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Dear Valued Client,

We are pleased to report the economy and global capital markets are off to a strong start in 2017. The Vanguard S&P 500 index is up 6.03%, the Vanguard Developed Markets Index is up 7.82%, & the Vanguard Emerging Markets Index is up 12.21% as of March 31st. Investor anticipation of tax and regulatory reforms due to the recent shift in political powers have rekindled optimism in the economy and capital markets. During the quarter, the Federal Reserve raised short-term interest rates another 25 basis points to a range of .75-1%, a signal that further validates recent economic gains. Looking back at 2016, performance gains were healthy as participation broadened from a few select growth companies to a broader group of companies across market size, industry, and investment style. As market participation broadened, several of our investment selections outperformed the benchmark indices. 2017 has seen an expansion of gains beyond the U.S. to international & emerging equity markets, both of which are outperforming the domestic equity markets year-to-date. As a fiduciary firm committed to global diversification, this is a welcome development that has given a boost to client portfolio performance year-to-date. Among our equity fund selections, notable performance in the first quarter came from American New World, Matthews Asia Growth & Income, Morningstar Wide Moat ETF, & First Eagle Overseas, up 10.64%, 9.45%, 7.75%, & 6.48%, respectively.

In fixed income, the short term bonds we employ are up a little less than 1% year-to-date after gaining roughly 2.5-3% last year. Our best performing fixed income fund in the 1st quarter was Templeton Global Bond, up 4.65% year-to-date after being up 6.61% in 2016. Templeton Global Bond's performance was aided by its allocations to emerging market debt. We continue to like owning Templeton Global Bond alongside our domestic fixed income allocations as a means of both diversification and return enhancement. If the Federal Reserve continues to increase interest rates 2 or 3 more times in 2017, we would envision flat to modestly positive returns in 2017 for our domestic fixed income positions. Beyond 2017, the longer-term target for the federal funds rate based upon FOMC participant expectations continues to be in the 2.5-3% range. The returns achieved from U.S. fixed income will be dependent upon the pace at which interest rates ultimately reach those targets. The slower the Federal Reserve moves interest rates, the higher probability U.S. fixed income positions will achieve positive returns and vice versa.

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The good news for savers is that the next couple years should offer more competitive certificate of deposit (CD) rates, which will help close the gap with inflation. Before you buy another CD at your local bank, we encourage you to call us first because we have a nationwide inventory of CD's available through TD Ameritrade, which may exceed the rate provided at your local bank.

High yield bonds are up about 2% for 2017 after 2016's exceptional year of double-digit returns. We currently invest in this space through three funds: Shenkman Short Term High Income Fund, Barings Global Floating Rate, and Shenkman Floating Rate High Income Fund. All three are predominantly institutional-based money managers with a long record of skillfully navigating the credit markets with a focus on preserving capital by avoiding bad credit risks. While there is empirical evidence that investors should own high yield bonds and floating rate bank loans in a rising interest rate environment that accompanies a strengthening economy, we have begun to trim our allocations in these areas of fixed income as prices have risen and credit spreads have contracted. Historically, high yield bonds have around a 60% correlation with stocks, so we have always been careful when mingling high yield in a traditional fixed income allocation. Nevertheless, with default rates at exceptionally low levels of 1.9%, we anticipate high yield bonds and loans will continue to produce decent investment returns near their current income yield of 4-4.5%.

Higher short term interest rates and increased optimism in the economy would suggest the yield on the 10-year Treasury note would move higher, but instead, it actually fell from 2.44% to 2.39% in the first quarter, despite being as high as 2.60%. One of the reasons for lower yields might be attributable to the recent drama in Congress, where Republicans failed to reach an agreement on replacing the Affordable Care Act. This could foreshadow future legislative challenges for reaching consensus on the trifecta of tax reforms, regulatory reforms, and infrastructure spending that is expected by investors. As such, it would not surprise us if passing policy takes longer and is more cumbersome than expected, but we ultimately believe that some consensus will emerge out of the political muck. Normally, one would anticipate tax and regulatory reform to occur against the backdrop of an economy that is stagnant or in recession as a means to accelerate growth. Should any tax or regulatory reforms ultimately pass and become law, they will likely come in an economy that is in its eighth year of expansion and already doing pretty well. This could create inflationary pressure that rattles the bond and equity markets, which have been accustomed to low volatility. The Wall Street Journal recently reported that the average daily price swing in the Dow Jones Industrial Average (DJIA) was .3185% & the average daily price move in the S&P 500 Index was .3172% in the first quarter 2017, which are the lowest volatility levels in 50 & 52 years, respectively.

As we discussed in our last investor roundtable, volatility reflects investor uncertainty. The lack of volatility in the markets today suggests investor uncertainty is low. Whether perceived or not, uncertainty is a permanent reality in capital markets. While it is encouraging the see the economy

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and corporate earnings finally begin to validate gains from the stock market, the time to be vigilant regarding risk is when nobody is expecting it. For clients with individual stock allocations, we have been inactive of late and are holding onto an above average level of cash. Several of our fund managers are doing the same. In the meantime, we continue to widen and deepen our knowledge of "wish list" companies so when prices become sensible, we are ready to act. Last summer was a classic example, when we purchased Lazard in the midst of the Brexit panic. Another opportunity came last fall when we purchased McKesson after an earnings report that didn't meet analyst expectations. Since we were already familiar with these businesses, we did not have to start researching from square one. Instead, we were able to make a decision in a relatively short amount of time when the market presented its window of opportunity. The takeaway is that it's difficult to know what is going to ignite market volatility or which stocks will be impacted, but we do know in advance what businesses we want to own at the right price.

Here are some high level economic and market trends of note from the first quarter.

- Seasonally adjusted non-farm payrolls gained 216,000 jobs in January, 219,000 jobs in February, & 98,000 jobs in March (lowest in 10 months). The number of insured unemployed is 2,028,000, the lowest level in seventeen years. The unemployment rate dropped .2% from 4.7% to 4.5% in 1Q, a 10-year low. (Source: Bureau of Labor Statistics (BLS))

- Consumer prices in the U.S. increased 2.5% in January and 2.7% in February versus the prior year. It was the highest inflation rate since March 2012. Excluding food & energy, annual core inflation was 2.3% in January and 2.2% in February. (Source: BLS)

- For Q1 2017, the estimated earnings growth rate for the S&P 500 is 8.9%. If that turns out to be the actual growth rate, it will mark the highest (year-over-year) earnings growth since Q4 2013. For full year, analysts are projecting earnings growth of 9.8% & revenue growth of 5.3%. (Source: Factset Earnings Insight)

- Consumer sentiment was 98.5 in January, 96.3 in February, & 96.9 in March, all of which are near 13-year highs (Source: University of Michigan). Small business optimism was 105.9 in January & 105.3 in February, also near 13-year highs. (Source: National Federation of Independent Business)

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- Retail Sales increased 6% in January and 5.7% in February over the same period last year (Source: US Census Bureau). Despite this positive news, 3,500 store closings are anticipated in 2017 as the secular shift toward online commerce pressures certain segments of brick-and-mortar retailers. (Source: Business Insider)

- Household net worth as a percentage of disposable personal income reached a new high in the fourth quarter of 650.4%, eclipsing the previous high set in the first quarter of 2007 (Source: Board of Governors of the Federal Reserve System). The S&P 500 Forward 12-month PE ratio is 17.5x, above its 5-year & 10-year averages of 15x & 14x, respectively (Source: Factset Earnings Insight). The Federal Reserve recently commented on the level of equity market valuations in its last meeting, saying "some participants viewed equity prices as quite high relative to standard valuation measures." (Source: FOMC)

In closing, thank you for the trust that you place in us. It's a privilege to serve such a great clientele. On April 20th at 3:30 pm and April 21st at 9:30 am at our offices here in Oak Ridge, we will be hosting another client roundtable, where we will review the first quarter trends in further detail. If you know of a friend or acquaintance looking for an investment fiduciary, consider inviting them. As always, if you have any questions about your accounts specifically, please feel free to give us a call.

Sincerely,

C&J Wealth Advisors

J. Mark King, CFP®
Scott Smith, CIMA®
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The S&P 500 consists of 500 stocks chosen for market size, liquidity and industry group representation. Each stock's weight in the index is proportionate to its market value. The S&P 500 is one of the most widely used benchmarks of US equity performance. The MSCI World Index is a market capitalization-weighted index designed to provide a broad measure of equity market performance throughout 23 countries in the developed world.

The opinions and forecasts expressed may not actually come to pass. This information is subject to change at any time, based on market and other conditions and should not be construed as a recommendation of any specific security or investment plan. The advisor does not guarantee the accuracy and completeness, nor assume liability for loss that may result from the reliance by any person upon such information or opinions. Past performance does not guarantee future results.

Diversification can be thought of as spreading your investment dollars into various asset classes to add balance to your portfolio. Although it doesn't guarantee a profit, it may be able to reduce the volatility of your portfolio.