

Customized Separately Managed Accounts (SMA)

Investment Review and Outlook

April 2017

Climbing a “Wall of Worry”

The outlook for the both the U.S. economy and the equity markets appear to be divided into two groups. One group believes that the US economy will continue to grow at a moderate rate of 2%. This forecast is the generally accepted view of most leading economists as well as the Council of Economic Advisors. Although generally accepted, this forecast is skeptical that the actions proposed by the Trump administration will result in increasing economic growth in the U.S. to 3%-4%.

Investors who expect the slower, 2% rate of economic growth in the U.S. also believe that the equity markets are overvalued. This group points to the current historically high price-earnings ratios of the S&P 500 Index as well as many company's stock prices. The concern of the ability of the U.S. economy to increase its growth rate is extended to a concern that companies will not be able to grow their earnings at rates that would justify their current market prices. Given the forecast of lower growth for the economy and corporate profits, these investors have maintained higher levels of cash in their equity portfolios awaiting a stock market correction.

A second group of investors have more confidence in the forecast by the Trump administration that the U.S. economic growth will increase to a 3%-4% rate over the next few years. Faster economic growth will increase corporate profits to a higher level and at a faster rate. Therefore, these investors believe stocks today are more reasonably valued. Given their forecast, this group of investors has a greater allocation and remains invested in equities.

AHB's forecast for the economy and corporate profits is along the lines of those expecting growth of the U.S. economy to increase at a greater rate than 2% over the next few years. This forecast would expect corporate profits to increase faster and to a higher level than the generally accepted forecast. We recognize that not all industries and companies will participate equally in the higher rate of economic growth. We use AHB investment research and analysis to identify those economic sectors, industries and companies that will benefit from the faster anticipated growth that we expect. Our research also provides us with the ability to determine which specific companies offer the most attractive investments for client portfolios.

Today, AHB manages customized separately managed portfolios for more than 1000 clients in four different investment strategies with total assets under management of approximately \$1.7 Billion. Our clients recognize that their wealth allows them to attract the services of a firm such as AHB who will structure a portfolio tailored to meet their investment objectives as opposed to invest in a fund that attempts to meet the many different objectives of all of the investors in the fund.

AHB's bond portfolios are comprised of actively ladderred investment grade bonds with short to intermediate term maturities. However, because each client has a customized, separate portfolio we are

able to adjust the maturities or duration of the portfolio if requested by the client. Another advantage of a separately managed bond portfolio or the bond portion of a separately managed balanced portfolio is the ability to hold a bond to its maturity to avoid a potential loss should interest rates rise and bond prices decline. Separately managed bond and balanced portfolios also benefit from the reinvestment of bond maturities at the potentially higher interest rates. Conversely, investments in bond funds are subject to a potential loss in value should bond prices decline as interest rates rise. Our interest rate outlook continues to be for moderately rising interest rates benefiting from an improving economy and higher rates of inflation. Thus, AHB's client bond portfolios are able to shield asset values from the volatility that bond funds will experience in a rising interest rate environment.

There has been a recent shift by investors in their choice of an investment manager. Investors have recognized that investment managers offering above average equity market performance have had difficulty achieving the returns expected. Investment managers of mutual funds, hedge funds, private equity funds or aggressive growth equity portfolios have generally not achieved the above market performance they had promised. Investors are rethinking their choice of an appropriate investment manager for their assets. Some have repositioned their assets and invested in funds that mirror a market index such as the S&P 500 or Dow Jones Industrial Average. Other investors have made the decision to hire an investment manager that will structure a separately managed portfolio to achieve a customized investment objective. Separate accounts managed by AHB and others have now become the investment approach of choice for many high net worth investors. Since AHB's founding in 1981, we have exclusively managed client assets in customized separately managed portfolios.

We welcome the many new clients who have chosen us to manage their assets in a separate portfolio and we want both new and existing clients to know that we will continue to make every effort to fulfill the confidence you have placed in our firm. We thank you for your trust as it is truly appreciated and highly valued.

Investment Policy Committee

Abner, Herrman & Brock Asset Management

Founded in 1981, Abner, Herrman & Brock Asset Management manages portfolios individually structured to assist each client in achieving their investment objectives. Stock portfolios are managed utilizing a Core Equity philosophy, investing in both large capitalization value and growth disciplines with an objective of long-term, after-tax appreciation and below market volatility. Portfolios are diversified across economic sectors, industries and companies. Bond portfolios are managed to provide a high rate of current income and total return. Portfolios are invested in staggered maturities of U.S. Treasury, government agency and investment-grade corporate bonds and where appropriate, investment-grade municipal bonds. Portfolio managers are available to meet with clients upon request.

Please visit our website at www.ahbi.com for a more detailed description of our investment **Philosophy, Process and People**.