THE NEXT GENERATION WEALTH PERSPECTIVE

It's like déjà vu all over again.

	Q3 RETURN	YTD RETURN
Dow Jones Industrial Average	5.55%	15.84%
Standard & Poor 500	4.48%	14.24%
Balanced Portfolio - 60 / 40	2.71%	8.46%
MSCI EAFE	5.40%	19.96%
Barclays Aggregate Bond	0.85%	3.14%
Barclays Municipal Bond	1.06%	4.66%

Macro Summary

- For the first time since 2005, three category 4 or higher hurricanes directly hit the United States and its territories in the same year;
- Housing price growth has stabilized at about a 5 percent annual rate;
- Gross Domestic Product (GDP) growth for the second quarter was 3.1 percent;
- Unemployment in the US continues its trend and is down to 4.2 percent;
- Crude oil prices remain range-bound between the mid-40's and the mid-50's;
- We have not reached legislation on tax reform or infrastructure spending, yet;
- The Federal Reserve kept the overnight lending rate unchanged but hinted at future increases;
- Angela Merkel secured her fourth term as chancellor, albeit at a diminished level;
- North Korea continues to saber rattle by test launching missiles; and
- Including the one on August 21, there have been 16 total solar eclipses visible from the US In the last 100 years. The average market return for the 12 months following an eclipse has been 17.2 percent.

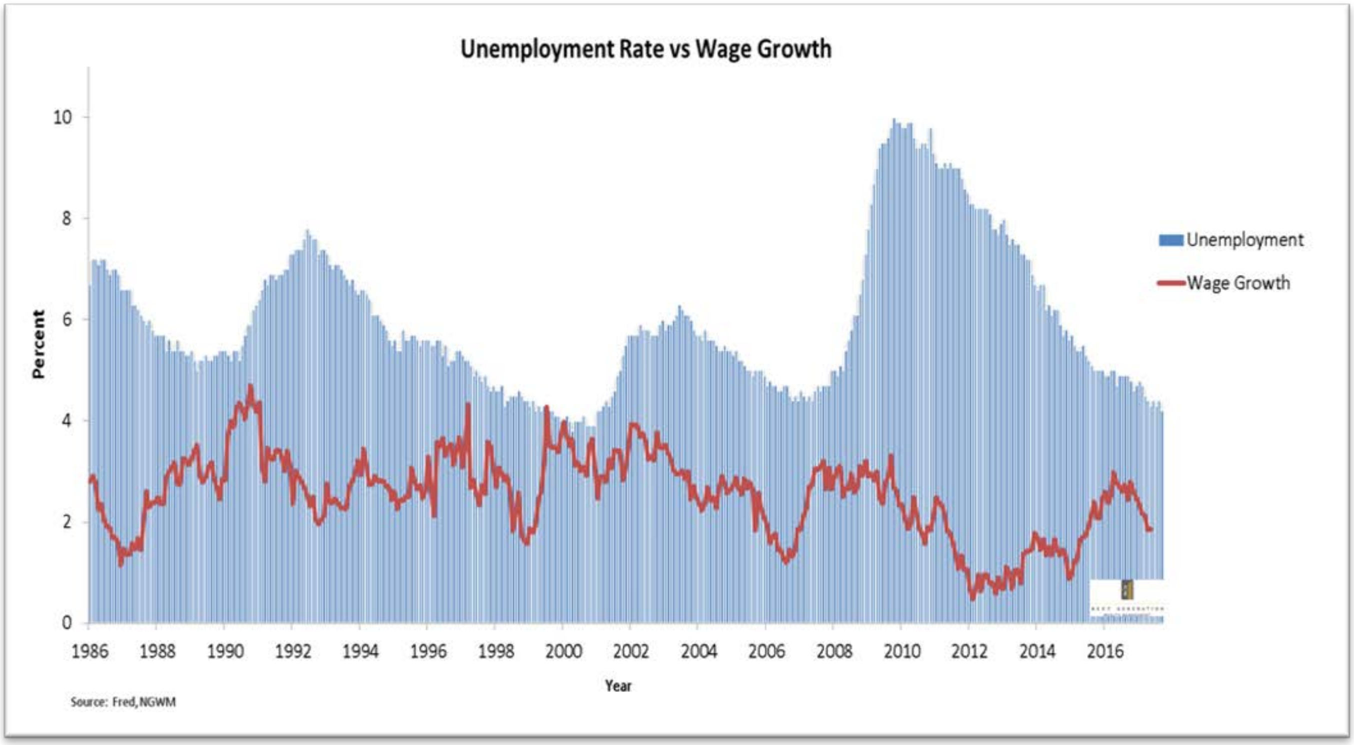
The third quarter is in the books and the result was another positive one for the US equity markets. For the eighth quarter in a row the S&P 500 was positive, setting all time highs yet again, along with the Dow Jones Industrial Average, NASDAQ, and the Russell 2000. The final revision for Q2 GDP hopped above 3 percent, and unemployment is inching toward 4 percent. Volatility is historically low. Global growth is synchronized for the first time in years and is strengthening. There is still no significant legislation out of Washington. Sound familiar? It sure looks like a Goldilocks situation where things are neither too hot nor too cold.

The Economy

Having three Category 4 or higher hurricanes in the same season is incredibly rare. In the short-term, this will likely negatively impact the United States' economic numbers with a loss of jobs, and thus productivity, in these areas. In the long-term, this should help the economies in each of the regions affected through a boost to their infrastructures. The rebuild of Puerto Rico will be especially daunting as much of the island was completely devastated. To make matters worse, they are already mired in a $120 billion debt crisis.

About ten years ago, legendary bond guru Bill Gross used the term 'lower for longer' to describe interest rates. Overall he was pretty prophetic since Interest rates have been lower across the board for an extended period of time. Since the coining of the term, it has been applied to numerous things. Perhaps the most appropriate use of his phrase today is to describe the GDP growth in the current expansion cycle. There have been thirteen consecutive quarters of growth in the US, but the last eleven have only averaged an annualized rate of 2 percent. Or maybe we can apply the term to unemployment. It has been at 5 percent or less for over two years. Or maybe it is inflation, which cannot seem to meet the Fed's 2 percent mark.

Another economic indicator that has caused concern the last couple years is wage growth. The lack of higher wage growth has the experts scratching their heads, especially with the unemployment rate currently standing at 4.2 percent. Historically, these two indicators have an inverse relationship. However, over the last couple of years they have been trending down in sync (see chart on next page).

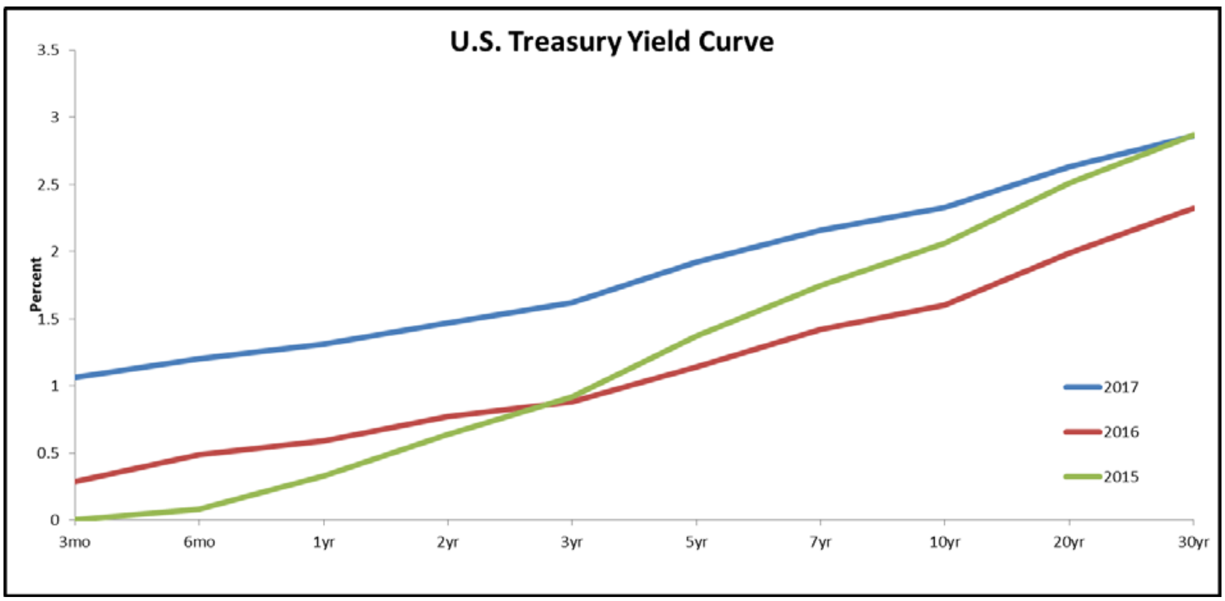


The Federal Reserve

Unlike the three most recent quarters, the Federal Reserve decided not to raise the interest rate in either their July or their September meetings. Even though there was no change to the rate, they did note that the data have continued to trend in the right direction. Favorable trends in employment, economic activity, and household spending were all cited in their press release. To us, December looks like the most likely choice for the next rate increase. In the days leading up to the September meeting, the odds of a December hike were about 40 percent. By the end of the month they were close to 80 percent.

Full employment is one of the Federal Reserve's dual mandates with the other mandate being inflation. It is frustratingly trending below the 2 percent objective. Inflation, along with wage growth and commodities prices, seem to be in collusion to stay low together. Time will tell whether we see this change sooner or later. It will also be interesting to see which breaks out first, or what causes them to rise in unison.

So what has the Fed's slow, methodical path led to with regard to interest rates? They have increased the overnight lending rate by 25 basis points four times in the last two years. Below is a chart of the US Treasury yield curve over this time. The green line depicts where yields were on September 30, 2015; the red line shows September 30, 2016; and the blue line is September 30, 2017. There are two key takeaways from this chart. First, notice how the slope of the curve flattened from 2015 to 2016. The yields on the far end of the curve dropped, the short end rose, and the middle stayed about the same (note the 3 year). The second item is how the entire curve shifted up in a remarkably parallel fashion from 2016 to 2017. Of particular note is that the yield on the 30 year treasury—which is much more volatile than the other maturities—has gone back to where it was two years ago. Generally speaking, the overall outcome is that the curve has flattened. The 2 year Treasury is back up to yield levels not seen since 2008.



The Financial Markets

US Market - Even though the US stock market has had an impressive run, the valuations continue to show that the S&P 500 is within reasonable levels. Below are six commonly used measures to gauge whether an investment is over-valued or under-valued. While four lean to the over-valued side, two are neutral and one indicates under-valued.

Valuation measure	Description	Latest	25-year avg.*	Std. dev. Over-/under-Valued
P/E	Forward P/E	17.7x	16.0x	0.5
CAPE	Shiller's P/E	30.7	26.3	0.7
Div. Yield	Dividend yield	2.1%	2.0%	-0.1
P/B	Price to book	2.9	2.9	0.1
P/CF	Price to cash flow	12.4	10.7	0.9
EY Spread	EY minus Baa yield	1.3%	-0.3%	-0.8

*P/CF is a 20-year average due to cash flow data availability

What does this mean? It is conceivable that this bull market continues forward, at least for the near future. The immediate (and usual) suspects to propel this are tax reform, infrastructure spending, and an accommodative Federal Reserve.

International Markets - After a stellar first half of the year, international developed and emerging markets took some time to catch their breath by the end of the third quarter. Emerging markets are improving and their outlook is promising. Historically, their performance has had a high correlation with commodity prices. If commodities such as oil were high, these markets tended to deliver favorable returns. The latest rally is more fundamental based due to lower inflation and stronger market currencies. That said, a couple of potential headwinds we are monitoring are the anti-trade debate and the rumblings in North Korea.

In the developed markets, the euro has steadily rallied this year, going from about $1.05 in January to $1.20 in early September. However, there are a number of events causing some pull-back in the currency. The first is the European Central Bank (ECB). President Mario Draghi and his team are in the midst of their own version of quantitative easing - with accommodating interest rates and an asset purchase plan, which currently consists of buying up 60 billion euros worth of assets every month. The goal is to eventually phase out this plan. They want to prudently increase rates and start to unwind their balance sheet. Sound familiar? Like the Fed, the ECB's long-term goal is to discontinue its market intervention. Also like the Federal Reserve, the European Central Bank doesn't want to cause mayhem in the short-term by saying the wrong thing, or acting in the wrong way. Now a stronger euro makes European exports less competitive with big trading partners like the United States and China. The potential for fewer items being sold to other countries could dampen Europe's future growth prospects.

To combat this, Mario Draghi has engaged in his own form of 'Fed Speak' where he seems dovish one day and hawkish the next - trying to strike the balance needed to proceed to a more neutral policy.

The second catalyst was the German elections. Although Angela Merkel remains chancellor, her center-right party and its center-left coalition partner lost considerable votes to the pro-business and populist right parties (see chart below).

Perhaps populism has some staying power. It is not only alive in Germany but also quite popular in Eurozone countries like Poland, Hungary, and the Czech Republic.

		% of votes	+/- %	% of seats
CDU/CSU	Conservatives	32.9	-8.6	34.7
SPD	Social democrats	20.5	-5.2	21.6
Die Linke	Radical left	9.2	+0.6	9.7
Grüne	Greens	8.9	+0.5	9.4
FDP	Pro-business	10.7	+6	11.3
AfD	Populist right	12.6	+7.9	13.3

Another European development that needs to work itself out is the Catalonian independence movement. Roughly one-sixth of Spain's population resides in the area. That figure is not insignificant. To put that into perspective, it is equivalent to the states of California, Oregon, and Washington trying to leave the United States. A major challenge for Catalonia is that it is constitutionally illegal to break up Spain. The arduous process of getting something like this through the legal system is by far the biggest hurdle for independence. In addition, there is also the likelihood that secession would knock the Catalans out of the European Union. They would probably have to start the EU membership process from square one. These are not necessarily factors the separatists are considering however (Great Britain in June of 2016). Will cooler heads prevail in Spain? Stay tuned.

Concluding Thoughts

Call it déjà vu, Goldilocks, lower for longer, or Groundhog's Day. All these terms can allude to positive developments, of which we are in the midst. The economic backdrop is solid and in sync with the rest of the world. Corporate earnings growth is strong. International economies are strengthening. And there is still hope for progress from the powers that be in Washington, D.C.

The outlook is more positive than negative. A focused long-term approach is warranted. As always, our team continues to monitor and maintain our strategies in the same fashion and diligence.

Respectfully yours,

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