Quarterly Market Review

Third Quarter 2017

THE MILESTONE GROUP
Wealth Through Discipline

Asset Class Performance

During the third quarter, stocks climbed higher as the global economy continued to strengthen. Foreign large value stocks recorded the largest gains, returning 8.3%. Emerging market stocks have been the best performer year-to-date, returning 27.8%. Foreign stocks have outperformed domestic equities on a year-to-date and one-year basis, with returns boosted by a weakening US dollar.

The Federal Reserve Board held interest rates constant during the quarter. Bonds were modestly positive, led by high yield bonds at 2.0%. Master limited partnerships were the worst performer during the quarter at -3.9%. Although commodities rallied 7.2% in the quarter, their 10 year annualized return is still negative.

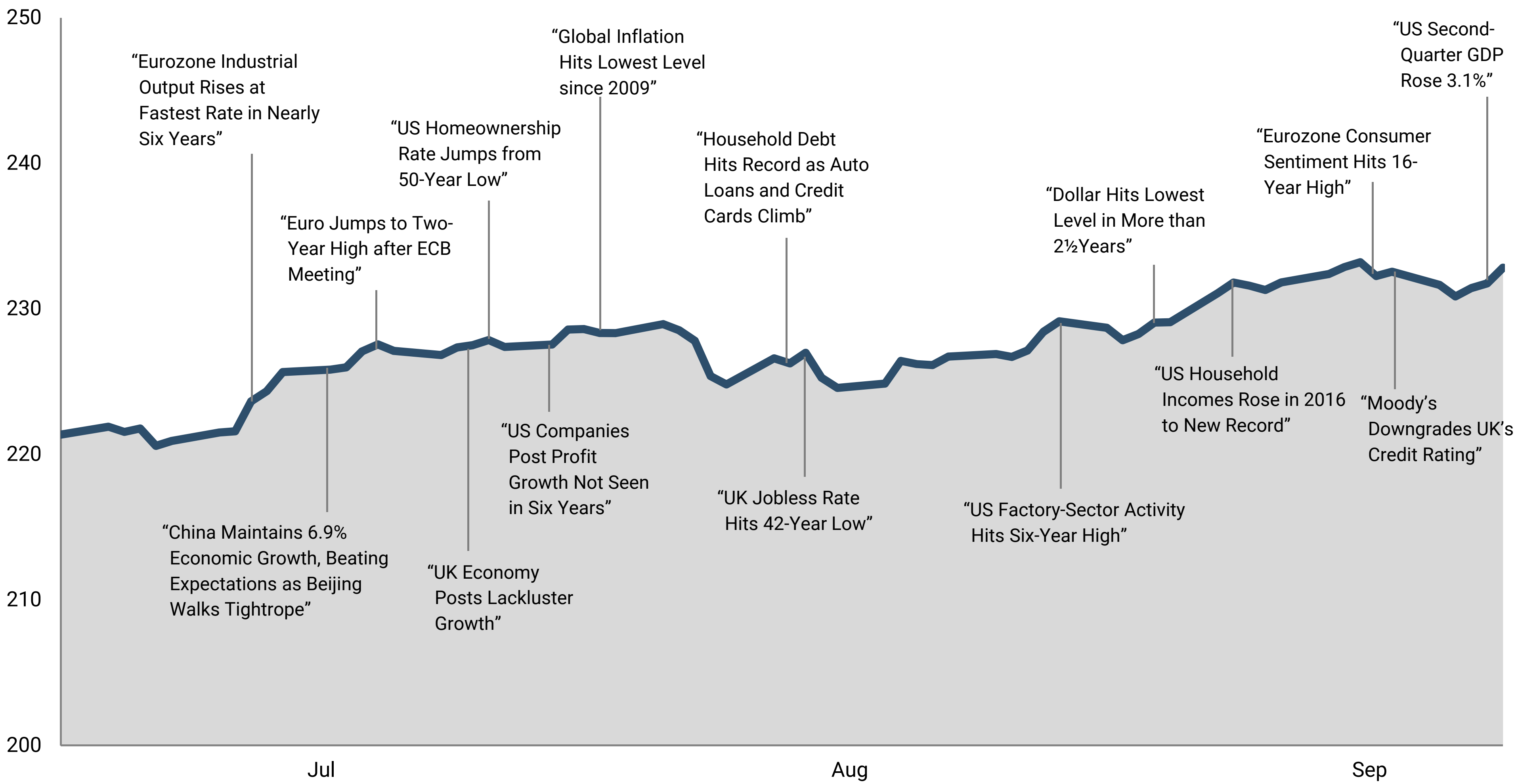
Asset Class	Third Quarter 2017	YTD	Past Year	Past 10 Years*
Foreign Large Value Stocks	8.3%	19.6%	25.7%	0.7%
Emerging Market Stocks	7.9%	27.8%	22.5%	1.3%
Foreign Small Value Stocks	7.6%	23.3%	25.4%	4.6%
Commodities: GSCI	7.2%	-3.8%	1.8%	-10.0%
Foreign Small Stocks	7.0%	24.5%	22.0%	4.6%
U.S. Micro Cap Stocks	6.5%	8.3%	23.0%	8.3%
U.S. Small Stocks	5.7%	10.9%	20.7%	7.8%
Foreign Large Stocks	5.4%	20.0%	19.1%	1.3%
U.S. Small Value Stocks	5.1%	5.7%	20.5%	7.1%
U.S. Large Stocks: S&P 500	4.5%	14.2%	18.6%	7.4%
U.S. Large Value Stocks	3.1%	7.9%	15.1%	5.9%
High Yield Bonds	2.0%	6.5%	9.1%	7.4%
Foreign Real Estate	1.7%	8.4%	0.8%	0.3%
U.S. Real Estate	1.1%	6.0%	2.6%	6.1%
Municipal Bonds	1.1%	4.7%	0.9%	4.5%
Corporate Bonds	0.9%	3.0%	0.3%	3.6%
U.S. Inflation Indexed Bonds	0.9%	1.7%	-0.7%	3.9%
Long-Term U.S. Govt. Bonds	0.6%	5.9%	-6.0%	6.8%
Foreign Hedged Govt. Bonds	0.5%	1.5%	-1.5%	4.2%
U.S. Intermediate Govt Bonds	0.3%	1.6%	-0.7%	3.1%
U.S. T-Bills / Cash	0.3%	0.6%	0.6%	0.4%
Short-Term U.S. Govt. Bonds	0.2%	0.7%	0.2%	1.7%
Master Limited Partnerships	-3.9%	-6.1%	-4.5%	N/A

*Annualized

World Stock Market Performance [1]

Third Quarter 2017

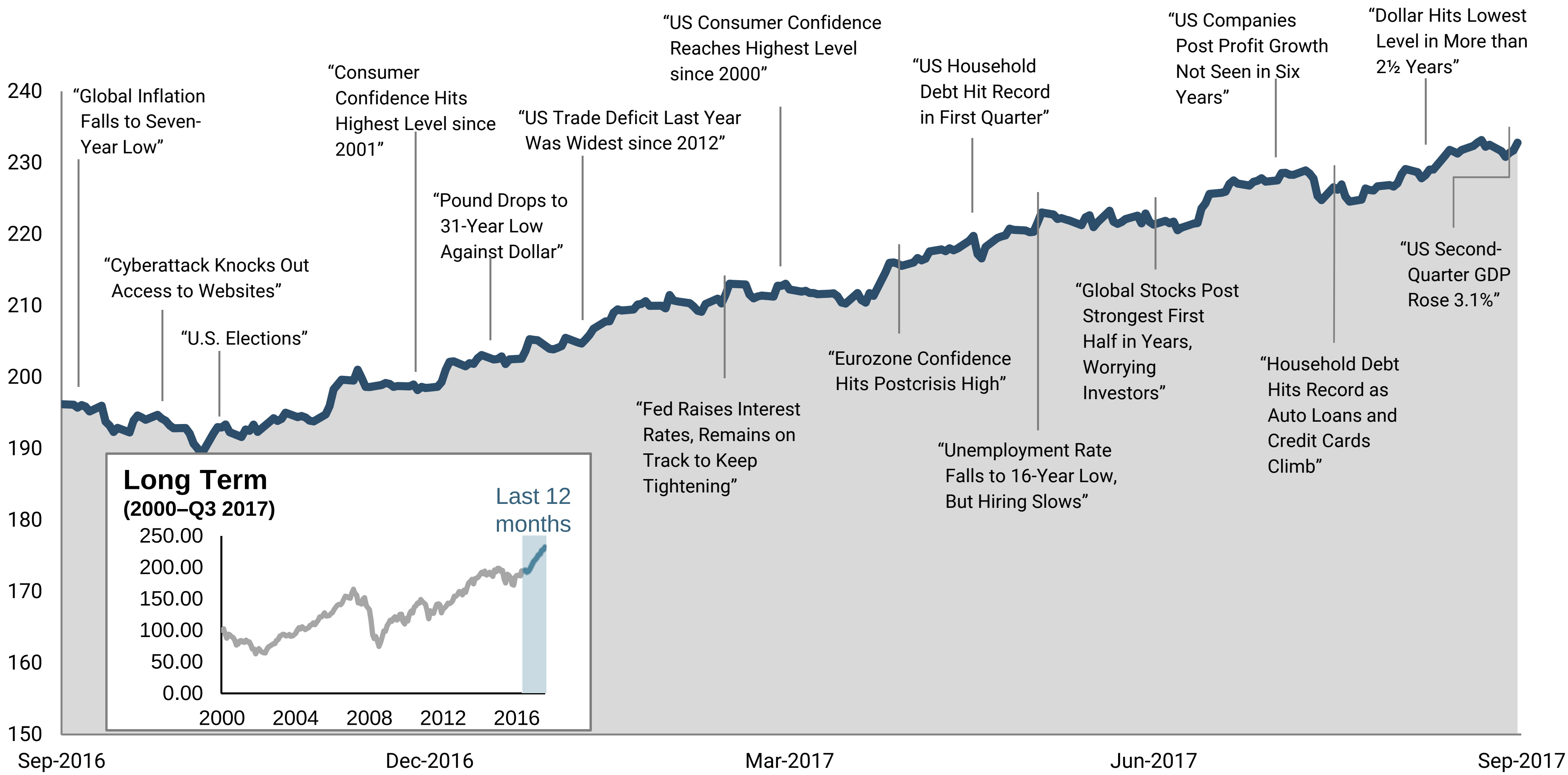
With selected headlines from Q3 2017



[1] MSCI ACWI Index (USD) [net div.]. MSCI data © MSCI 2017, all rights reserved.
These headlines are not offered to explain market returns. Instead, they serve as a reminder that investors should view daily events from a long-term perspective and avoid making investment decisions based solely on the news. Investors cannot invest directly in an index. Performance does not reflect the expenses associated with management of an actual portfolio. Past performance is not a guarantee of future results.

World Stock Market Performance [1]

With selected headlines for the past 12 months



[1] MSCI ACWI Index (USD) [net div.]. MSCI data © MSCI 2017, all rights reserved.
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Fixed Income Performance & Yield Analysis

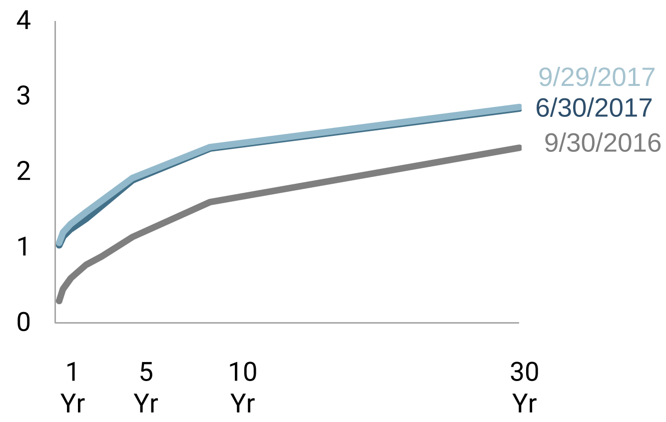
Interest rates increased across the US fixed income market for the quarter. The yield on the 5-year Treasury note increased by 3 basis points (bps) to 1.92%. The yield on the 10-year Treasury note increased by 2 bps to 2.33%. The 30-year Treasury bond yield increased by 2 bps to finish at 2.86%.

The yield on the 1-year T-bill rose 7 bps to 1.31%, and the 2-year Treasury note yield rose 9 bps to 1.47%. The yield on the 3-month Treasury bill increased 3 bps to 1.06%, while the 6-month Treasury bill yield increased 6 bps to 1.20%.

In terms of total returns, short-term corporate bonds gained 0.59%, and intermediate-term corporates gained 1.05%.

Short-term municipal bonds generated a total return of 0.49%, while intermediate-term municipal bonds returned 0.83%. General obligation bonds gained 1.14%, outperforming revenue bonds by 4 bps.

US Treasury Yield Curve (%) [2]



Bond Yields across Issuers (%) [3]

Period Returns (%) [4]

** Annualized*

Asset Class	YTD	1 Year	3 Years*	5 Years*	10 Years*
Bloomberg Barclays Long US Government Bond Index	6.06	-6.14	4.84	2.87	6.83
Bloomberg Barclays Municipal Bond Index	4.66	0.87	3.19	3.01	4.52
Bloomberg Barclays US Aggregate Bond Index	3.14	0.07	2.71	2.06	4.27
Bloomberg Barclays US TIPS Index	1.72	-0.73	1.62	0.02	3.90
BofA Merrill Lynch 1-Year US Treasury Note Index	0.55	0.60	0.46	0.39	1.05
BofA Merrill Lynch Three-Month US Treasury Bill Index	0.57	0.66	0.32	0.22	0.47
Citi World Government Bond Index 1-5 Years (hedged to USD)	1.07	0.59	1.35	1.30	2.32

Note: Data as of September 30, 2017. One basis point equals 0.01%. Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio.

Staying Disciplined for Long-Term Success

The recent geopolitical tensions, along with a devastating series of natural disasters, continue to foster fear and nervousness among investors. As North Korea becomes more defiant and advances its nuclear weapons program, concerns intensify about the likelihood of a military conflict. While anxiety over North Korea's sustained provocations is understandable, the international community has been working with North Korea for over 20 years to deter its nuclear ambitions. Despite an unusually strident tone from the U.S., the conflict remains one of words. Stock market investors are typically very sensitive to serious geopolitical risks, but the South Korean stock market, probably the most sensitive gauge to a North Korean conflict, has appreciated 29.6% year-to-date through the third quarter [5], hardly a sign of impending hostilities.

However, rational investors cannot completely disregard the potential risk and ramifications of a conventional war engulfing the region. Such an event might draw in Japan and China and likely embroil the U.S. and South Korea in direct fighting. Any combat could lead to substantial casualties and have a severe financial impact. However, a critical factor to keep in mind is that the major economic powers in the region have significant economic and humanitarian incentives to avoid any armed conflict. While it can be uncomfortable to discuss the economic or market consequences of a potential military conflict given the many lives at stake, some historical context can be useful. Investors have faced numerous geopolitical challenges over the past decades and the table below highlights seven of the more notable events.

Subsequent S&P 500 Price Returns After Crisis Events [6]

Event	Market Reaction Dates	% Gain/Loss (Reaction Dates)	1 Month	3 Months	6 Months	12 Months
Bay of Pigs Invasion	4/17/61 – 4/19/61	-0.8%	2.2%	-1.7%	3.6%	4.2%
Cuban Missile Crisis	10/16/62 – 10/28/62	-4.8%	14.4%	21.4%	28.0%	36.6%
Invasion of Grenada	10/25/83 – 11/7/83	-2.5%	2.0%	-2.0%	-0.9%	4.1%
Invasion of Panama	12/20/89 – 1/31/90	-3.9%	1.4%	1.6%	8.0%	3.6%
Iraq Invades Kuwait	8/2/90 – 8/4/90	-3.0%	-5.9%	-11.0%	-0.5%	12.3%
9/11 World Trade Center	9/11/01 – 9/21/01	-11.6%	12.3%	18.0%	17.2%	-13.7%
Boston Marathon Bombing	4/12/13 – 4/15/13	-2.3%	6.9%	7.9%	6.6%	21.8%
Averages		**-4.1%**	**4.8%**	**4.9%**	**8.9%**	**9.8%**

Note: Past performance is not a guarantee of future results.

Staying Disciplined for Long-Term Success (cont'd)

The most obvious takeaway is that the initial reactions to an event are typically negative. However, subsequent historical returns measured over several time intervals up to twelve months are, on average, positive. History has repeatedly shown these incidents generally do not have a sustained impact on stock markets. One could argue that the Cuban Missile Crisis represents a prior incident most similar to today's challenges with North Korea. During the event, the S&P 500 fell 4.8%, but those investors who remained calm and disciplined in the face of fear, earned robust returns by staying invested.

There is always some "crisis of the day" or potential major event that could serve as a catalyst for a market drop. Picking those future events or predicting how the market will respond to those future situations can be quite difficult and is usually a "fool's errand". We find it wise to avoid the temptation to change a long-term strategy due to short-term circumstances or events. Long-term investors must accept that market volatility is part of investing in order to enjoy the benefits of higher potential returns. Historically, investors receive compensation for accepting this risk. A key element of a productive long-term investment experience is sticking with a disciplined investment strategy, especially in the face of uncertainty.

Weathering the Storm

Many regions experienced tragic natural disasters as three hurricanes ravaged parts of the U.S., Caribbean, and Puerto Rico while two significant earthquakes rattled Mexico. The current overall damage estimates are now at least $300 billion, and are likely much higher when factoring the economic costs related to lost wages, productivity, and economic output in the immediate aftermath of these events.

From an investment perspective, the economic fallout is much greater than any impact on the stock market. When examining the historical record for the three costliest hurricanes in U.S. history, the stock market, on average, absorbed small losses on the event date, but delivered attractive returns in the short time periods following the storms.

S&P 500 Price Returns After Costliest U.S. Hurricanes [7]

Hurricane	Andrew	Katrina	Sandy	Average Returns
Event Date	8/24/92	8/29/05	10/29/12	
Cost ($BN)	$24.5	$49.8	$19.9	
% Gain/Loss (Event Date)	-1.0%	-0.3%	0.0%	-0.4%
Subsequent Returns				
1 Month	1.9%	1.7%	0.3%	1.3%
3 Months	3.9%	4.1%	6.2%	4.7%
6 Months	5.9%	6.7%	12.3%	8.3%
12 Months	10.8%	7.9%	23.5%	14.1%

Similar outcomes occurred with less damaging storms except for Hurricane Ike in 2008, when the economy was in the throes of the global financial crisis.

Economically, unemployment claims tend to increase in the immediate aftermath of major natural disasters, but the historical record indicates that unemployment tends to revert towards normal trend levels in approximately two months. Any local economic contraction after major storm events usually reverses itself as economic activity shifts towards recovery and reconstruction and does not usually have a material impact on overall U.S. economic growth.

Note: Past performance is not a guarantee of future results.

Staying Disciplined for Long-Term Success (cont'd)

However, for areas like Puerto Rico that sustained extreme damage, the economic impact is severe, which will require billions of dollars in aid to rebuild its infrastructure and restore its economy.

Discipline is the Key

With a 2% gain in September, global stocks, as measured by the MSCI All Country World Index, set a record for positive returns in each of the first nine months of the year. Going back into 2016, the index has now delivered positive returns for eleven straight months. Both outcomes are unprecedented over the history of the index, which began in 1988. To give some perspective, on average, the index experiences five negative return months per year, or about 38% of the monthly time periods.

Global Stock Market Monthly Returns [8]

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2017	2.8	2.9	1.3	1.6	2.3	0.5	2.8	0.4	2.0	-	-	-
2016	-6.0	-0.6	7.5	1.5	0.2	-0.6	4.3	0.4	0.7	-1.7	0.8	2.2
2015	-1.5	5.6	-1.5	3.0	-0.1	-2.3	0.9	-6.8	-3.6	7.9	-0.8	-1.8
2014	-4.0	4.9	0.5	1.0	2.2	1.9	-1.2	2.3	-3.2	0.7	1.7	-1.9
2013	4.6	0.0	1.9	2.9	-0.2	-2.9	4.8	-2.0	5.2	4.0	1.5	1.8
2012	5.8	5.1	0.7	-1.1	-8.9	5.0	1.4	2.2	3.2	-0.6	1.3	2.3
2011	1.6	3.0	-0.1	4.1	-2.1	-1.5	-1.6	-7.3	-9.4	10.7	-2.9	-0.2
2010	-4.3	1.3	6.5	0.2	-9.4	-3.0	8.2	-3.5	9.6	3.6	-2.2	7.4
2009	-8.5	-9.7	8.3	11.9	10.1	-0.5	8.8	3.6	4.6	-1.5	4.2	2.1
2008	-8.2	0.3	-1.4	5.7	1.7	-8.2	-2.6	-2.1	-12.5	-19.8	-6.5	3.7

History informs us that the recent trend of consecutive positive return months is unlikely to continue. That is not to say we believe a market pull back is imminent or probable, but we know stocks are volatile assets and global stocks will likely experience a decline at some point in the future. We believe the discipline of maintaining a well-diversified portfolio and a long-term approach are important keys for successful investment outcomes.

Concluding Thoughts

While the near-term is uncertain and filled with short-term concerns, the overall economic landscape remains relatively balanced and the long-term outlook remains relatively positive. Investing will always involve risks, and history has taught us there will always be concerns at any given point in time.

Our investment discipline focuses on long-term success. We believe clients benefit from an assessment of the long-term economic environment, an evaluation of the fundamental case for each investment in their portfolio, and an analysis of how those investments relate to each other. This judgement process drives our analytical framework and our portfolio construction methodology. We believe in managing short-term uncertainty and volatility in a methodical and unemotional manner. Dynamic portfolio rebalancing is our preferred method for seizing available opportunities during market downturns, providing an opportunity for potentially buying low and selling high.

- The Milestone Group

Please let us know when your financial situation or investment objectives change, and if we may be of help to you, your family or friends. As always, we appreciate your confidence in The Milestone Group.

Note: Past performance is not a guarantee of future results.

Disclosures/Endnotes

Asset class returns illustrated on page 1 are provided by Bloomberg and Ibbotson and utilize the following index or investment fund returns: U.S. Large Stocks: S&P 500 Index; U.S. Large Value Stocks: Russell 1000 Value Index; U.S. Small Stocks: Russell 2000 Index; U.S. Small Value Stocks: Russell 2000 Value Index; U.S Micro Stocks: DFA U.S. Micro Cap Fund; Foreign Large Stocks: MSCI EAFE Net Div. Free Equity Index; Foreign Large Value Stocks: DFA International Value Fund; Foreign Small Stocks: DFA International Small Company Fund; Foreign Small Value Stocks: DFA International Small Cap Value Fund; Emerging Market Foreign Stocks: IFC Emerging Markets Equity Index; U.S. Real Estate Stocks: NAREIT Investment Trust Index; Foreign Real Estate Stocks: Dow Jones Wilshire ex-U.S. International Real Estate Index; Master Limited Partnerships: Alerian MLP ETF; Others include: NASDAQ Composite; Cash: U.S. 90-Day Treasury Bills Index; U.S. Government Bonds: Bloomberg U.S. 1-3 Yr. Govt. Bond Index, Bloomberg U.S. 3-5 Yr. Govt. Bond Index, Bloomberg U.S. 10+ Yr. Govt. Bond Index; Inflation-Hedged Bonds: Barclays U.S. Inflation Linked Bond Index; Corporate Bonds: Lehman Brothers U.S. Corporate Index; High Yield Bonds: CSFB High Yield Bond Index; Foreign Government Bonds: JP Morgan GBI; Commodities: Goldman Sachs Commodity Index; Municipal Bonds: Barclays Capital Municipal Bond Index; Consumer Price Index.

Charts and graphs in this document are shown for illustration purposes only. They illustrate hypothetical scenarios that track stocks comprising the selected index and assume reinvestment of all dividends and other similar income. Indices are not investable securities. Although securities have been engineered to track indices, such securities charge management and administrative fees that reduce performance and compounding returns. Milestone's fees range from 0.25% to 1.00% per year depending on account size. The index returns illustrated would be lower if transaction costs and fees for asset allocation/financial planning advice were deducted. The information presented in this document has been developed internally and/or obtained from external sources, which The Milestone Group believes to be reliable; however, The Milestone Group cannot guarantee the accuracy, adequacy, or completeness of such information nor can we guarantee the appropriateness of any strategy referred to in this letter for any particular investor. Your situation is unique and your portfolio should not be managed based solely on the information in this letter. Economic forecasts reflect subjective judgments and assumptions, and unexpected events may occur. Therefore, there can be no assurance that developments will transpire as discussed in this letter. This letter reflects the opinion of The Milestone Group on the date written and is subject to change at any time without notice.

ENDNOTES:

1 MSCI ACWI Index (USD) [net div.]. MSCI data © MSCI 2017, all rights reserved.
2 Federal Reserve.
3 State and local bonds are from the S&P National AMT-Free Municipal Bond Index. AAA-AA Corporates represent the Bank of America Merrill Lynch US Corporates, AA-AAA rated. A-BBB Corporates represent the Bank of America Merrill Lynch US Corporates, BBB-A rated.
4 Bloomberg; US long-term bonds, bills, inflation, and fixed income factor data © Stocks, Bonds, Bills, and Inflation (SBBI) Yearbook™, Ibbotson Associates, Chicago (annually updated work by Roger G. Ibbotson and Rex A. Sinquefield). Citi fixed income indices copyright 2017 by Citigroup. The BofA Merrill Lynch Indices are used with permission; © 2017 Merrill Lynch, Pierce, Fenner & Smith Incorporated; all rights reserved. Merrill Lynch, Pierce, Fenner & Smith Incorporated is a wholly owned subsidiary of Bank of America Corporation. The S&P data are provided by Standard & Poor's Index Services Group.
5 Morningstar Direct; MSCI Korea 25/50 NR USD Index.
6 LPL Financial Research, Bloomberg, Thomson Reuters Datastream; Daily S&P 500 Index price returns, 1 month return represents approximately 22 trading days, 3 month return represents approximately 63 trading days, 6 months represents approximately 126 trading days, 12 months represents approximately 252 trading days.
7 Strategas, Charles Schwab, Bloomberg, Thomson Reuters Datastream; Daily S&P 500 Index price returns, 1 month return represents approximately 22 trading days, 3 month return represents approximately 63 trading days, 6 months represents approximately 126 trading days, 12 months represents approximately 252 trading days.
8 Morningstar Direct; MSCI ACWI Index (USD) [gross div.]. MSCI data © MSCI 2017, all rights reserved.

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