the Roseline
FINANCIAL GROUP, LLC SEEK GUIDANCE. FIND DIRECTION.

FOURTH QUARTER 2017 MARKET PERSPECTIVE

	Q4	2017		Q4	2017
US Equities			**Fixed Income**		
S&P 500 Index	6.64%	21.83%	US Treasury Bonds (GOVT)	-0.08%	1.47%
NYSE	4.91%	15.84%	Investment-Grade Corp. Bonds (LQD)	1.28%	5.67%
NASDAQ	6.27%	28.24%	Low Quality Corporate Bonds (JNK)	0.15%	4.58%
Equal-Weight Indices			**Precious Metals**		
Value Line Geometric	4.25%	11.09%	Gold Bullion	1.81%	13.17%
Economically-Sensitive Indices			Silver Bullion	1.65%	6.45%
Dow Jones Transportation Index	7.04%	17.34%	Precious Metals Miners (GDX)	2.79%	11.93%
Hedged Equity Benchmark Index			**Commodities**		
HFRX Equity Hedge Index	2.72%	9.98%	Blooomberg Commodity Index	4.39%	0.75%
International Equities			**Currencies**		
MSCI EAFE (Developed Markets)	4.23%	23.23%	US Dollar (DXY)	-1.03%	-9.94%
MSCI Emerging Markets	7.44%	34.74%	Euro (FXE)	1.32%	13.05%
			Japanese Yen (FXY)	-0.27%	3.17%

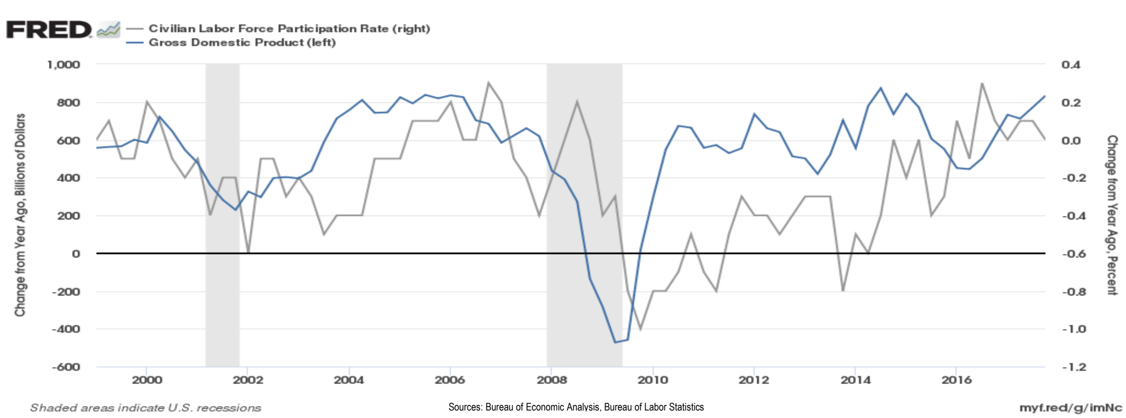
Sources: Kitco, Google Finance, Standard and Poors, HFR, StockCharts.

Data as of December 30, 2017.

2017 proved to be a rewarding year for risk-based assets. Global equities and precious metals performed well; commodities broke a multi-year losing streak. Momentum was strong at year-end for each of those markets, and that strength has continued into early 2018. U.S. equities produced their ninth consecutive yearly gain in 2017 but were outpaced by developed international markets and emerging markets.

Bonds continued to do well in 2017, although we believe the end of the long-term decline in interest rates ended in 2015. The Federal Reserve appears committed to a slow and steady increase in the Fed Funds rate over the next three years (as confirmed again by their December action[1]), if ongoing economic data supports those future increases.

The economy grew faster in 2017 than any year since 2005, with gross domestic product reaching 3% growth in both the second and third quarters for the first time since the Great Recession.[2] U.S. tax changes may provide a further modest short-term benefit. Unemployment reached its lowest level in more than a decade, although labor force participation is still below 2006 levels.[3]



Wage growth has been weak, although there are recent signs of improvement. Inflation has persistently stayed below the Fed's target, although there is some concern about the impact of faster-than-expected future inflation. While economic growth is stronger than it has been, lower productivity, increased debt levels, and demographics are limiting factors in that expansion.

Improved global economic growth, on top of strong equity returns and diminished volatility, has convinced some that equity markets have great prospects for continued growth for some time; others acknowledge "an aging cycle that's still rewarding."[4] There would seem to be great risks in terms of valuation and real risk of geopolitical disturbance, but many dismiss those as the same risks as last year. In fact, "Investors Intelligence reported the most lopsided bullish extreme in over 30 years, with 64.4% bullish and just 13.5% bearish. Likewise, the Daily Sentiment Index for both the S&P 500 and Nasdaq futures reached the most extreme levels in their history."[5] The U.S. equity market is the most overbought it has ever been. The prevailing view of those with a favorable market outlook is that "If capital remains disciplined and governments don't interfere, this tailwind could last more than a couple of years."[6]

SHILLER CAPE RATIO

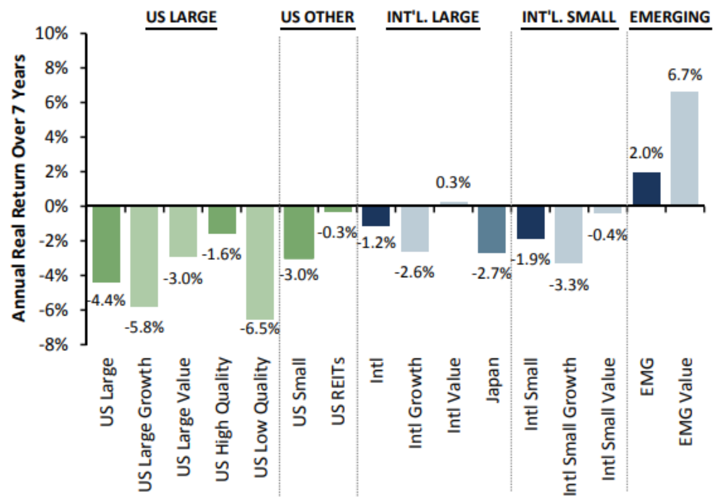
TOBIN'S Q RATIO

The equity market correction experienced in late January and early February of 2018 wiped out only a small fraction of gains from this bull market cycle. However, it is important to note that this mini-crash was accompanied by an abnormally large increase in volatility, which we expect to persist throughout the year.

Because of rampant optimism, valuation levels for equities -- particularly U.S. equities -- remain very high. Five widely accepted valuation metrics (the cyclically-adjusted price-to-earnings ratio, or CAPE ratio; price-to-sales ratio; price-to-book value ratio; Tobin's Q ratio; and the margin-adjusted price-to-earnings ratio) clearly show that the U.S. market has been historically "high" for some time. Outside the U.S., however, developed international markets are "cheap" relative to their historic norms on three of the five metrics, and emerging equity markets are "cheap" on all five. Developed international markets are approximately 40% cheaper than U.S. stocks, and emerging markets are approximately 50% cheaper.[7]

Prominent valuation-based investment managers may differ slightly in judging to what degree we are already in an equity bubble. As described by Jeremy Grantham, chief investment strategist at GMO LLC: "But just recently, say the last six months, we have been showing modest acceleration, the base camp, perhaps, for a final assault on the peak." He believes there is greater than a 50% chance of a "melt-up" phase within the next six months to two years, during which the S&P 500 could reach $3,400 to $3,700 before peaking.[8]

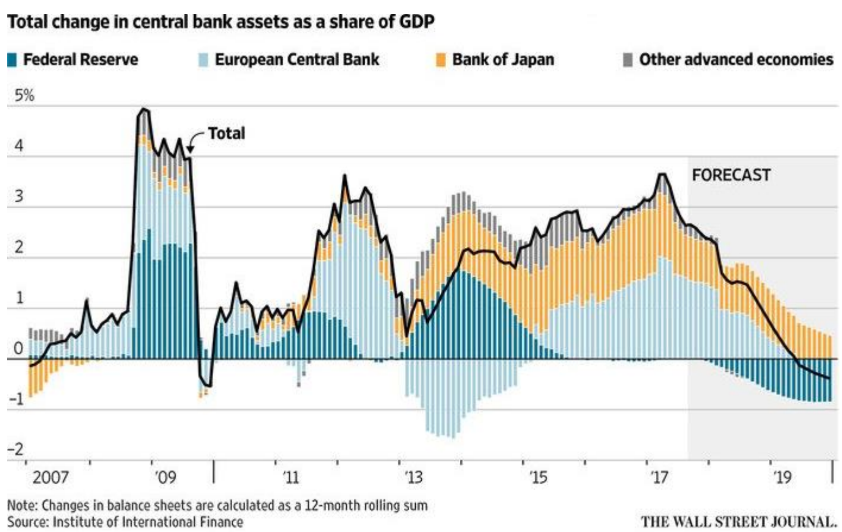
Grantham further believes that if a "melt-up" occurs, there is a 90% chance of a consequent "melt-down" where the market declines by 50% or more. His advice is to "own as much Emerging Market Equity as your career or business risk can tolerate," and to "be ready to reduce equity exposure, ideally by a lot if you can stand it, when either the psychological signs become extreme, or when, after further considerable gain, the market convincingly stumbles."[8]



Source: GMO LLC Quarterly Letter, 10/31/2017.

As risk-based assets have continued to appreciate, the price of risk-free assets has not. Yields on two-year U.S. Treasury bonds recently reached 2% for the first time since September 2008 and yields on ten-year U.S. Treasuries climbed to 2.6% for the first time since 2014.[9]

Lost in this euphoria is the ongoing reduction in global liquidity, the subject of our last newsletter. Just as the Federal Reserve led the world's central bankers in dramatically expanding liquidity (which most credit with fueling the appreciation in financial assets), the Fed is now leading the way back by reducing its balance sheet each month for the next two years. The Fed's quantitative tightening may remove $420 billion of liquidity in 2018 and another $600 billion in 2019.[10] If the Federal Reserve persists in this course of action in conjunction with their plans to raise interest rates, equity markets face a significant headwind that we believe will result in increased volatility for investors.



"Central Banks Pull Back as Global Growth Picture Brightens". 10/8/2017.

The right posture for investors is driven primarily by the risks they are willing to endure in this environment. There is money to be made, and great risk to be avoided. We look forward to successfully navigating through this treacherous time.

Sources:

[1] "The Fed says it could speed up rate hikes because of Trump's tax cuts". Business Insider. 3 January 2018.

[2] "National Income and Product Accounts: Gross Domestic Product: Fourth Quarter and Annual 2017 (Advance Estimate)". Bureau of Economic Analysis. 26 January 2018.

[3] "National Unemployment Rate at 4.1 Percent through January 2018". National Conference of State Legislatures. 2 February 2018.

[4] "Private Bank Outlook 2018: 5 takeaways from an aging cycle that's still rewarding". JP Morgan Private Bank. 18 January 2018.

[5] "When Speculation Has No Limits". Hussman Funds: Hussman Market Comment 15 January 2018.

[6] "Melting Upward". 361 Capital. 16 January 2018.

[7] "Swedroe: Non-US Valuations Attractive". ETF.com. 11 October 2017.

[8] "Bracing Yourself for a Possible Near-Term Melt-Up". Grantham Mayo: Viewpoints. 3 January 2018.

[9] "2-year Treasury yield ends above 2%, highest since 2008". MarketWatch. 12 January 2018.

[10] "Fed's QE Unwind Accelerates Sharply". ZeroHedge. 6 February 2018.

Disclosures:

A. Past performance is not a guarantee of future results.

B. Global/International investing involves risks not typically associated with U.S. investing, including currency fluctuations, political instability, uncertain economic conditions and different accounting standards.

C. Investments that are concentrated in a specific sector or industry may be subject to a higher degree of market risk than funds whose investments are more diversified.

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F. Index performance is measured using a total return index, which assumes all cash distributions are reinvested.