Abner Herrman & Brock
asset management

Investment Review and Outlook **April 2018**

"Uncertainty Creates Opportunity"

Review of 1st Quarter 2018

The first quarter of 2018 has reminded investors that volatility remains alive and well across the investment landscape. Although the quarter was a bumpy ride for stocks, bond prices increased in line with our expectations. U.S. GDP growth accelerated, up 2.5% in 2017 from 1.8% in 2016, providing evidence of an improving U.S. economy. This stronger rate of economic growth gave support for the Federal Reserve's anticipated three interest rate hikes this year. The level of intermediate and longer term interest rates is correlated to future inflation expectations, rather than the rate of economic growth. Therefore, higher interest rates and lower bond prices reflect the expectation of a higher rate of inflation in the future as a result of stronger economic growth. Corporations reported strong earnings during the quarter, however, stock prices experienced volatility and in some cases declined. This can be attributed to concerns over rising interest rates, trade tensions, and increased levels of regulation on technology companies which all contributed to capping equity valuations.

AHB economic outlook

We believe the near term direction of US GDP growth will be better than consensus expectations. Current consensus expectations for GDP growth in 2019 are in the mid 2% range which may be low. Policy actions including reduced regulation, tax reform, and increases in military spending have begun to generate an increase in capital spending, job growth, and consumer confidence. These policy changes are relatively new. Large corporations and consumer/family decisions take time. We believe the positive impact on economic growth of the policy changes will continue for a longer period than what most economists currently expect. Furthermore, the economy may receive an additional boost from a long awaited infrastructure bill, which will help extend the strong economic cycle. It appears we are in the early stages of higher rates of US economic growth while expectations remain low allowing for growth to positively surprise.

This stronger forecast of economic growth does not axiomatically imply that significantly higher rates of inflation will occur. Although the inflation rate will increase with this higher rate of economic growth, we expect it will increase at a rate that will be slower than the rate of GDP growth. Our analysis suggests that the current fears of significantly higher rates of inflation in the future are unwarranted. Year to date, the PCE (Personal Consumption Expenditure) Index, the inflation measure the Fed uses, has not increased, and in fact has decreased to a 1.5% increase from a 1.8% increase a year ago. The Fed has long held that a 2% rate of increase of inflation is appropriate for a growing economy. Another measurement, the core CPI (Consumer Price Index), was up 1.8% year over year through February. In sum, as economic growth has strengthened, inflation has not increased commensurately. The Digital Age has impacted the global economy. However, economists and investors continue to make forecasts based on an economy prior to the Digital Age. In doing so, forecasts have continued to underestimate the impact of globalization and the Internet.

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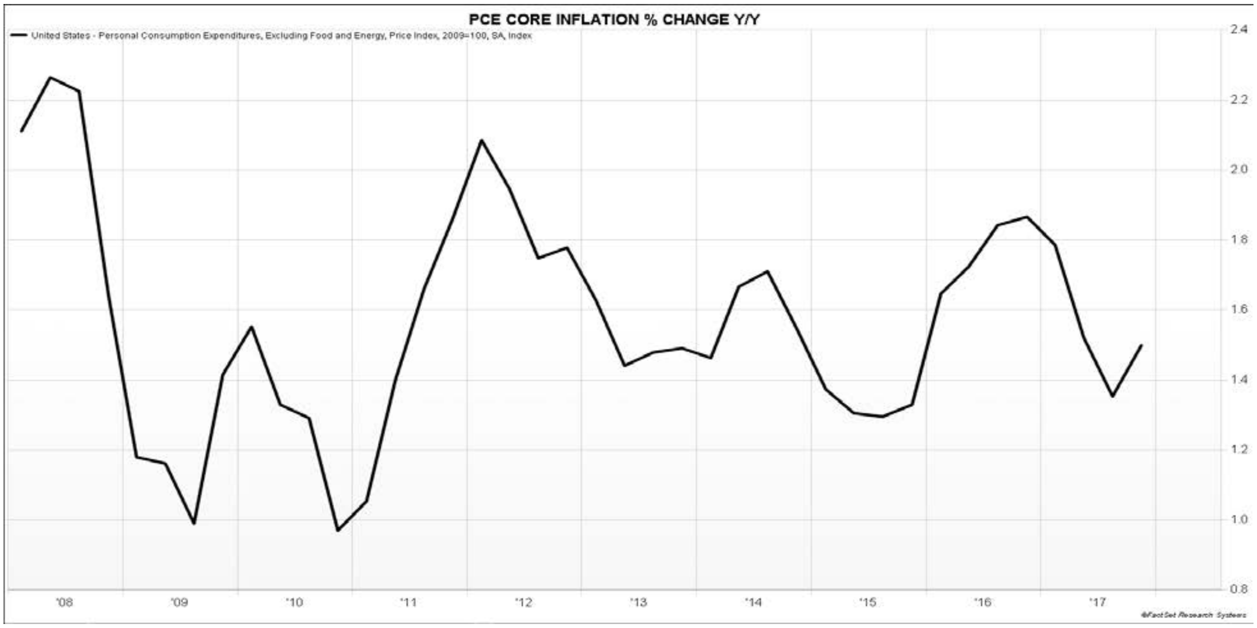

(Figure 1, inflation has remained consistently below 2% for 5 years)

The Internet has been and continues to be a significant inflation fighting tool. It has allowed communication around the globe to be seamless. In doing so it has unleashed a world that competes on a global scale for products and services. Thus, prices for many goods and services continue to decline. By using the Internet, companies can impact a market by providing convenience to the consumer at an equal or lower price. Innovative companies will harness the new technological innovations of artificial intelligence, machine learning and quantum computing to provide opportunities to do more tasks with greater efficiencies and improved outcomes. Inflation has been tempered by these pressures on price and constantly increasing efficiencies. We believe these trends will continue. Thus, an environment of economic growth with modest levels of inflation appears likely.

Fixed income Outlook and Strategy

As a result of higher interest rates, client bond portfolios experienced a modest decline in market value during the first quarter. It is important to note that AHB client bond portfolios hold individual bonds and when held to maturity, will achieve the yield to maturity return expected when purchased. Portfolios will receive both the income during the holding period and the return of the principal at maturity. Furthermore, AHB's fixed-income investment strategy employs an intermediate-term, actively laddered bond portfolio to provide maturity opportunities for AHB Portfolio Managers to reinvest client bond holdings at the then higher available interest rates. As the yield curves flattened, we anticipated this shift and reinvested accordingly. Overall, we modestly shortened the duration of client fixed income portfolios. The municipal bond yield curve is less flat which provides attractive investment opportunities in the longer 8-10 year time horizon for client municipal bond investments. Although several economists believe the flat yield curve is foretelling a slowdown in the economy, we believe a flatter yield curve to be indicative of a more modest outlook of future inflation.

Equity Outlook and Strategy

Stock market volatility has increased and is expected to continue as a consequence of the fast paced and varied policy changes that often create uncertainty. The volatility in stock prices is exacerbated by the significant influence of program trading in the equity markets.

Corporate earnings during the first quarter grew at the fastest pace since the second half of 2011. We have been disciplined in our investment process as we use a fundamental analysis to determine stock selections. We therefore expect corporate earnings of the companies we invest client portfolios in will benefit from the changes that have occurred, and for a longer period than is generally expected.

Investment Team

AHB's Investment Policy Committee is responsible for all investment decisions at the firm. This committee is comprised of portfolio managers and research analysts for both fixed income and equity portfolios. A forecast for the macroeconomic outlook is developed which is followed by an analysis of the economic sectors, industries and companies to identify attractive investment opportunities. Client portfolios are invested only in stocks and bonds that are appropriate for a client's portfolio and approved by the Investment Policy Committee. AHB's team approach provides each client the assurance that their portfolio will be invested with only securities from the collaborative research of the AHB investment team. The team approach differs from other firms that allow each portfolio manager to independently select investments.

New Business Development

AHB is focused on increasing our outreach to both new and existing clients. Here again, we are nontraditional. We do not have a formal sales force. New clients are referred to AHB by either a current client or a Financial Consultant at a firm where AHB is a recommended investment manager on the Financial Consultant's firm's investment manager platform. Accountants, attorneys, financial planners, trustees and other fiduciaries also recommend AHB as a manager of choice for their clients' assets.

We appreciate the confidence you have placed in our firm and thank you for your continued support.

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.**