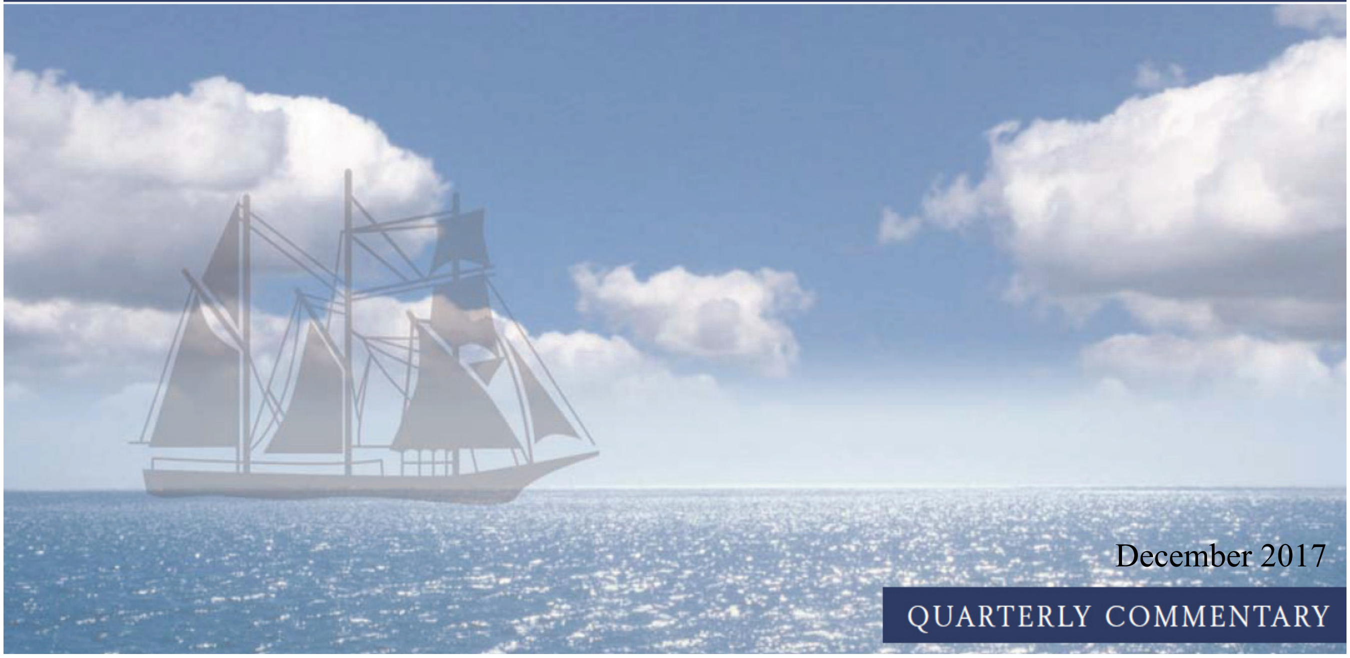
ENDURANCE
WEALTH MANAGEMENT



RECORD SETTER

The strength of equity performance this past year has been phenomenal, and the fourth quarter was no exception. After rising by just over 12% through September, the S&P 500 continued its advance with an additional 6% gain in the final quarter of 2017, bringing the full year gain to 19.4%. Impressively, the S&P 500 has been positive for nine consecutive months, and has not incurred a 2.5% pullback since the presidential election.

The Dow Jones Index also closed the year at an all time high, one of seventy record high closes achieved during the year. In fact, the Dow has now set eighty seven new record closes since the election in November, 2016. While certainly notable on many fronts, most of the gains have come from growth oriented stocks which have clearly outpaced value stocks this past year. You can see the disparity in the performance of the Russell 1000 Value Index which was up 11% in 2017.

As we enter 2018, global synchronized growth should continue to drive the upswing in manufacturing while supporting strong consumer and business confidence. It could be said that the U.S. economy is in a Goldilocks state as inflation has been conspicuously absent even as the labor market continues to tighten. The risk that this condition changes is a factor that we will be watching for in the latter half of 2018, but for the time being we do not believe that a recession is imminent.

With ample liquidity, financial conditions that are still supportive, and a tax structure that is now globally competitive, our belief is that U.S. companies can continue to grow earnings while increasing their capital spending plans. Overall, we expect the first half of 2018 to be a continuation of the themes from 2017, but leading indicators and inflation expectations must be watched closely as we head into the second half of the year.

MARKET OUTLOOK

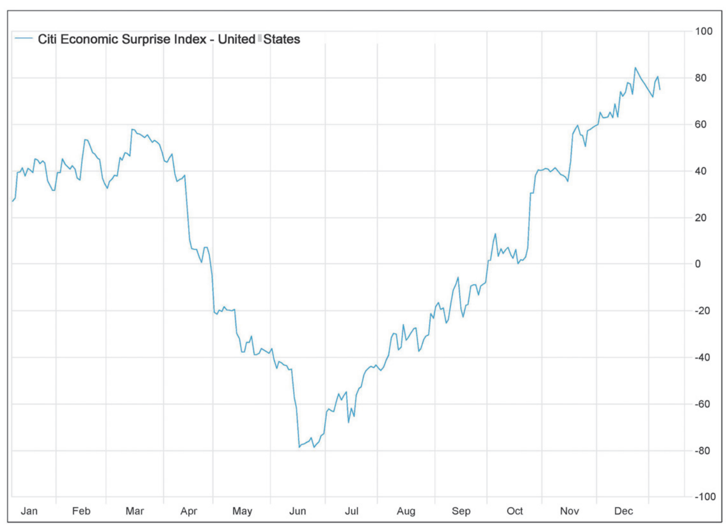
Clearly, the market has been impressed with the outlook for the U.S. economy and the prospects for better growth. Investor confidence has also been buoyed by the favorable shift in fiscal policy which should further extend this business cycle as corporations respond to new incentives. Companies will begin to repatriate the cash that has been trapped overseas and use the proceeds to invest in capital projects, to fund research and development efforts, and to lift wages and potential new hires. Plans for share buybacks, increased dividends and merger activity are also likely to rise.

Time will tell, but it appears that the upside potential for stock price performance is built more upon favorable earnings growth expectations rather than upon expanding price earnings valuations. It has been noted that the tax reforms recently enacted should boost S&P 500 earnings by roughly $10 per share, which would have the effect of reducing the price to earnings valuation for the market.

We would, however, point out that it has been over eight years, or 102 months, since the end of our last recession. The longest expansion phase ever remains the 120 months between 1991-2001, so it is reasonable to consider what risks might lay ahead.

Considering the current status for a variety of the more important economic variables, most are in favorable or neutral condition. These would range from strong readings on employment statistics, expanding manufacturing indicators, sturdy consumer confidence figures and encouraging spending trends. Certain more muted conditions that appear likely to improve with tax reform, include wage gains and housing activity. Among a list of macro indicators, the only area of softness appears to be nonresidential construction. Therefore, we would argue that the macro picture looks pretty favorable.

Citi Economic Surprise Index



Investors often fear, and rightly so, that there is recession risk associated with an inverted yield curve; this occurs when short term interest rates are higher than longer term interest rates. While an inverted yield curve has preceded each of the previous seven recessions, there are many examples of false indications from inverted yield curves that do not lead to a recession alert. There have been five such misleading curve inversions, most averaging almost three years before a recession occurred, with one such signal coming fully six years ahead of a recession. While we have been witnessing a flattening of the yield curve recently, we are by no means near inversion.

We will monitor rising rates closely, however, as consensus expectations call for three 25 basis point Fed Funds rate increases during 2018. If that pattern evolves, markets should be content. If the Federal Reserve is to veer off that plan and become more aggressive, it would likely be because of an unanticipated inflation uptick. The consensus estimate for 2018 consumer inflation (CPI) is currently 2.1%. The Federal Reserve itself projects a 1.9% rise in 2018 for its preferred inflation gauge, the Personal Consumer Expenditure index. Economic news that is in synch with that inflation level would diminish market fears.

All in all, the economic foundation for the U.S. appears very sound, and there still looks to be pent-up demand in this economy, particularly for increased capital spending. With a business friendly backdrop and confident consumers, corporate earnings should find additional support in the intermediate term. And as many economists have noted, there has never been a recession when corporate profits are up.

FIXED INCOME OUTLOOK

On December 14th, in a widely anticipated move, the Federal Reserve raised its key short-term interest rate, the Fed Funds rate, by 25 basis points. It was the fifth time the Fed has raised rates since December 2015. The FOMC also maintained its outlook for three more rate hikes to come in 2018. The Federal Reserve's Fed Funds target range now stands at 1.25% - 1.50%.

The Federal Reserve's decision to raise rates again was supported by its improved economic forecast for GDP in both 2017 and 2018. The Fed raised its GDP target for 2017 to 2.5% growth while significantly increasing its 2018 GDP forecast from 2.1% growth to 2.5% growth. As a reminder, the Fed's aim is two pronged. First, as always, it aims to control inflation by maintaining an inflation rate at or below 2% annually. Second, it is on a mission to return interest rates to normalcy on the short and long ends of the yield curve after a decade of maintaining a nearly zero interest rate policy. To date, the Fed is achieving mixed success.

While the short end of the curve (1-5 year maturity) is indeed offering yields which are 100 basis points higher than one year ago at 1.73% on 1-year Treasury paper, the long end of the curve (20-30 year maturity) yields are actually lower than they were one year ago at 2.76% yield on the 30-year Treasuries. Although an "inverted" yield curve does not exist at this point, there has been some concern over the past six months that the yield curve could be trying to predict an economic slowdown to come, if long rates do eventually push below short rates. Again, we feel current economic conditions including low unemployment, average job growth, a sustained recovery in oil prices, a year-long pullback in the value of the U.S. Dollar, and fiscally stimulative programs coming out of Congress, should stave off any considerable lowering of the long end of the yield curve.

There are also benefits to a flattening yield curve in which the front end is pushed higher while the long end remains stable. Although higher short term rates have raised short term costs of capital, medium to long term borrowing costs have remained very stable which benefits economic growth. In addition, depositors are now earning a yield on their short term deposits and fixed income securities, which benefits overall savings as well as GDP through consumption.

To take advantage of the improved short term yield environment, we have begun extending slightly maturities and duration in order to earn as much income as possible on fixed income securities while remaining vigilant on inflation protection. If the Fed continues to raise rates as they predict in calendar year 2018, we will adjust maturities and duration accordingly, while maintaining our conviction toward more conservative credit risk in general.

THOUGHTS ON TAX CHANGES

The Tax Cuts and Jobs Act has now become law and we thought it would be a good idea to highlight a few areas that are especially pertinent to individual tax payers. We strongly advise clients to speak with their tax advisors to see how the changes could impact 2018 filings.

The following information is attributable to FactCheck.org - A Guide to the Tax Changes:

Individual Income Tax Rates - Married, Filing Jointly

The bill maintains seven individual income tax brackets, but changes the tax rates and thresholds. See the charts below.

Married, Filing Jointly	
Tax Bracket	**Taxable Income**
10 percent	Up to $19,050
12 percent	$19,051-$77,400
22 percent	$77,401-$165,000
24 percent	$165,001-$315,000
32 percent	$315,001-$400,000
35 percent	$400,001-$600,000
37 percent	Over $600,000

* Based upon 2017 tax rates and taxable income brackets, many married couples will see a rate reduction of 2-4%.

Standard Deduction

The standard deduction is the amount that you can deduct from your income before calculating your tax liability if you do not itemize your deductions.

Previous law: The standard deduction for married filing jointly is $12,700 for tax year 2017; $6,350 for single taxpayers; and $9,350 for heads of households, according to the IRS.
New law: The standard deduction for married filing jointly would increase to $24,000 for joint filers; $12,000 for single taxpayers; and $18,000 for heads of households, according to the Tax Policy Center (TPC) analysis. The increased deduction ends after 2025. The Personal Exemption has been eliminated.

State and Local Tax Deductions

Previous law: Taxpayers who itemize their taxes can deduct state and local property and real estate taxes, and either state and local income or sales taxes.
New law: The SALT deduction will be capped at $10,000. The deduction limit ends after 2025.

Mortgage Deductions

Previous law: Taxpayers who itemize their taxes can deduct interest payments on mortgage debt of up to $1.1 million. That includes up to $100,000 of home equity debt.
New law: For current mortgage holders, there is no change. But the deductible limit drops to $750,000 for new debt incurred after Dec. 31, 2017. Also, homeowners may not claim a deduction for existing and new interest on home equity debt, beginning Jan. 1, 2018. The mortgage deduction changes expire after 2025.

Medical Expense Deduction

Previous law: Taxpayers who itemize their taxes can deduct medical expenses that exceed 10 percent of their adjusted gross income, or AGI, according to the IRS.
New law: Taxpayers can deduct medical expenses that exceed 7.5 percent of AGI in 2017 and 2018, but the new deduction level ends Jan. 1, 2019.

Estate Tax

Previous law: A top rate of 40 percent applies in 2017 to estates valued at more than $5.49 million (nearly $11 million for couples), according to the IRS.
New law: The top rate of 40 percent would apply to estates valued at more than $11.2 million ($22.4 million for couples). The increased levels expire after 2025.

Child Tax Credit

Previous law: Married couples filing jointly who earn less than $110,000 can receive a tax credit of up to $1,000 for each child under 17 years old that they claim as dependents on their tax returns ($55,000 is the threshold for married couples filing separately; $75,000 for single, head of household, and qualifying widow or widower filers).
New law: The credit would increase to up to $2,000 per child, and the first $1,400 would be refundable according to the TPC analysis, meaning the credit could reduce your tax liability below zero and you would still be able to receive a tax refund. The cut off for the tax credit would increase from $110,000 to $400,000 for married couples filing jointly. The expanded credit ends after 2025.

529 Plan Changes

The new law allows 529 Plans to be used for up to $10,000 per year in qualified k-12 expenses, giving families the opportunity to save tax-free for private and Catholic schools.

Capital Gains Tax Rate

Current law: The profits on the sale of assets held for more than one year are eligible for a tax break. Turbo Tax explains the current tax rates this way for the profits gained from the sale of such assets: “For 2017, the long-term capital gains tax rates are 0, 15, and 20 percent for most taxpayers. If your ordinary tax rate is already less than 15 percent, you could qualify for the zero percent long-term capital gains rate. For high-income taxpayers, the capital gains rate could save as much as 19.6 percent off the ordinary income rate.”
New law: No changes.

IN SUMMARY

2017 was an impressive year in the markets and we believe that 2018 will be another positive year for global growth. We do expect market volatility to pick up as central banks continue to normalize monetary policy and investors begin to weigh the possibility of a market slowdown in 2019. That being said, we advise clients to remain committed to their appropriate equity weightings, while being mindful of any large near term cash needs.

We would also encourage you to use the recent tax changes, especially the estate tax changes, as an opportunity to think about your longer-term objectives. Here are a few potential questions you may want to consider:

Have you updated your wills and trusts in the past 10 years? Have you been meaning to speak with your children regarding your estate plans? Have you had any major life changes that could warrant a review of your plans? We understand that no two situations are alike, and not everyone has the same intentions or desires to share information with their loved ones, but we encourage you to think about what type of conversations you might want to have in 2018. We are here to act as a sounding board for you if you care to engage.

Most importantly, we thank you for your continued trust and confidence, and we look forward to working together in the New Year.

Sincerely,

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