

Market Commentary: May 2018

At 100 years old, my high school English teacher is still teaching. Last week, she was the guest speaker at my dad's Kiwanis club meeting. Mrs. Frey was feared by her students, but I thought she was fantastic. One incomplete sentence was an automatic failure, no matter how great the rest of the essay. She did not suffer fools gladly and demanded a lot, because she cared. She wrote a letter of recommendation for my college Navy scholarship. She refused to give me a copy. I am convinced her letter swayed the board in my favor. Though I could not attend her recent talk, I am also convinced Ester Frey wove in one of her favorite themes - the mind. She persistently emphasized that a disciplined and determined mind can overcome confusion. This concept applies directly with how we should think about the market in the last few months.

Despite the strong start in January, stocks posted their first down quarter in more than two years. After a remarkably calm, upward climb for stocks in 2017, market volatility returned in the first quarter. Let us look at the returns for the last quarter and year.

	Benchmark Index	3 month return	12 month return
U.S. Stocks	S&P 500	-1.2%	11.8%
	DJ U.S. Total Stock Market	-1.0%	11.7%
	NASDAQ	2.3%	19.5%
International Stocks	DJ World (ex. U.S.)	-1.4%	14.3%
Fixed Income	Short-Term Bonds	-0.4%	0.2%
	TIPS (Treasury Inflation Protected Securities)	-0.8%	0.9%
	Intermediate-Term Bonds	-1.3%	0.6%
	Aggregate Bond Market	-1.4%	1.2%
	International Bonds	0.9%	3.3%

Only the technology heavy NASDAQ had a gain in the first three months of the year. All other U.S. and international stocks posted small losses. On the fixed income side, only international bonds showed a gain for the quarter. However, over the balance of the last twelve months, U.S. and international stockholders saw double digit gains across all asset classes, the highest from the NASDAQ. Fixed income remained flat for the year with the exception of international bonds. Notwithstanding the recent figures, the degree to which the world's stock markets move in sync with each other has fallen

Grove Street Fiduciary, LLC
Wealth and Trust Advisors

www.GroveStreetFiduciary.com 800.258.9939

to the lowest level in 20 years. Very importantly, this lower correlation enhances the risk-reducing benefits of diversification.

With stock markets fluctuating wildly but going nowhere in the last few months, let me offer two thoughts to help overcome any “confusion” the recent volatility may be causing. First, in the minds of most investors volatility is synonymous with confusion. Are we in a bull or bear market? Are economies getting better or worse? Which direction are stocks headed? Of course, in very short time periods equating the ups-and-downs of stocks with confusion seems logical. *However, volatility is not a sign of confusion, but of normality. Last year, with its consistent and steady march upward, the stock market was abnormal.* Nevertheless, do not be confused. Global economies improve and stock markets go up over time. [Suggested reading: *Enlightenment Now* by Steven Pinker.] As investors with a disciplined strategy, we can welcome the return of temporary volatility and recognize it as a prerequisite for earning the return premium of owning stocks. If they had no short-term risk, stocks would not be profitable.

The second significance of volatility is even more beneficial. Volatility is an important source of profit potential. How is that possible? With the changing of the markets, there is an advantage for the disciplined investor; *it provides opportunity for the prepared investor, fear for the unprepared.* Rebalancing your investments, which at its core is a risk-minimizing strategy, incrementally captures profit and buys value, increasing your return over time.

As my dear English teacher and mentor would appreciate, when it comes to investments, it is good to remember that to prefer the heart over the mind is an uninformed choice. We must continually check to ensure the ballast of our minds is correct or we will be impacted by the ever-changing wind across our decks. Along with our discussions together, I hope this market commentary provides some of that mental ballast. Thank you for your continued trust. We are humbled and honored to serve you.

“Minds like bodies, will often fall into a pimpled, ill-conditioned state from mere excess of comfort.” – Charles Dickens

Best regards,



Carl Amos Johnson, MBA, CFP®, AIF®

May 4, 2018

Grove Street Fiduciary, LLC
Wealth and Trust Advisors

www.GroveStreetFiduciary.com 800.258.9939



GROVE STREET FIDUCIARY, LLC
WEALTH AND TRUST ADVISORS

Q1

Quarterly Market Review

First Quarter 2018

Market Summary

Index Returns



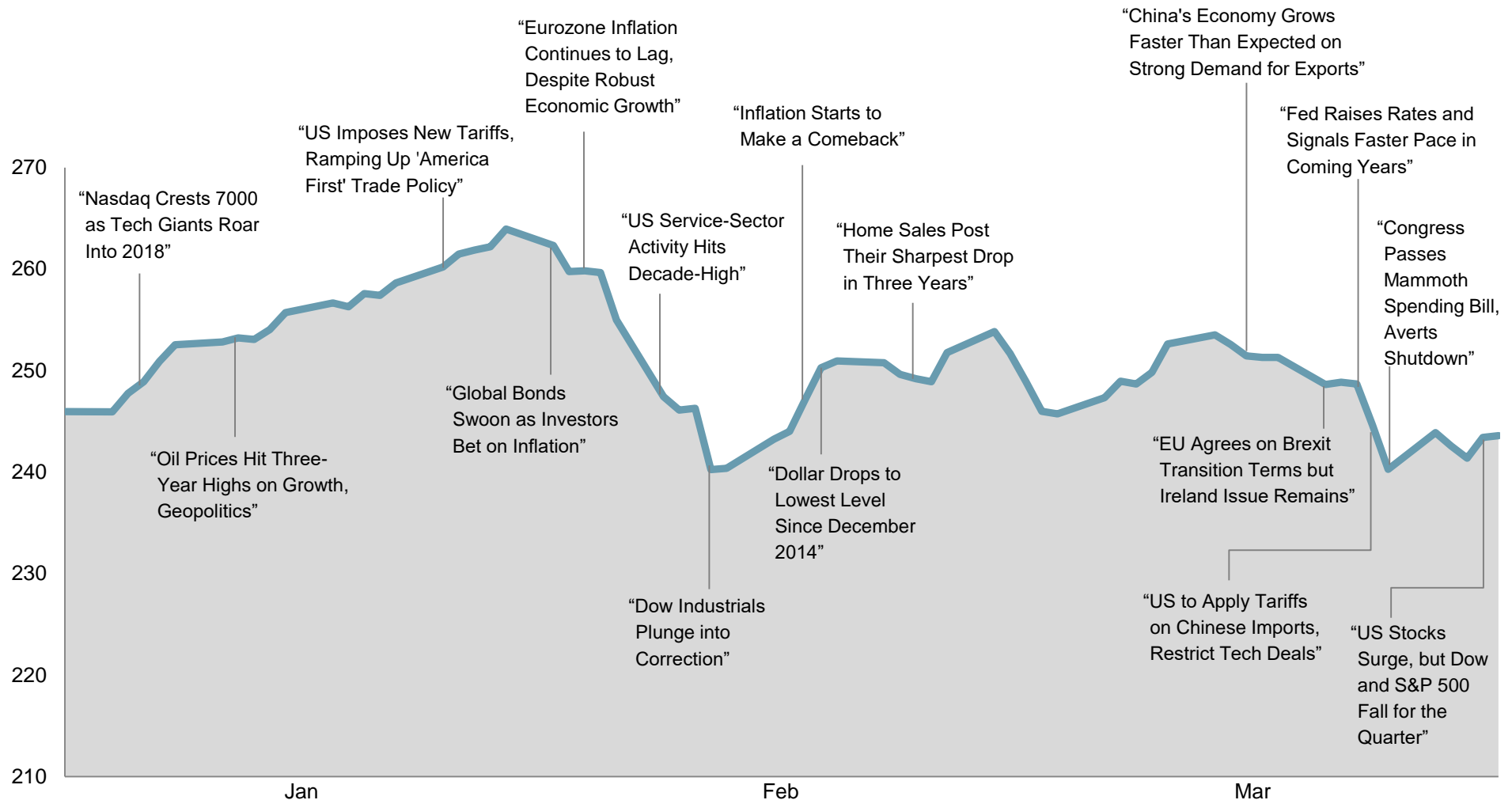
GROVE STREET FIDUCIARY, LLC
WEALTH AND TRUST ADVISORS

	US Stock Market	International Developed Stocks	Emerging Markets Stocks	Global Real Estate		US Bond Market	Global Bond Market ex US
Q1 2018	STOCKS					BONDS	
	-0.64% 	-2.04% 	1.42% 	-5.79% 		-1.46% 	0.94%
Since Jan. 2001							
Avg. Quarterly Return	1.9%	1.5%	3.2%	2.5%		1.1%	1.1%
Best Quarter	16.8%	25.9%	34.7%	32.3%		4.6%	4.6%
	Q2 2009	Q2 2009	Q2 2009	Q3 2009		Q3 2001	Q4 2008
Worst Quarter	-22.8%	-21.2%	-27.6%	-36.1%		-3.0%	-2.7%
	Q4 2008	Q4 2008	Q4 2008	Q4 2008		Q4 2016	Q2 2015

Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Market segment (index representation) as follows: US Stock Market (Russell 3000 Index), International Developed Stocks (MSCI World ex USA Index [net div.]), Emerging Markets (MSCI Emerging Markets Index [net div.]), Global Real Estate (S&P Global REIT Index [net div.]), US Bond Market (Bloomberg Barclays US Aggregate Bond Index), and Global Bond ex US Market (FTSE WGBI ex USA 1-30 Years [hedged to USD]). S&P data copyright 2018 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved. Frank Russell Company is the source and owner of the trademarks, service marks, and copyrights related to the Russell Indexes. MSCI data © MSCI 2018, all rights reserved. Bloomberg Barclays data provided by Bloomberg. FTSE fixed income © 2018 FTSE Fixed Income LLC, all rights reserved.

World Stock Market Performance

MSCI All Country World Index with selected headlines from Q1 2018



These headlines are not offered to explain market returns. Instead, they serve as a reminder that investors should view daily events from a long-term perspective and avoid making investment decisions based solely on the news.

Graph Source: MSCI ACWI Index [net div.]. MSCI data © MSCI 2018, all rights reserved.
It is not possible to invest directly in an index. Performance does not reflect the expenses associated with management of an actual portfolio. Past performance is not a guarantee of future results.

World Stock Market Performance

MSCI All Country World Index with selected headlines from past 12 months

Short Term (Q2 2017–Q1 2018)



These headlines are not offered to explain market returns. Instead, they serve as a reminder that investors should view daily events from a long-term perspective and avoid making investment decisions based solely on the news.

Graph Source: MSCI ACWI Index [net div.]. MSCI data © MSCI 2018, all rights reserved.

It is not possible to invest directly in an index. Performance does not reflect the expenses associated with management of an actual portfolio. **Past performance is not a guarantee of future results.**

US Stocks

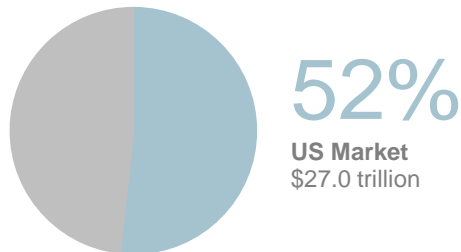
First Quarter 2018 Index Returns

The US equity market posted a negative return for the quarter.

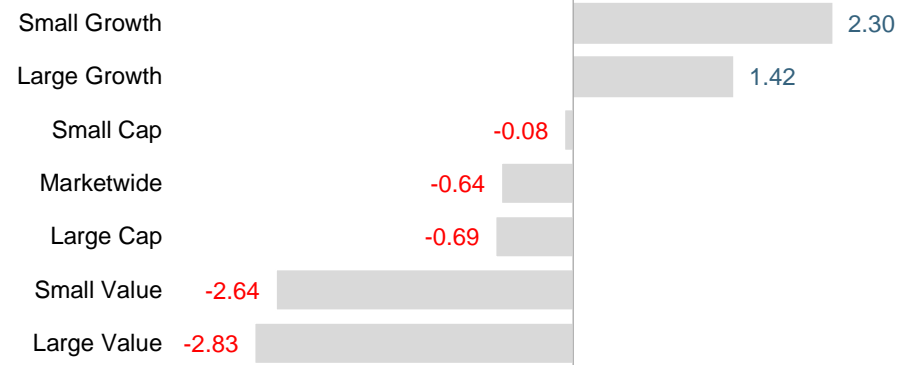
Value underperformed growth across large and small cap indices.

Small caps outperformed large caps.

World Market Capitalization—US



Ranked Returns for the Quarter (%)



Period Returns (%)

Asset Class	* Annualized			
	1 Year	3 Years*	5 Years*	10 Years*
Marketwide	13.81	10.22	13.03	9.62
Large Cap	13.98	10.39	13.17	9.61
Large Value	6.95	7.88	10.78	7.78
Large Growth	21.25	12.90	15.53	11.34
Small Cap	11.79	8.39	11.47	9.84
Small Value	5.13	7.87	9.96	8.61
Small Growth	18.63	8.77	12.90	10.95

Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Market segment (index representation) as follows: Marketwide (Russell 3000 Index), Large Cap (Russell 1000 Index), Large Cap Value (Russell 1000 Value Index), Large Cap Growth (Russell 1000 Growth Index), Small Cap (Russell 2000 Index), Small Cap Value (Russell 2000 Value Index), and Small Cap Growth (Russell 2000 Growth Index). World Market Cap represented by Russell 3000 Index, MSCI World ex USA IMI Index, and MSCI Emerging Markets IMI Index. Russell 3000 Index is used as the proxy for the US market. Frank Russell Company is the source and owner of the trademarks, service marks, and copyrights related to the Russell Indexes. MSCI data © MSCI 2018, all rights reserved.



International Developed Stocks

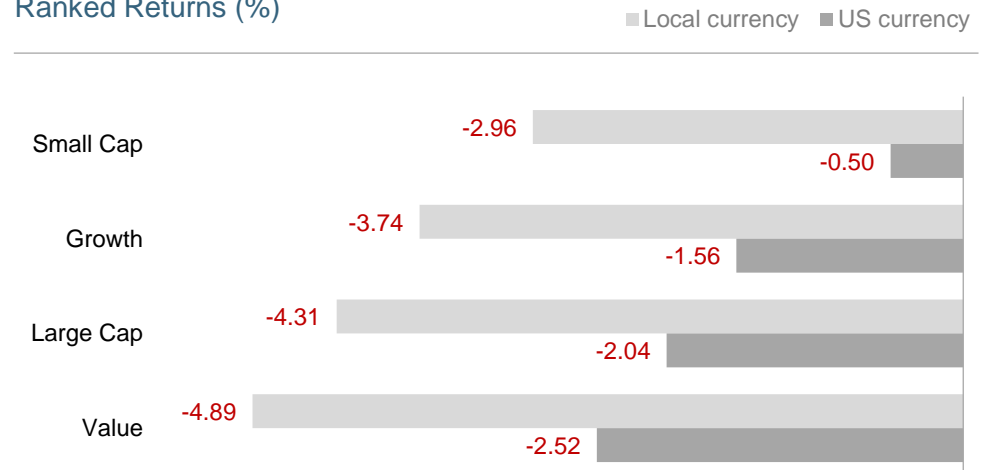
First Quarter 2018 Index Returns

In US dollar terms, developed markets outside the US underperformed the US and emerging markets during the quarter.

Value underperformed growth in non-US developed markets across large and small cap indices.

Small caps outperformed large caps in non-US developed markets.

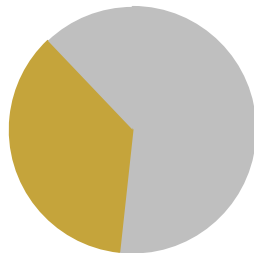
Ranked Returns (%)



World Market Capitalization—International Developed

36%

International
Developed
Market
\$18.9 trillion



Period Returns (%)

* Annualized

Asset Class	1 Year	3 Years*	5 Years*	10 Years*
Large Cap	13.92	5.30	6.04	2.59
Small Cap	21.16	11.30	9.71	5.81
Value	11.66	4.46	5.44	2.08
Growth	16.28	6.06	6.58	3.03

Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio.

Market segment (index representation) as follows: Large Cap (MSCI World ex USA Index), Small Cap (MSCI World ex USA Small Cap Index), Value (MSCI World ex USA Value Index), and Growth (MSCI World ex USA Growth). All index returns are net of withholding tax on dividends. World Market Cap represented by Russell 3000 Index, MSCI World ex USA IMI Index, and MSCI Emerging Markets IMI Index. MSCI World ex USA IMI Index is used as the proxy for the International Developed market. MSCI data © MSCI 2018, all rights reserved. Frank Russell Company is the source and owner of the trademarks, service marks, and copyrights related to the Russell Indexes.



Emerging Markets Stocks

First Quarter 2018 Index Returns

In US dollar terms, emerging markets outperformed developed markets, including the US, during the quarter.

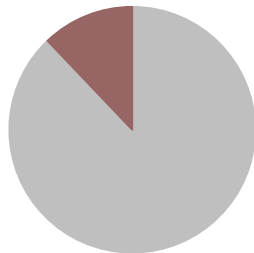
The value effect was positive in large cap indices but negative in small cap indices within emerging markets.

Small caps underperformed large caps in emerging markets.

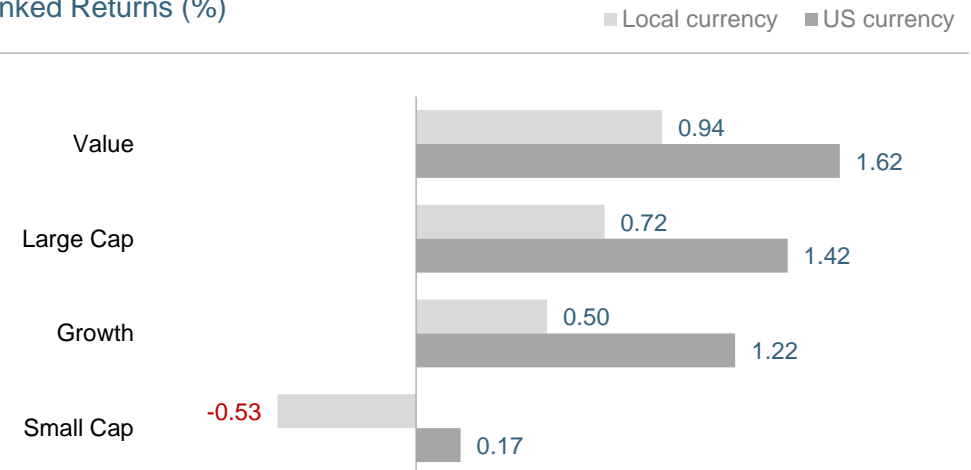
World Market Capitalization—Emerging Markets

12%

Emerging Markets
\$6.3 trillion



Ranked Returns (%)



Period Returns (%)

* Annualized

Asset Class	1 Year	3 Years*	5 Years*	10 Years*
Large Cap	24.93	8.81	4.99	3.02
Small Cap	18.62	7.23	4.58	4.36
Value	18.14	6.65	2.57	2.07
Growth	31.73	10.89	7.30	3.87

Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Market segment (index representation) as follows: Large Cap (MSCI Emerging Markets Index), Small Cap (MSCI Emerging Markets Small Cap Index), Value (MSCI Emerging Markets Value Index), and Growth (MSCI Emerging Markets Growth Index). All index returns are net of withholding tax on dividends. World Market Cap represented by Russell 3000 Index, MSCI World ex USA IMI Index, and MSCI Emerging Markets IMI Index. MSCI Emerging Markets IMI Index used as the proxy for the emerging market portion of the market. MSCI data © MSCI 2018, all rights reserved. Frank Russell Company is the source and owner of the trademarks, service marks, and copyrights related to the Russell Indexes.



Real Estate Investment Trusts (REITs)

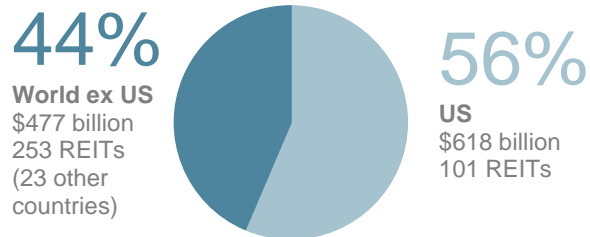
First Quarter 2018 Index Returns

Non-US real estate investment trusts outperformed US REITs in the first quarter.

Ranked Returns (%)



Total Value of REIT Stocks



Period Returns (%)

Asset Class	* Annualized			
	1 Year	3 Years*	5 Years*	10 Years*
Dow Jones US Select REIT Index	-3.68	0.74	5.97	6.02
S&P Global ex US REIT Index (net div.)	10.20	3.59	3.73	2.51

Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Number of REIT stocks and total value based on the two indices. All index returns are net of withholding tax on dividends. Total value of REIT stocks represented by Dow Jones US Select REIT Index and the S&P Global ex US REIT Index. Dow Jones US Select REIT Index used as proxy for the US market, and S&P Global ex US REIT Index used as proxy for the World ex US market. Dow Jones data copyright 2018 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved. S&P data copyright 2018 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved.



Commodities

First Quarter 2018 Index Returns

The Bloomberg Commodity Index Total Return declined 0.40% during the first quarter.

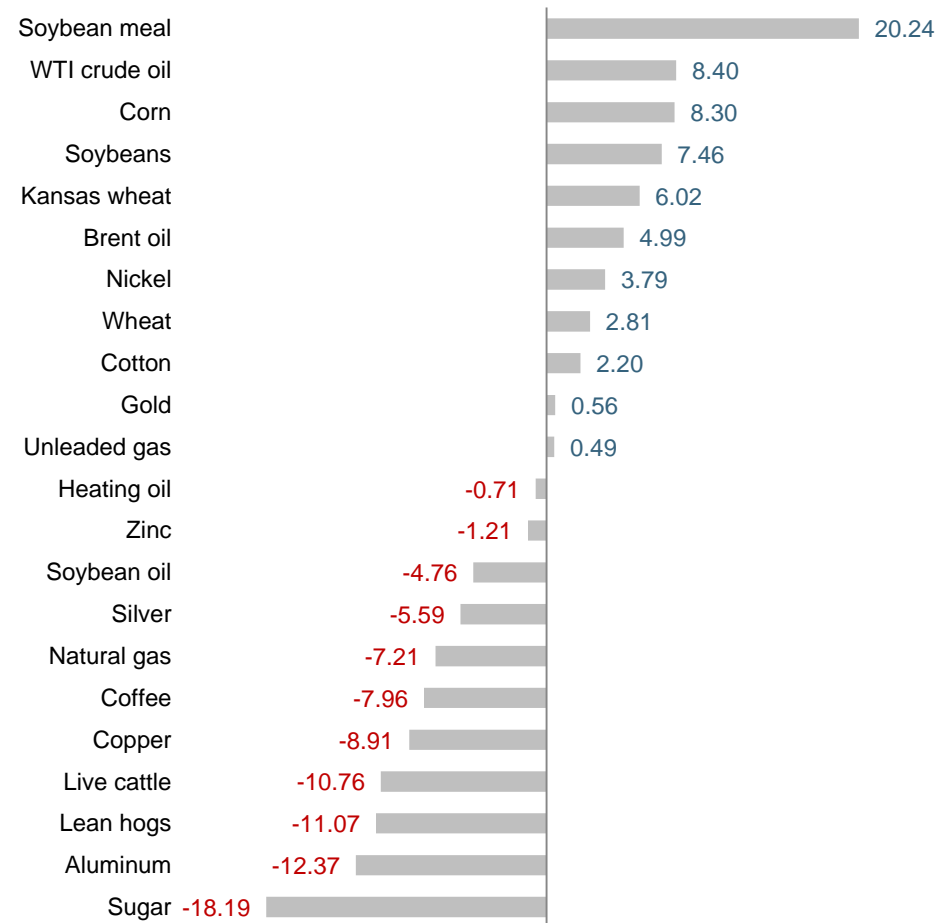
The grains complex led performance, with soybean meal returning 20.24% and corn gaining 8.30%. Energy also advanced, with WTI crude oil returning 8.40% and Brent oil advancing 4.99%.

Softs was the worst-performing complex, with sugar and coffee declining by 18.19% and 7.96%, respectively.

Period Returns (%) * Annualized

Asset Class	1 Year	3 Years*	5 Years*	10 Years*
Commodities	3.71	-3.21	-8.32	-7.71

Ranked Returns for Individual Commodities (%)



Fixed Income

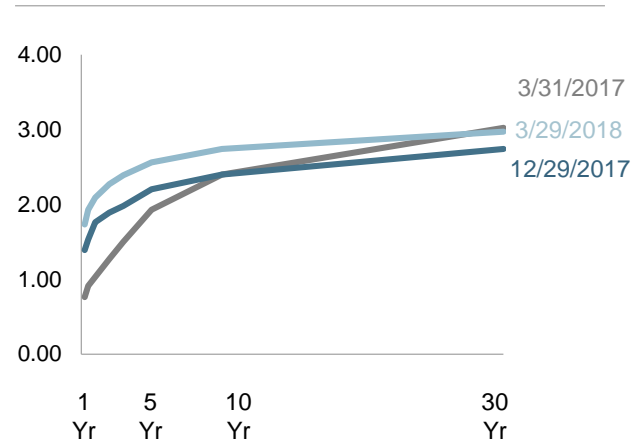
First Quarter 2018 Index Returns

Interest rates increased in the US during the first quarter. The yield on the 5-year Treasury note rose 36 basis points (bps), ending at 2.56%. The yield on the 10-year Treasury note increased 34 bps to 2.74%. The 30-year Treasury bond yield rose 23 bps to finish at 2.97%.

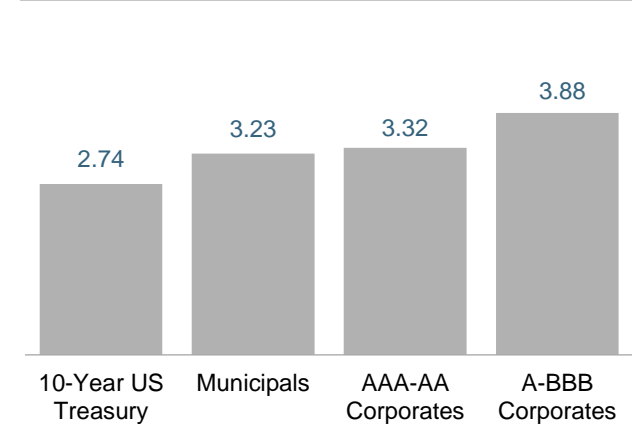
On the short end of the yield curve, the 1-month Treasury bill yield increased 35 bps to 1.63%, while the 1-year Treasury bill yield rose 33 bps to 2.09%. The 2-year Treasury note finished at 2.27% after a yield increase of 38 bps.

In terms of total return, short-term corporate bonds dipped 0.38% and intermediate corporates fell 1.50%. Short-term municipal bonds advanced 0.10%, while intermediate munis declined 1.29%. Revenue bonds performed in-line with general obligation bonds, declining 1.19% and 1.20%, respectively.

US Treasury Yield Curve (%)



Bond Yields across Issuers (%)



Period Returns (%)

Asset Class	* Annualized			
	1 Year	3 Years*	5 Years*	10 Years*
Bloomberg Barclays Municipal Bond Index	2.66	2.25	2.73	4.40
Bloomberg Barclays US Aggregate Bond Index	1.20	1.20	1.82	3.63
Bloomberg Barclays US Government Bond Index Long	3.53	0.45	3.28	5.75
Bloomberg Barclays US High Yield Corporate Bond Index	3.78	5.17	4.99	8.27
Bloomberg Barclays US TIPS Index	0.92	1.30	0.05	2.93
FTSE World Government Bond Index 1-5 Years	5.77	2.36	-0.37	0.57
FTSE World Government Bond Index 1-5 Years (hedged to USD)	1.01	1.06	1.21	1.93
ICE BofAML 1-Year US Treasury Note Index	0.66	0.54	0.42	0.71
ICE BofAML 3-Month US Treasury Bill Index	1.11	0.53	0.34	0.34

One basis point equals 0.01%. Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Yield curve data from Federal Reserve. State and local bonds are from the S&P National AMT-Free Municipal Bond Index. AAA-AA Corporates represent the Bank of America Merrill Lynch US Corporates, AA-AAA rated. A-BBB Corporates represent the Bank of America Merrill Lynch US Corporates, BBB-A rated. Bloomberg Barclays data provided by Bloomberg. US long-term bonds, bills, inflation, and fixed income factor data © Stocks, Bonds, Bills, and Inflation (SBBBI) Yearbook™, Ibbotson Associates, Chicago (annually updated work by Roger G. Ibbotson and Rex A. Sinquefeld). FTSE fixed income indices © 2018 FTSE Fixed Income LLC, all rights reserved. ICE BofAML index data © 2018 ICE Data Indices, LLC.

Sailing with the Tides

First Quarter 2018



Embarking on a financial plan is like sailing around the world. The voyage won't always go to plan, and there'll be rough seas. But the odds of reaching your destination increase greatly if you are prepared, flexible, patient, and well-advised.

A mistake many inexperienced sailors make is not having a plan at all. They embark without a clear sense of their destination. And once they do decide, they often find themselves lost at sea in the wrong boat with inadequate provisions.

Likewise, in planning an investment journey, you need to decide on your goal. A first step might be to consider whether the goal is realistic and achievable. For instance, while you may long to retire in the south of France, you may not be prepared to sacrifice your needs today to satisfy that distant desire.

Once you are set on a realistic destination, you need to ensure you have the right portfolio to get you there. Have you planned for multiple contingencies? What degree of "bad weather" can your plan withstand along the way?

Key to a successful voyage is a good navigator. A trusted advisor is like that, regularly taking coordinates and making adjustments, if necessary. If your circumstances change, the advisor may suggest you replot your course.

As with the weather at sea, markets can be unpredictable. A sudden squall can whip up waves of volatility, tides can shift, and strong currents can threaten to blow you off course. Like a seasoned sailor, an experienced advisor will work with the conditions.

Once the storm passes, you can pick up speed again. Just as a sturdy vessel will help you withstand most conditions at sea, a well-diversified

portfolio can act as a bulwark against the sometimes tempestuous conditions in markets.

Circumnavigating the globe is not exciting every day. Patience is required with local customs and paperwork as you pull into different ports. Likewise, a lack of attention to costs and taxes is the enemy of many a long-term financial plan.

Distractions can also send investors, like sailors, off course. In the face of "hot" investment trends, it takes discipline not to veer from your chosen plan. Like the sirens of Greek mythology, media pundits can also be diverting, tempting you to change tack and act on news that is already priced in to markets.

A lack of flexibility is another impediment to a successful investment journey. If it doesn't look as though you'll make your destination in time, you may have to extend your voyage, take a different route to get there, or even moderate your goal.

The important point is that you become comfortable with the idea that uncertainty is inherent to the investment journey, just as it is with any sea voyage. That is why preparation and planning are so critical. While you can't control every outcome, you can be prepared for the range of possibilities and understand that you have clear choices if things don't go according to plan.

If you can't live with the volatility, you can change your plan. If the goal looks unachievable, you can lower your sights. If it doesn't look as if you'll arrive on time, you can extend your journey.

Of course, not everyone's journey is the same. Neither is everyone's destination. We take different routes to different places, and we meet a range of challenges and opportunities along the way.

But for all of us, it's critical that we are prepared for our journeys in the right vessel, keep our destinations in mind, stick with the plans, and have a trusted navigator to chart our courses and keep us on target.