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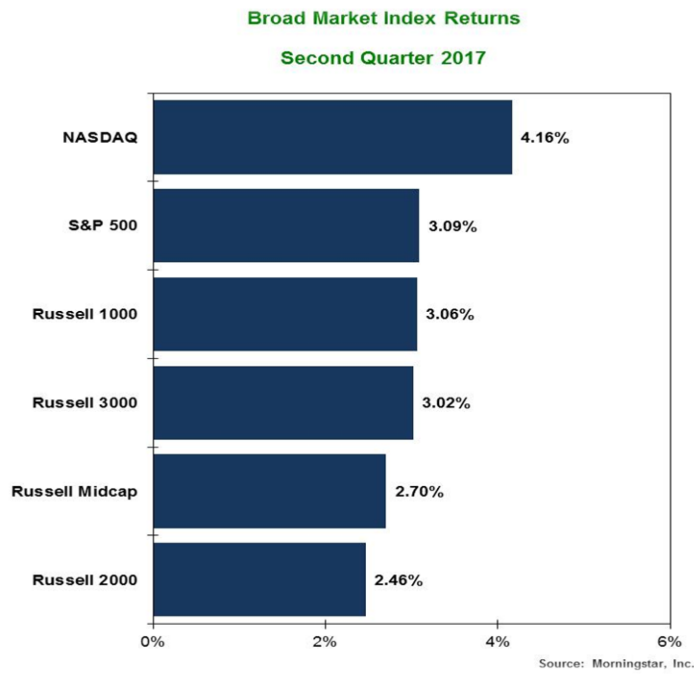
As we roll into summer, the market's upward trend which started following the November elections has continued. In addition, we've also experienced very low market volatility. During the second quarter, most all areas of the market were up. International stocks continued the outperformance of domestic stocks which we saw in the first quarter. All in all it was a very nice quarter from both a performance and volatility perspective.

The Economy



The U.S. economy continues to generate solid and stable growth, and the expansion is now eight years old, making it the third-longest on record. In addition to the economy nearing full-employment levels, the broad-based and steady growth is supported by low energy prices, elevated consumer confidence, and stock prices hovering near record highs. While enthusiasm about the prospect of the Trump administration passing certain policies seems to have waned somewhat as a result of Washington's political climate, consumers and investors, nevertheless, have forged ahead. The Bureau of Economic Analysis reported its third estimate of first quarter 2017 gross domestic product (GDP) of +1.4%, up slightly from the prior estimate, but lower than the fourth quarter's +2.1% reading. The employment situation eroded somewhat, with an average of approximately 121,000 jobs added each month, disappointing economists. However, the unemployment rate of 4.3% established a new cyclical low. Despite worse-than-expected jobs data, the Federal Open Market Committee (FOMC) voted at its June meeting to raise short-term interest rates by 25 basis points to 1.00% - 1.25%. Analysts anticipate at least one more rate hike in 2017, as well as the Federal Reserve (Fed) beginning its long anticipated reduction of its balance sheet.

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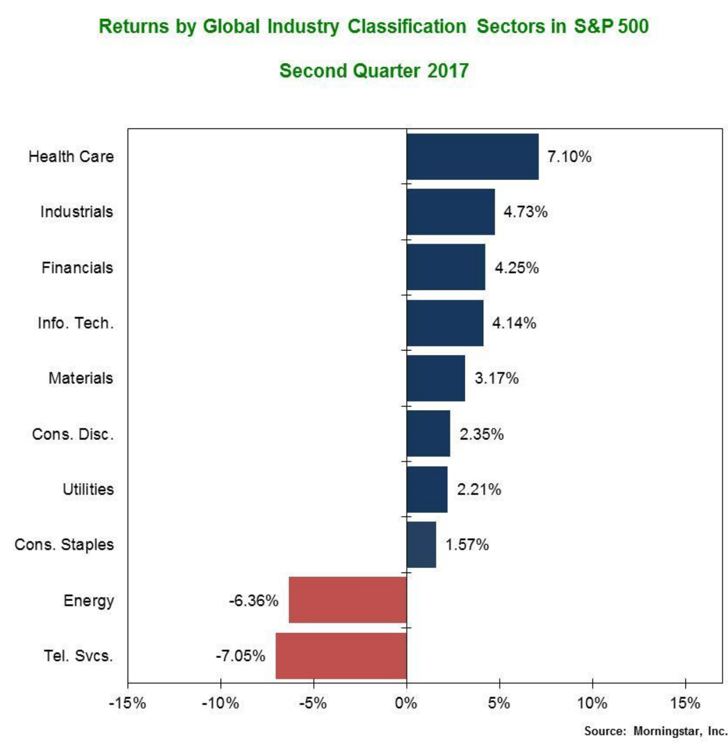
The global economic environment also continues to improve, with most regions of the world on track to deliver robust growth in 2017. The Eurozone economy grew at a 2% annual clip in the first quarter, an improvement from prior quarters. Recent data from the various economic segments has exceeded forecasts, an encouraging sign for future prospects. In addition, the outcomes of the French and Dutch elections have eased uncertainty in the region. China's economy is expected to grow close to its potential in 2017.

The housing market has cooled as a result of policymakers' restrictions, and the Chinese economy should receive a boost from the mobile phone upgrade cycle in the second half of the year. China also is benefiting from a thawing in its relationship with the US, which should attract investors previously wary of investing due to fears of a trade war.

Highlights

GDP

The Bureau of Economic Analysis released the third estimate of the first-quarter 2017 real GDP, a seasonally adjusted annualized rate of +1.4%, down from the fourth quarter's +2.1% annualized growth, but up slightly from the +1.2% prior estimate. Although the results were disappointing, economists point out that several seasonal factors came into play, which temporarily dampened growth. Consumer spending was a modest driver during the quarter, while inventories and government spending were drags. Inflation accelerated somewhat in the quarter, with the personal consumption expenditures (PCE) index of prices rising +2.4%, following a +1.9% advance in the prior quarter. Corporate profits fell -2.3% (not annualized) during the quarter. The consensus



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among economists is that the long expansion should continue for some time, but that there are signs—including low unemployment—that the economy may be at risk of overheating.

HOUSING

The housing segment has continued to contribute solidly to growth. Existing home sales for May (the latest monthly data available) grew at an annualized rate of 5.6 million units, an increase of about +1.1% from the 5.5 million-unit-rate reached in April, yet up +2.7% from February 2017. The inventory of existing homes was slightly more than four months of supply, roughly the same as year-ago levels. Existing home prices in May were up +3.1% from April, and have gained +5.9% from May 2016. In the new-home segment, the NAHB Housing Market Index, a measure of homebuilding activity, ended the quarter at 67, slightly below both the prior month and in March. Despite the modest decline, homebuilders and analysts expect continued moderate improvement in housing in the months ahead.

EMPLOYMENT

The employment situation slowed considerably in the most recent monthly report. Employers added 138,000 jobs during May, far below the consensus expectations of 185,000 new jobs, and materially lagging the prior month's gain. The three-month moving average also declined, coming in at 121,000, the weakest average since 2012. The unemployment rate in May was 4.3%, a new cyclical low. Average hourly earnings increased by a modest +0.2% in May, and have risen +2.58% in the past 12 months. The consensus among economists is that while the disappointing recent data was likely an anomaly, job growth will be somewhat muted in the coming quarters.

FED POLICY

As the consensus among analysts had forecast, the FOMC ended its recent June meeting by raising the target range for the federal (fed) funds rate by 25 basis points to 1.00%-1.25%. In addition, the FOMC released an addendum to its Policy Normalization Principles and Plans, stating that it will begin reducing its balance sheet by $10 billion per month at some point this year, with many analysts believing the reductions could begin in September. The FOMC will initially make the reduction by not reinvesting principal payments. In its statement, it indicated that inflation is currently running slightly below its 2% target, but that continued improvement in the economy will allow inflation to trend higher. The FOMC's median estimate for the

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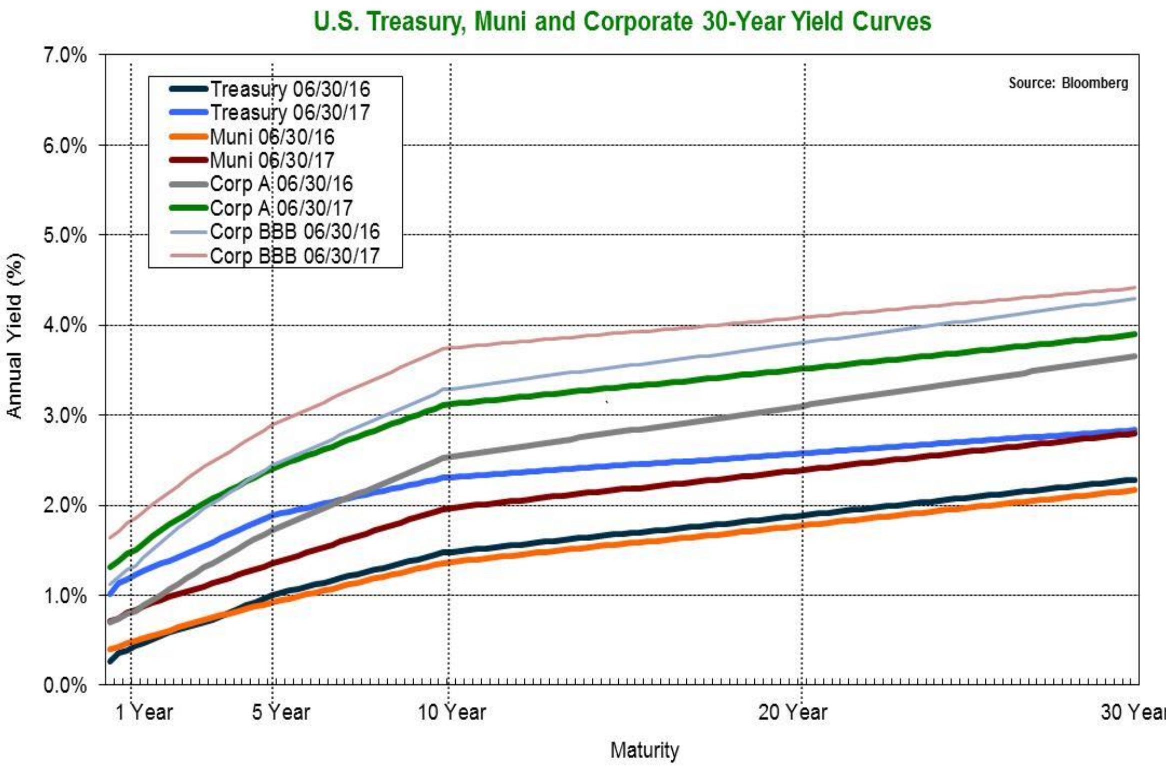
long-term fed funds rate is 3%, suggesting that rate hikes will continue in conjunction with reducing its balance sheet.

Interest Rates

Fixed income securities' prices were affected by several important factors during the quarter, including investor anticipation of the FOMC's hike in the fed funds rate; an economy continuing on a modest uptrend; stock prices near record highs; and Washington's testy political environment. As in the prior quarter, the FOMC left little doubt as to whether it would move to raise rates, but the added wrinkle at its June meeting was the decision to move ahead with reducing its balance sheet, beginning perhaps as soon as September. Although fairly material news, investors digested it smoothly, at least initially. However, bonds suffered steep losses in the last week of the quarter, as investors realized that the combination of rate hikes and balance sheet reduction may mean that the long period of extremely accommodative monetary policy is ending.



Continuing the trend from the prior quarter, the yield curve flattened, as yields on short-term securities rose, and those in the intermediate- to long-term end of the spectrum fell. The flattening was in large part a result of the FOMC's rate increase. By the end of the quarter, the yield on the benchmark 10-year U.S. Treasury note was lower, ending the quarter at 2.31%, compared to 2.39% on March 31.

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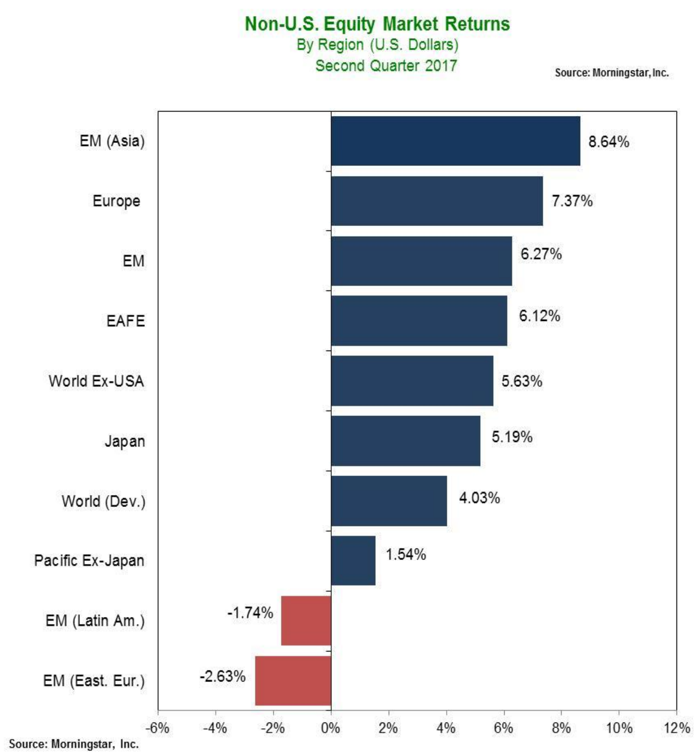
Fixed income securities, on balance, generated positive total returns in all market segments. The Bloomberg Barclays Treasury 5-7 Yr. Index gained +1.1% for the quarter, but is down a -2.3% return over the past 12 months. The Bloomberg Barclays U.S. Corporate 5-10 Yr. Index advanced +2.2% during the three months. High yield securities continued to produce positive returns, posting a gain of +2.2%; the asset class has gained +12.7% over the past year. Municipals also fared well, as the Bloomberg Barclays Municipal Bond Index rose by +2.0% during the quarter. Prices of non-U.S. fixed income securities were sharply higher in the quarter, as the Bloomberg Barclays Global Aggregate ex-U.S. Index climbed +3.6%. Emerging markets bonds added on to gains from the first quarter, with the JPM EMBI Global Index tacking on +2.2%.

Equity Markets



Equity markets delivered robust gains in the quarter, extending the rally that began just after last November's presidential election. Gains were fueled by a mixture of a solid and stable domestic economy; a material recovery in European economies; clarity on the interest rate front; and continued investor optimism regarding the potential results of the Trump administration's policies. These and other factors combined to create a calm financial market environment, with the Chicago Board Options Exchange Volatility Index – better known as VIX – hovering at its lowest levels on record. Even potential political headwinds, such as the appointment of a special counsel to investigate Russia's interference in the 2016 election and Republicans' difficulty in repealing and replacing Obamacare, caused little angst in the markets. Within this environment, the S&P 500 Index finished the quarter with a gain of +3.1%. The index is now up +9.3% year-to-date.

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On balance, the ten primary economic sectors produced positive returns, with two exceptions. Performance disparity between the sectors was not as wide as in recent quarters. Health Care, Industrials and Financials were the strongest performers, generating gains of +7.1%, +4.7%, and +4.3%, respectively. The Telecommunication Services, Energy, and Consumer Staples sectors were the poorest relative performers, posting returns of -7.1%, -6.4%, and +1.6%, respectively.

The Russell 1000 Index of large capitalization stocks generated a +3.1% total return, and is up +9.3% for the first half of 2017. Within the large cap segment, growth stocks meaningfully outperformed value stocks. Small cap stocks, as represented by the Russell 2000 Index, slightly underperformed large caps, and finished the quarter with a total return of +2.5%. Small cap growth outperformed small cap value, with the outperformance now amounting to more than 9.0% year-to-date. The Nasdaq Composite, dominated by information technology stocks, finished with a gain of +4.2%, and is now up +14.7% in 2017. The Dow Jones Industrial Average of 30 large industrial companies gained +4.0%.

Real Estate Investment Trusts (REITs) were modestly higher during the quarter, with the DJ US Select REIT Index gaining +1.6%. Commodities disappointed, with the Bloomberg Commodity Index declining -3.0%.

As in the first quarter, international stocks generally outperformed US equities overall. European economies have begun to show signs of rebounding, and investors have greater confidence following the results of the French and Dutch elections. Even though China continues to go through structural reforms, its economy is expected to grow at potential this year, in part due to the new cycle of mobile phones that will be produced and delivered in the second half. Against this landscape, international stock indices were mostly higher. The MSCI ACWI ex-USA Index, which measures performance of world markets outside the U.S., gained +5.8%. The MSCI EAFE Index of developed markets stocks climbed +6.1%, and is now up +13.8% in 2017. Regional performance was, on balance, positive. The Asia region was the strongest performer on a relative basis once again, with the MSCI EM Asia Index posting a return of +8.6%. Eastern Europe and Latin America were the poorest relative performers, posting declines of -2.6% and -1.7%, respectively. Emerging markets performance remained strong, as the MSCI Emerging Markets Index rallied by +6.3%, and is now up +18.4% for the first half of the year.

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Looking Forward

The US economic expansion is now eight years old, and is the third-longest on record, trailing only the expansions of the 1960s and 1990s. Because of the economy's currently stable underlying fundamentals and the lack of apparent speculative excesses, many economists believe that the prospects are good that the current expansion will eventually surpass the others in terms of duration. One of the benefits of having a steadily growing economy is declining equity market volatility over the past several years. However, a growing chorus of analysts cautions that with volatility near historic lows and valuations higher than long-term averages (although certainly not at bubble-like levels), the risk of an as-yet-undetermined event causing disruption in the market is not insignificant. The catalyst of heightened volatility and a decline in stock prices could be any number of events, including a FOMC policy misstep; Congress's failure to make progress on its key initiatives of healthcare overhaul and tax reform; legal entanglements resulting from the work of the special counsel investigating Russia's efforts to disrupt US elections; or geopolitical eruption in some area, such as North Korea or Syria. Although investors have good reason to be modestly confident and cautiously optimistic, markets are likely to exhibit greater volatility over the next few quarters compared to prior quarters.

As we've written in the past, we are very happy with the market performance over the past year; however it is important to remember that eventually we will experience a market correction or crash. Inevitably the market goes both up and down. No one knows when downturns will happen and often they will occur quickly. We are not predicting a downturn in the immediate future, but we believe it is important to have such conversations and shore up client cash if needed when the market is up. If you have any upcoming cash needs that we are not aware of please let us know. Please also be sure to let us know if you have any concerns regarding your portfolio or feel your asset allocation is no longer appropriate.