SIA Perspectives

Stegner Investment Associates, Inc. **1st Quarter 2018**

In the 4th quarter 2017 *SIA Perspectives*, we shared with you the Olympic Games' motto of "faster, higher, stronger" to explain the exceptional absolute and relative returns client portfolios earned throughout the year. Most asset classes posted these strong returns in a relatively stable environment, with many stock market segments posting a ninth straight year of gains. Bonds posted lower absolute returns than stocks in 2017, but exposure to this asset class added value to portfolio performance.

In that *Perspectives* we also noted our expectation for the new Federal Reserve chairman to lead decisions for further increases in the Federal Funds rate. We anticipated an increase in market volatility versus the calm experienced in 2017. Both expectations were met in this year's 1st quarter, as interest rates moved higher and the volatility of performance in many financial markets came roaring back.

What Happened During the 1st Quarter?

The swings in financial markets throughout the 1st quarter reminded us of Newton's Cradle – a toy from our past that demonstrates one of Sir Isaac Newton's three laws of motion. Although this mathematician died in 1727, his third law can be applied to explain performance to-date in 2018: "For every action, there is an equal and opposite reaction".

Newton's Cradle

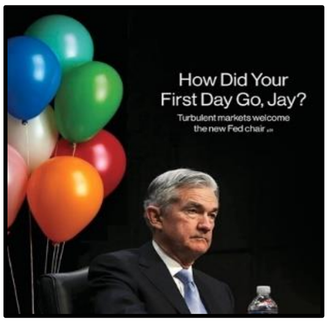
	Action	Reaction
January	The recently passed Tax Cuts and Jobs Act expected to dampen longer-term economic growth.	Investors rejoiced as corporations announced $1,000 bonuses for employees, while other companies, such as Walmart, promised higher wages. Individuals eagerly awaited a positive impact on take-home pay. The S&P 500 Index and other stock benchmarks hit all-time highs on at least 11 of the month's 21 trading days.
February	Hourly wages grew at the fastest rate since 2009. Increased expectations that the Federal Reserve will raise its short-term interest rate for the 6th time in this cycle. Ongoing investigations into Russia's meddling and threats of U.S. tariffs.	Investors fretted that higher wages and interest rates might incite inflation and impede economic growth. Stock and bond prices tumbled. Volatility reached extraordinary levels as the S&P 500 Index declined 10% from levels reached earlier in the month.
March	President Trump imposes tariffs on steel and aluminum. Revelation of Cambridge Analytica's unauthorized purchase of Facebook user data.	China imposed tariffs on U.S. products. Facebook and other technology stocks sold-off on fears of increased regulatory scrutiny.

What Happened to Financial Markets During the 1st Quarter?

January:

Investors cheered the new year with continued excitement over the synchronized global growth that buoyed markets throughout 2017. The S&P 500 Index's performance in the first six days of January marked the best start of the year since 1964 and most major stock market benchmarks posted gains of 5-8% for the month.

Apparently, stock investors were not concerned with potential negative impacts on stock prices due to recently announced levies on imports of solar panels and washing machines, yet bond investors were very wary of such policies and pushed bond prices lower (and yields higher).



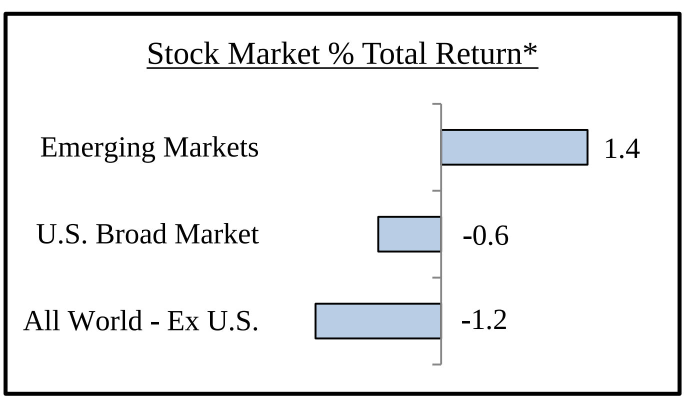
February:

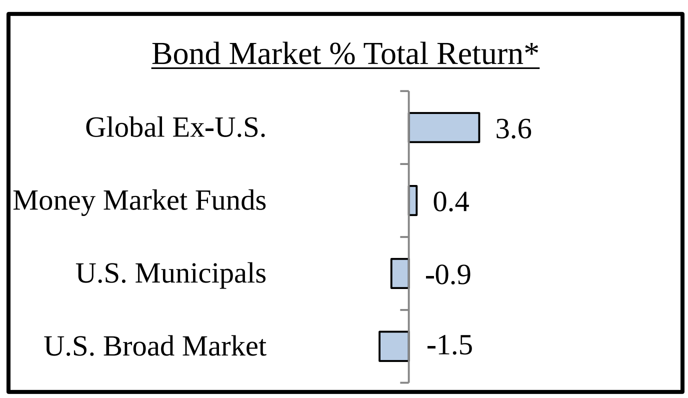
In February, the tone of the markets changed quickly from 2017's calm. As Jerome Powell was being sworn in on Monday, February 5th as the new chairperson of the Federal Reserve's Board of Governors, stocks dropped across the board by 4%. This loss was followed by a gain of 2% the next day. A 4% loss on Thursday was followed by another rally on Friday. By the end of the month, both stocks and bonds posted losses.

March:

The month was full of surprise announcements with the onset of tariffs, continued high profile investigations, resignations of key policy makers and the passage of a domestic spending bill. Broadly, financial markets continued to swing higher and lower day-by-day. News about Facebook added to investors' angst and punished the high-flying technology sector.

The tables below provide the 1st quarter returns for major asset class benchmarks. These results may be a pleasant surprise given the major swings in performance during the first three months of the year.





* *representative benchmark indexes detailed on the last page*

How Did Stock Markets Perform?

Most stock market segments continued to rally as January marked a streak of fifteen consecutive monthly gains for the S&P 500 Index. However, stock markets fell across the board in February and some segments posted additional losses in March. Emerging markets provided the only positive result for the 1st quarter, bolstered by an explosive return posted in January.

		Total Return*			
2017	**STOCKS**	**Jan**	**Feb**	**March**	**1st Quarter 2018**
21.8%	Large Cap	5.7%	-3.7%	-2.5%	-0.8%
18.5	Mid Cap	3.8	-4.1	0.1	-0.5
14.6	Small Cap	2.6	-3.9	1.3	-0.1
25.0	International	5.0	-4.5	-1.8	-1.5
37.3	Emerging Mkt	8.3	-4.6	-1.9	1.4

**representative benchmark indexes detailed on the last page*

The style box grids of total returns for U.S.-only benchmarks, shown below, illustrate that the powerful outperformance of growth stocks in 2017 continued into 2018. These results were driven by sector allocations as only two of eleven sectors outperformed the S&P 500 Index's slight loss. Growth managers favored these two outperforming sectors - technology and consumer discretionary - while value managers preferred the utilities, telecom and materials sectors that posted losses.

2017	Value	Blend	Growth
Large	13.7%	21.8%	30.2%
Mid	13.3%	18.5%	25.3%
Small	7.8%	14.6%	22.2%

1Q 2018	Value	Blend	Growth
Large	-2.8%	-0.8%	1.4%
Mid	-2.5%	-0.5%	2.2%
Small	-2.6%	-0.1%	2.3%

Indicates worst performer

Indicates best performer

What Happened to Bond Prices?

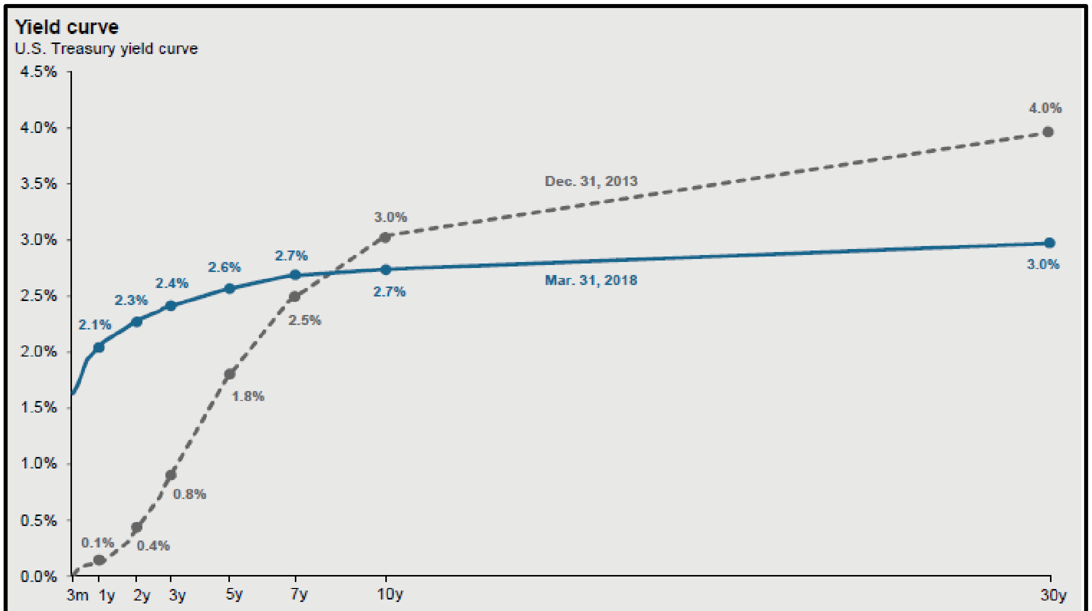
After posting solid gains in 2017, bond market investors spent the 1st quarter balancing good news on the economic front with fears that a pick-up in growth and pressure from higher wages could fuel inflation. If this happens, central banks could be forced to raise interest rates faster than anticipated.

In turn, the yield on the benchmark 10-year U.S. Treasury Bonds spiked from a 2.4% yield at the end of 2017 to a recent high of 2.9%. Throughout the 1st quarter, investors questioned if higher yields would incite further selling or if this move might be another false start that has characterized much of this long bull market.

The chart below shows the U.S. Treasury Bond market “yield curve”, which is an industry tool measuring short-term interest rates relative to longer-term offerings. It can be used to gauge the impact of the Federal Reserve’s policy decisions on interest rates. The current yield curve is compared to the one in place more than four years ago.

Most striking is that the short-end of the curve has increased dramatically compared to the longer end of the curve. The gap between short and long-term yields finished the 1st quarter at its narrowest in more than a decade. This sharp move is also known as “flattening” and is often referred to by investment professionals.

This gap indicates that investors expect longer-term interest rates to move higher as the Federal Reserve continues to raise interest rates and to shrink its $4.4 trillion balance sheet. In turn, most U.S. bond market segments posted losses for the 1st quarter.



Source: FactSet, Federal Reserve, J.P. Morgan Asset Management.
Guide to the Markets – U.S. Data are as of March 31, 2018.

During this year’s periods of volatility, investors with an asset allocation strategy that included money market funds are reminded of the effectiveness of this allocation. Note below that money market funds provided a positive return in each month and for the 1st quarter, compared to losses posted by other bond market benchmarks.

		Total Return*			
2017	**BONDS & MONEY MARKET**	**Jan**	**Feb**	**March**	**1st Quarter 2018**
3.5%	Taxable U.S.	-1.2%	-0.9%	0.6%	-1.5%
10.5	Taxable Global-ex U.S.	3.0	-0.8	1.4	3.6
4.3	Municipal Intermediate	-0.9	-0.3	0.2	-0.9
7.5	High Yield	0.6	-0.8	-0.6	-0.9
1.0	Money Market	0.1	0.1	0.2	0.4

**representative benchmark indexes detailed on the last page.*

During 2017, we cautioned that investors who chased yield by buying longer-term bonds would be disappointed with a principal loss if interest rates were to move sharply higher. This is exactly what happened in the 1st quarter and served as a reminder that bonds are very complicated investments.

What is Our Role as Investment Consultants?

Early last year, we introduced our commitment to provide specific details of our value-added practices. The first three practices we introduced were “Behavioral Coaching”, “Rebalancing”, and “Total Return versus Income Investing”.

This *Perspectives* introduces a fourth practice: “Asset Allocation”.

“Asset allocation” refers to an important tool we use to help clients achieve their financial goals, while managing investment risk. A portfolio’s allocation to various asset classes such as stocks, bonds and money market investments should be based upon each client’s specific financial situation, risk tolerance and time horizon. These decisions are the most important determinant of returns and performance variability. Further diversification within these broad asset classes, both strategically and tactically, can also have a major impact on results.

An Educated Client is Our Best Client

As 2017 ended, Congress passed tax reform legislation that made sweeping changes to the Internal Revenue code for the first time since 1986. The Tax Cuts and Jobs Act (the Act) will impact business and investment decisions now and in the coming years. Exactly how these changes will impact each client has yet to be determined.

As the year progresses, we will discuss with you how the Act might impact our current asset allocation and investment strategies. In preparation for this discussion, we are including a **Tax Update** table for your review. The inclusion of the Tax Table in this mailing is an example of our attempt to help clients understand what – if any – impact major policy announcements could have on their asset allocation strategy. Please take time to review and perhaps discuss with your other advisors.

SIA Corporate Policies of Interest - 2018

SIA is required by the U.S. Securities and Exchange Commission (SEC) to provide you with a copy annually of our Corporate Policies. These policies do not change too much over time, however they are important.

In accordance with rule 204A-1 under the Investment Advisers Act of 1940, Stegner Investment Associates, Inc. (SIA) has adopted a Code of Ethics. This Code requires that all employees conduct business in a manner that complies with applicable federal security laws and reflects our fiduciary obligations to our clients. Each member of our firm commits annually to follow the CFA Institute’s Code of Ethics and Standards of Professional Conduct, which includes duties to clients of loyalty, prudence and care.

SIA has also adopted CFA Institute’s Asset Manager Code. The Code’s general principles of conduct include that managers accept the following responsibilities. SIA must:

- Act in a professional and ethical manner at all times.
- Act for the benefit of clients.
- Act with independence and objectivity.
- Act with skill, competence, and diligence.
- Communicate with clients in a timely and accurate manner.
- Uphold the applicable rules governing capital markets.

Privacy Policy

Our relationship with you is our most important asset. We understand that you have entrusted us with your private financial information and we are committed to maintaining this trust. We collect only the information necessary to deliver responsive, high quality services and advice to our clients and to fulfill legal and regulatory requirements. To fulfill these obligations, we may collect nonpublic personal information about our clients.

Access to client or former client information is strictly limited. SIA shares nonpublic information solely to service our clients. We do not disclose any nonpublic, personal information about our clients or former clients to anyone without the client's approval. We also restrict employee access to nonpublic personal information to only those who need to know this information to provide our services.

Notice of Availability of Form ADV - Part II

Form ADV – Part II is a legal disclosure document that provides information about business practices, fees, and conflicts of interest an advisor may have with its clients. According to SEC Rule 204-3 of the Advisor Act, we are obligated to offer this document to all clients at least annually. If you wish to obtain a copy of SIA's Form ADV – Part II, please contact our Chief Compliance Officer, Tracey Trosper, at 502-895-0122.

**Benchmark Indexes used in this SIA Perspectives include:*

Dow Jones Total US Stock Market Index, Barclays US Aggregate Bond, Global Ex-US and Municipal Bond Index, US Treasury Bill Index, S&P 500 Index, Russell Mid Cap and Small Cap Index, MSCI EAFE and EM Index.