FIRST QUARTER 2017

Beyond the Benchmark

Aldrich℠ WEALTH LP

QUARTERLY MARKET SNAPSHOT

	VALUE	CORE	GROWTH
Large	3.27%	6.07%	8.91%
Medium	3.76%	5.15%	6.89%
Small	-0.13%	2.47%	5.35%

This matrix illustrates U.S. equity benchmarks provided by Russell with the exception of Large Core, which is the S&P 500 Index.

	VALUE	CORE	GROWTH
Global	4.86%	6.91%	9.08%
Non US	6.05%	7.25%	8.52%
EM	10.16%	11.45%	12.80%

This matrix illustrates international equity benchmarks provided by MSCI.

	SHORT	INTER	LONG
Gov	0.28%	0.68%	1.45%
Corp	0.69%	1.22%	1.36%
Hi-Yield	2.45%	2.71%	4.99%

This matrix illustrates the fixed income benchmarks provided by Barclays and B of A Merrill Lynch.

Executive Summary

Domestic equity markets, as measured by the S&P 500 Index, advanced 6.1% as the bull market celebrated its 8th anniversary with its best quarterly showing since 2015. More than 350 of the 500 constituent companies rose in the quarter as gains that began just before Election Day swelled to 14.0%. Returns have been supported by strong quarterly earnings and better than expected economic data. Large cap stocks outpaced small cap stocks and growth bested value. Growing concerns regarding the Trump administration's ability to implement tax, regulatory, and corporate-friendly policies led to a substantial shift in sector leadership during the quarter. Investors focused on companies expected to benefit from economic growth rather than changing fiscal and regulatory policies. Given this backdrop, value stocks, after leading most of 2016, reversed course while growth stocks advanced. Non-U.S. developed equity, as measured by the MSCI EAFE Index, advanced 7.3%, led by gains in Europe. Emerging markets bested their developed market brethren with an 11.5% return led by gains in Asia on the back of higher profit forecasts and reduced fear of more restrictive trade policies. Fixed income returns were positive, with high yield bonds setting the pace given the continued stability across the energy complex. Although the U.S. central bank delivered a 0.25% interest rate increase in March, the hike was widely anticipated and had minimal impact on bond yields or prices.

Equities

The S&P 500 Index, a broad measure of the U.S. equity market, advanced for the 16th time in the last 17 quarters, jumping 6.1% in the first quarter. Large cap stocks outperformed small companies as investors recalibrated their timeline for the arrival of corporate-friendly tax policies. Nine out of the eleven underlying sectors within the S&P 500 Index posted gains for the quarter with growth oriented segments besting value. Earnings in the fourth quarter hit 5.0% and exceeded analyst expectations, logging their largest increase in over two years. According to FactSet, first quarter earnings are expected to expand 9.1% with near double-digit acceleration expected in 2017 as the drag related to energy turns into a relative tailwind.

Non-U.S. developed market equities, as measured by the MSCI EAFE Index, advanced 7.3% in the first quarter. European equity markets were the strongest performers with major indices in France and Germany producing 7.3% and 8.4% returns, respectively, during the quarter. The European Central Bank upgraded its 2017 and 2018 growth and inflation forecasts for the region, but pledged to keep existing stimulus in place until at least the end of the year. Political worries receded as the center-right party won the Dutch elections in March, fending off the challenge from the anti-EU party. The Euro advanced over 1.6% versus the U.S. dollar in the quarter which came on the heels of a sharp selloff in the fourth quarter following U.S. elections. The quarterly earnings season was positive for European equities, with many firms reporting double-digit earnings growth and confident outlooks for 2017. The Bank of England upgraded its 2017 U.K. GDP growth projection from 1.4% to 2.0% due to stronger-than-expected consumer spending despite initiating of the process of exiting the European Union.

Emerging market returns, as measured by the MSCI Emerging Markets Index, accelerated 11.5% during the quarter with a weaker U.S. dollar providing an additional tailwind during the period for U.S. investors. An upswing in global growth and a lack of follow-through on protectionist trade policy from the Trump administration supported an increased risk appetite. There were continued signs of an economic recovery in China as the country's Purchasing Managers Index (PMI) rose to a five-year high in March and rising cement prices signaled that growth should remain stable for the year ahead. Indian equities rallied as GDP growth appeared to shrug off demonetization concerns. The ruling BJP (Bharatiya Janata Party) under the guidance of PM Modi also performed well in state elections, reflecting support for ongoing reforms. Conversely, Russia posted a negative return, down 4.6%, and was the weakest constituent country amid a decline in energy prices and reduced optimism that relations with the West would improve.

Fixed Income

Citing general economic stability, the Fed raised rates by 0.25% during the quarter. The Barclays U.S. Universal Bond Index, a broad measure of the U.S. fixed income market, increased by a respectable 1.1% during the period. The yield on the 10-year Treasury moved lower during the quarter from 2.45% to 2.40%. This came despite the rate hike by the Fed in March as softer than expected guidance and a failure by Congress to repeal the Affordable Care Act put downward pressure on longer term rates. High yield bonds produced the best returns with a 2.7% advance during the period as strong economic data with continued stability across the energy complex helped boost returns. Robust demand for corporate bonds continued to push credit spreads (incremental yield above Treasuries) lower with average spreads below their long-term averages across traditional fixed income sectors.

After reaching unprecedented negative yields last summer, long-term interest rates in Europe and Asia climbed back into positive territory. European sovereign bond prices came under pressure amid political concerns and markets starting to adjust to the prospect of declining monetary stimulus. Spreads on French and Italian bonds increased relative to German bonds reflecting heightened political uncertainty.

Economy

The U.S. economy expanded 2.1% in the fourth quarter driven by positive contributions from consumer spending and business investment. The unemployment rate in the U.S. fell to 4.5% in March, which marked its lowest level since May 2007. Consumer confidence held steady near a 13-year high throughout the quarter as consumers remained optimistic about the economy's prospects.

The Eurozone continued its slow recovery, with GDP growth of 0.4% in the fourth quarter. The bloc's recovery has been led by its largest member, Germany, which has benefited from both reduced financing costs and the lower Euro. Among the member states, Germany has the lowest unemployment rate at 3.9%. High unemployment and debt levels remain challenging headwinds for the region, but targeted monetary policies have begun to move the needle in the right direction. The seasonally-adjusted unemployment rate in the Eurozone came in at 9.5% in February, the lowest reading since May 2009. The unemployment rate in the region has averaged 9.8% the last 20 years, reaching an all-time high of 12.1% in April of 2013 and a record low of 7.2% in March of 2008. Eurozone inflation hit 1.5% in March, easing from a 2.0% increase in the previous month and just below market expectations. The U.K. unemployment rate dipped to 4.7% in January, markedly lower than the 5.1% rate from a year earlier and the lowest level since September 2005.

Market Outlook

After a solid quarterly advance global equity valuations (as measured by price-to-earnings ratios), aside from emerging markets, are now trading above their long-term averages. Fortunately, accelerating global economic growth, accommodative central banks, and exceptionally low interest rates provide support for heightened valuations. Moreover, earnings are beginning to accelerate both domestically and internationally. According to FactSet, earnings for the S&P 500 Index are expected to increase 10.6% the next 12 months, while earnings for the MSCI EM Index and MSCI EAFE Index are expected to grow 18.4% and 14.6%, respectively. The U.S. is further along in its recovery relative to the other developed countries and was the first country to start increasing rates (December 2015, December 2016 and March 2017).

Economic growth is improving globally as the benefits of a loose monetary policy are boosting loan demand, inflation, and consumption. Europe's far-right populist movement failed its first test of 2017 when Conservative PM Mark Rutte claimed victory in the Netherlands. The election was widely seen as a test of populist right-wing sentiment in Europe, ahead of the French presidential vote in April and the German national election in September. The recent hike in interest rates by the Fed and the expectation of two additional hikes in 2017 has created a positive backdrop for international equities. Historically, when the U.S. initiates a rate hike campaign this is a trigger for outperformance by international stocks relative to U.S. stocks. Although we believe international stocks could be poised for an extended period of strong relative performance we have yet to overweight the asset class given the potential for political upheaval and uncertainty in the coming year.

Long-term yields have remained steady after the initial rise following President Trump's election victory in November. Conversely, yields at the short end of the maturity spectrum have shifted higher as short-term rates are more influenced by the Fed's actions. The confluence of which has led to a flattening of the yield curve in anticipation of tighter Fed policy. A lower or flatter yield curve usually indicates that bond investors are less optimistic about the economy and don't expect interest rates to rise appreciably. The bond market is signaling that the administration's targeted reforms will be more modest than previously anticipated. A slow moving Fed and an extended period of low global interest rates is currently priced into the bond market. The probability of meaningful bond returns seems very low and with low yields even a stable period offers minimal return. The rapid rise in yields in the fourth quarter is a reminder that bonds can lose money as rates move higher. In response, we have modified fixed income allocations to include floating rate bank loans, which historically perform well when interest rates rise.

We continue to work diligently to help you achieve your investment goals. Please call us if you have any questions.

Aldrich Wealth LP Investment Committee

Putting Clients First

How unbiased service and solid advice can help you achieve your goals.

WRITTEN BY

BRANDON KURZ, CFP ®

Specializing in financial planning and consulting services. He has has passed the Series 7, 66 and 65 securities licensing exams as well as the CA Life and Health license exam.

I started providing advice early in my young adult life. My friends have always said I have good "street smarts" and that they feel comfortable talking to me about issues when they want an objective and insightful discussion. It feels great to assist friends with their issues and it has allowed me to forge strong relationships built on trust. My natural strength and interest in problem solving helped guide my career path and led me to professions where success is directly related to helping people overcome obstacles.

The desire to help people provided a broad array of potential career paths to pursue. My focus narrowed after I joined a venture capital group following high school and received a crash course in business from a local entrepreneur. That position spurred my interest in finance and sent me down a path to earning my Bachelor of Arts in Business Administration with a concentration in Finance from California State University Fullerton.

During college I gained valuable experience not only from my professors, but also from managing a cell phone carrier retail store. As a manager I significantly improved my leadership skills and ability to anticipate client needs. However, it also gave me a glimpse of a business world where making a sale took priority over putting the customer first. We were incentivized to sell and not necessarily solve the customers' problems.

"The team at Aldrich Wealth offers unique insight, expertise, and experience that is crucial to delivering the kind of high quality service we aspire to provide."

After graduation I decided to become a financial advisor. My first job was with a large financial advisory firm. I soon discovered that the title "financial advisor" does not automatically mean acting in the client's best interest, which for me was a bit counter intuitive. I drew many parallels between my experiences at the wireless carrier store pushing the latest smart phone with what I was experiencing in the financial services industry. I always viewed financial advisors as client-centric, knowledgeable, and trustworthy. Unfortunately, my first experience was that selling products and increasing firm revenue was valued more than helping clients solve their problems. Needless to say, this was not the type of position I had hoped for so I left to pursue other opportunities.

Ultimately, after spending some time in the insurance, mortgage, and leasing industries, I came to the conclusion that working in a commission-driven sales environment was not how I wanted to "help" clients. During the career search process I learned that Registered Investment Advisory (RIA) firms' business models are aligned with my values, experience, and interest. RIAs are fee-based and advisors are not incentivized or compensated based on what they sell but rather by providing comprehensive and unbiased advice. This is what I had been looking for from start. This discovery completely changed my perspective on the wealth management and financial planning industry and reinvigorated my drive to become a financial planner and work for a RIA.

Since joining Aldrich Wealth I have been encouraged to take a comprehensive look at clients' finances and goals and offer recommendations that are genuinely in their best interest. It is wonderful to work so closely with other professionals, including CPAs, who are happy to help collaborate to solve complex problems. The team at Aldrich Wealth is truly passionate about helping clients achieve their goals. Each professional offers unique insight, expertise, and experience that is crucial to delivering the kind of high quality service we aspire to provide.

I recently obtained my Certified Financial Planner CFP® designation which has helped me develop a wider breadth of knowledge to support clients. Aldrich Wealth is also very supportive of giving back to the communities we serve. Aldrich fully supports my board involvement with The Wesley House, a San Diego nonprofit that provides reasonably priced accommodations and access to support programs for homeless and low income San Diego State University students with the goal of improving the likelihood they can successfully earn their degrees. I'm elated Aldrich shares the same passion for outreach and philanthropy as I do and encourages our team to share our skills and time in our communities.

I am excited for my future with Aldrich Wealth. It is so refreshing to work side-by-side with knowledgeable and dedicated people that share my values and desire to help others. Collectively, we are focused on proving unbiased service and advice with the goal of helping clients achieve their financial goals. After seeing both sides of our industry I can rest easy at night knowing that the advice and recommendations our team provides will have a positive impact on our clients' lives.

BRANDON KURZ, CFP®
WEALTH MANAGER

Brandon started his financial planning career in Silicon Valley helping families, individuals, and businesses plan for their future. He aims to put an emphasis on educating his clients and always upholds a fiduciary standard when making recommendations. Brandon graduated from California State University Fullerton with a Bachelors in Business Administration, with a concentration in Finance. He is a CERTIFIED FINANCIAL PLANNER™ professional, has passed the Series 7, 66 and 65 securities licensing exams as well as the CA Life and Health license exam. He is also a member of the Financial Planning Association of San Diego and serves as treasurer for the Wesley House.

How Patience Improves Your Golf Game

And your investments

BY DARIN RICHARDS, CFA®

Investment advisors are required to tell investors that past performance does not necessarily predict future results. Market returns can be fickle and all strategies have periods of volatile relative performance. Investment returns in the fourth quarter of 2016 were clearly impacted by the election of President Trump. President Trump ran on policies that were considered pro-growth and pro-business, including lower corporate and personal tax rates, a reduction in governmental regulations, new trade agreements, and an increase in infrastructure spending. Consequently, areas of the investment universe that were likely to benefit from these policies performed well, including Financials, Energy, and Industrial sectors. Small cap domestic stocks also performed well and interest rates rose in response to the prospect of faster growth and rising inflation, which resulted in bond prices declining. International equity returns were negative as the potential for trade barriers caused investors to shy away from international markets.

How quickly things change. The areas of the market that performed well in the fourth quarter were among the laggards in the first quarter. Emerging market stocks, which were up 11.5% in the first quarter, were the top performers after lagging all other major asset classes last quarter. International developed market stocks outperformed their domestic counterparts after posting losses last quarter. The top performing sectors, Technology, Consumer Discretionary, and Healthcare, were among last quarter's poorest performers. Small cap stocks struggled and had the worst market-cap performance among domestic stocks. Longer-term interest rates declined after experiencing a rapid climb in the last six weeks of the year. Therefore, investors that emphasized last quarter's winners were poorly positioned for what transpired in the first quarter.

This may seem like a strange transition, but please indulge me and keep reading. I am an avid golfer! That doesn't mean I am a good golfer, but I love the sport. One of my favorite events is The Masters Tournament which is held at Augusta National Golf Club during the first full week of April. The Masters is rich in tradition and the famous green jacket has been awarded to the champion since 1949. Of course, the champion has to return the jacket to the clubhouse the following year where it is stored for safekeeping in a room with the other champions' jackets.

As seems to be the case every year, I had many household tasks and kids sporting events during the weekend of this year's tournament so I taped the television coverage and watched it in the evening. However, I planned my Sunday so I was able to watch the final 9 holes live. I was treated to some fantastic golf and sportsmanship. Sergio Garcia was playing in the final round and going head-to-head with Justin Rose. Adding to the excitement was the fact that early in his career, Sergio was projected to win several of golf's major events, The Masters being one of four. That weekend he was playing in his 73rd major and was still winless dating back to his first event in 1999. He was frequently considered to be the best golfer in the world never to win a major. Certainly not a badge of honor.

Sergio has been in contention many times, finishing in the top 10 on 22 occasions, but always seeming to find a way to lose. In fact, despite being ranked the 11th best golfer in the world, Las Vegas placed his odds of winning at 1 in 33. In the past, he made comments that he didn't have the game to claim The Masters title. However, he didn't change his approach to the game and his unique swing looks much the same today as it did in 1999.

In case you didn't watch, Sergio Garcia won The Masters on the second hole of a sudden-death playoff.

Professional golfer Sergio García won his 74th major championship and the PGA Masters Tournament on April 9, 2017.

He persevered and kept playing despite nearly two decades of frustration....and it paid off. As much as I appreciated the fantastic golf, I was equally impressed with the way he won. His dad has been his golf coach since he first picked up a club at age three. It is human nature to try to fix things that aren't working as well as we want. It's not uncommon for professionals to change clubs and coaches in search of better results. However, Sergio always said his swing works for him and he was going to stick with it rather than make changes in response to multiple disappointments.

You are probably thinking "what does Sergio Garcia winning The Masters have to do with wealth management?" It seems like a bit of a stretch, but I have a tendency to look at things through the lens of an investment advisor. Sergio's victory reminded me that we don't always need to tinker with and drastically change things when the outcome doesn't meet our objectives. Investing is a fickle and humbling exercise that can cause you to reevaluate your approach and philosophy when the desired results aren't achieved. However, our investment philosophy at Aldrich Wealth is built on asset allocation and diversification principals that have stood the test of time. Clearly there are periods where the portfolios struggle to perform as expected and performance is disappointing. For example, over the last few years international equity returns have notably lagged domestic equity returns. During these periods it is easy to lose conviction and look for short-term solutions. However, this is exactly the type of action that causes many investors to buy assets when they are performing well and sell underperforming assets. Countless studies show that individual investor performance dramatically underperforms market indices because they miss-time the market and are piling into assets near their peaks and are selling assets as they bottom.

Although we will miss a few short putts and perhaps even dunk a ball in the water every once in a while, we believe in our investment philosophy and we have a high level of conviction that clients will be well served by staying the course rather than chasing last quarter's winners. We will continue to evaluate and make minor adjustments to our investment philosophy over time, but the adjustments will be minor. We strongly believe you will be better served if we remain patient rather than react to periods of disappointing performance. Would Sergio have won multiple tournaments if he had changed his swing or hired a different golf coach? Obviously, we will never know. But I do know that his patience paid off and he is now a member of a prestigious group of Masters Champions.

DARIN RICHARDS, CFA®

PARTNER + CHIEF INVESTMENT OFFICER

Darin joined the firm Wealth Advisors in 2004, bringing more than 13 years of investment and financial consulting experience with him. As Chief Investment Officer he is responsible for developing, and implementing our investment philosophy and leading Wealth Advisors Investment Committee. He works directly with some of our most complex and largest clients and also co-manages the Private Wealth (investments, tax planning, and financial planning) team. Darin has made over 50 appearances as a guest on CNBC Power Lunch and has been quoted in several publications, including The Wall Street Journal and Investment News. He completed the Series 7 and 63 security exams and received a Chartered Financial Analyst (CFA®) designation from the Association for Investment Management and Research in 2000. Darin is a member of the Portland Society of Financial Analysts and on the Board of Special Olympics Oregon and the Lake Oswego Schools Foundation.

Darin received his Bachelor of Science degree in finance and Masters of Business Administration from the University of Oregon.

Aldrich Locations

ANCHORAGE

800 E. Dimond Blvd.
Suite 3-670
Anchorage, AK
99515

907.522.2130

CARLSBAD

5946 Priestly Dr.
Suite 200
Carlsbad, CA
92008

760.431.8440

ESCONDIDO

312 S Juniper St.
Suite 100
Escondido, CA
92025

760.746.1560

PORTLAND

5665 SW Meadows Rd.
Suite 200
Lake Oswego, OR
97035

503.620.4489

SALEM

680 Hawthorne Ave. SE
Suite #140
Salem, OR
97301

503.585.7774

SAN DIEGO

7676 Hazard Center Dr.
Suite 1300
San Diego, CA
92108

619.810.4940

SEATTLE

10900 NE 8th Street
Suite 1000
Bellevue, WA
98004

425.633.3207

About Aldrich Wealth

Aldrich Wealth LP is an investment advisor registered with the U.S. Securities and Exchange Commission. Aldrich Wealth provides wealth management services where it is appropriately registered or exempt from registration and only after clients have entered into an Investment Advisory Agreement confirming the terms of the client relationship, and have been provided a copy of Aldrich Wealth ADV Part 2A brochure document. The information contained in this document is provided for informational purposes only, is not complete, and does not contain material information about making investments in securities including important disclosures and risk factors. Under no circumstances does the information in this document represent a recommendation to buy or sell stocks, bonds, mutual funds, exchange traded funds (ETF's), other securities or investment products.

Recognized as Financial Times Top 300 Financial Advisors

The 2015 Financial Times Top 300 Registered Investment Advisors is an independent listing produced by the Financial Times (June, 2015). The FT 300 is based on data gathered from RIA firms, regulatory disclosures, and the FT's research. Applications were solicited from more than 2,000 independent RIA firms that had $300 million or more in assets. The 630 RIA firms that applied were then graded on six criteria: AUM; AUM growth rate; years in existence; advanced industry credentials; online accessibility; and compliance records. To make sure the list was relevant to Financial Times readers, the paper required that no more than 75% of a practice's assets be institutional. Only those who completed an application were considered. Neither the RIA firms nor their employees pay a fee to The Financial Times in exchange for inclusion in the FT 300. This is the second annual FT 300 list, produced independently by the FT in collaboration with Ignites Research, a subsidiary of the FT that provides business intelligence on the investment management industry.

Recognized Five Star Professional's "Five Star Wealth Managers"

Five Star Professional, as a third-party research firm, identified pre-qualified award candidates based on industry data and contacted all identified broker dealers, Registered Investment Advisor firms and FINRA-registered representatives in the Portland area to gather wealth manager nominations. Award candidates were then evaluated against 10 objective eligibility and evaluation criteria: 1) Credentialed as an investment advisory representative (IAR), a FINRA-registered representative, a CPA or a licensed attorney; 2) Actively employed as a credentialed professional in the financial services industry for a minimum of five years; 3) Favorable regulatory and complaint history review; 4) Fulfilled their firm review based on internal firm standards; 5) Accepting new clients; 6) One year client retention rate; 7) Five-year client retention rate; 8) Non-institutionalized discretionary and/or nondiscretionary client assets administered; 9) Number of client households served; 10) Educational and professional designations. 1,107 wealth managers in the Portland area were considered for the award. 224 were named 2015 Five Star Wealth Managers which represents approximately 21 percent of the total award candidates of the area. Wealth managers do not pay a fee to be considered or placed on the final list of 2015 Five Star Wealth Managers. The Five Star award is not indicative of the wealth manager's future performance. For more information on the Five Star Wealth Manager program and the research/selection methodology, go to www.fivestarprofessional.com/wmsummaryandresearch.pdf. To view AKT Wealth Advisors, LP award document, go to http://www.pageturnpro.com/Five-Star-Professional/64888-PORWM15-Heather-Wonderly/puredefault.html.

Aldrich℠ WEALTH LP

Alaska | California | Oregon | Washington

aldrichadvisors.com