the US the last few years. That trend is changing and International investments have come back to life. With the global economy picking up steam, we see the catch-up play continuing overseas, led by India and other Emerging Markets.

EARNINGS UPDATE

Corporate America is in solid shape with very strong balance sheets. What had been missing was revenue growth. It's back. The American Consumer is spending again and on higher ticket items. Real demand growth has returned. This has led to capital investment from the corporate world. Companies are thinking long-term again and are investing for it. It's making a powerful difference. Earnings are the biggest driver of stock prices. After 2 years of stagnation, earnings are growing again. Stock prices have responded. We see it continuing.

LOOKING FOR THE DISRUPTORS



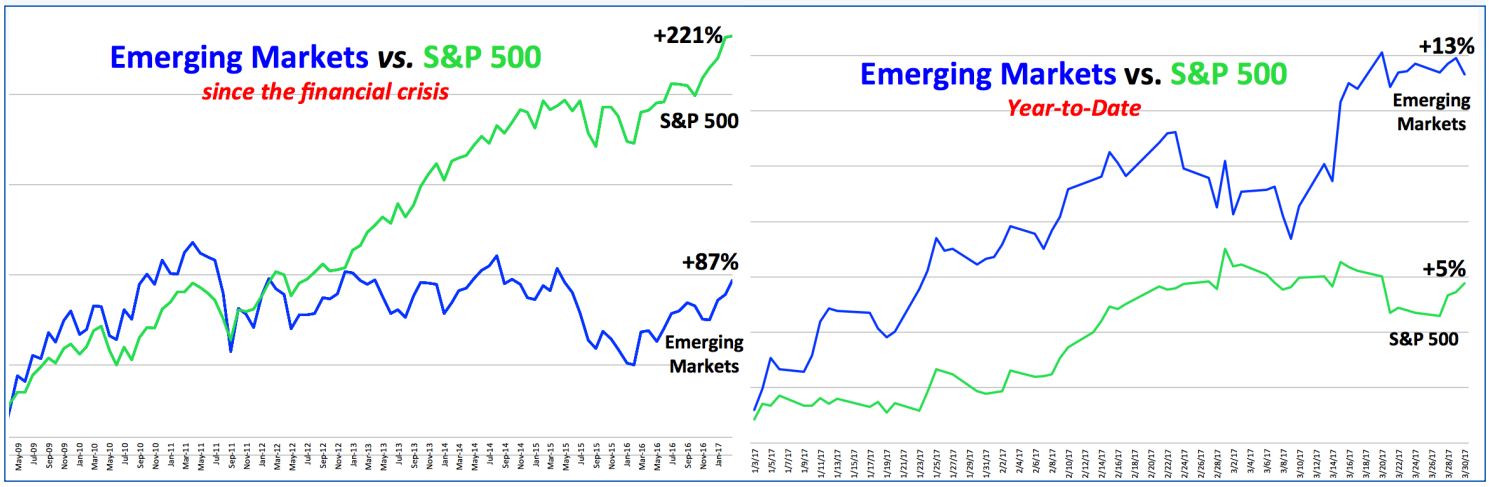
The Digital age in which we live has been an extremely fertile environment for innovation. It's been a disruptive period. Competition is fierce. Many companies that have been slow to adapt are struggling for survival. A common belief in Silicon Valley is companies designed for success in the 20th century were designed for failure in the 21st. Companies like Apple, Google and Amazon changed the game. They compete fiercely and seldom lose.

As investors, we're always looking for the next disruptors. The major innovative trends right now are deep within the Internet of Things, augmented and virtual reality, the public cloud and machine learning. These technologies are really just getting started. The impact will be powerful for innovators and consumers. They will be painful to companies that rely on traditional themes and trends.

Driverless cars are a complete disruptor impacting many industries. These vehicles are more like computers than the traditional combustion engine cars of decades past. Car manufacturers have aggressively invested in this innovative technology. Companies that created the mapping, digital cameras and sensors have benefited. Driverless cars require less gas and are far more efficient transporters. A human driver is not required which will lead to no need for a license or insurance. Companies that sell gasoline and insurance are certainly threatened by this innovation. So are institutions that issue traffic tickets and parking violations. Cities and counties nationwide depend on ticket revenue for their annual budgets. Municipalities are being disrupted big time, and some may not know it's coming. We see it coming and have already taken action. The future is extremely bright, but not for everyone. There is no doubt, it's very investable.

CHARTING | SPRING EDITION

As students of the market we are always cognizant of what global and domestic markets are doing and what global cycles we find ourselves in. In 2016, we noticed a big potential shift developing; a potential for Emerging markets to regain their strength. As you can see on the Chart below the S&P 500 has drastically outperformed Emerging Markets since the financial crisis at +221% vs +87%. Our analysis suggested this performance was about to change and change it has as Emerging markets have started 2017 very strong. Our expectation is for Emerging markets to continue this outperformance for the rest of 2017.



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