C&J
WEALTH ADVISORS

COULTER & JUSTUS WEALTH ADVISORS
575 OAK RIDGE TURNPIKE, SUITE 203
OAK RIDGE, TN 37830

865-481-0385 *phone*
865-483-7930 *fax*

WWW.CJWEALTH.COM

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Dear Valued Client,

Last year, U.S. capital markets conditions were strong as investors received a fortuitous combination of global synchronized economic growth, accelerating corporate earnings, passage of fiscal stimulus, and low inflation. This positive backdrop allowed the Federal Reserve to continue normalizing short-term interest rates without creating unintended volatility in the capital markets, an important factor that also helped facilitate a smooth transition of leadership from former Federal Reserve Chairwoman Janet Yellen to current Federal Reserve Chairman Jerome Powell. As we began 2018, most market prognosticators and strategists shared similar consensus viewpoints that were very positive for the economy and capital markets, which is entering its ninth year without a recession. The lack of volatility (risk perception), positive consensus viewpoints on the economy, and growing investor fear of missing out on gains (greed) created a very positive start to the year in January 2018. Capital market inflows totaled $128.1 billion, setting a new monthly record [1], while the S&P 500 gained 5.71% in the month of January. It is in this type of environment of high valuations and low risk perception when investing is particularly difficult and patience/selectivity is most important.

When risk perception is low and asset prices are high, it creates a vulnerable environment for negative surprises to occur, which is what happened in February as investors were surprised by employment indications showing a modest 2.9% acceleration in average hourly earnings in January [2]. While most of the increase was driven by temporary weather-related factors, investors sold indiscriminately and overwhelmed the market with rampant volatility across both stocks and bonds. Investors were not so much worried about 2.9% wage inflation insomuch as they were worried

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about the potential of the Federal Reserve falling behind the curve on inflation. This would force the Federal Reserve to tighten monetary policy at a faster pace than expected, thereby putting downward pressure on stock prices. Wage inflation pressures have since abated some, with average hourly earnings rising at a 2.6% annual rate [2] in February, displacing some investor concerns regarding accelerating wage inflation and the notion that the Federal Reserve was falling behind the inflation curve. Hopefully this experience proves to be a good reminder for investors not to make investment decisions based upon one economic data point. Nevertheless, given the current low unemployment rate of 4.1% and our belief that we are in the latter stages of the current business cycle, wage inflation will continue being an area of focus for investors moving forward because of its potential impact on monetary policy, interest rates, and equity valuations.

In early March, President Trump announced he would impose a 25% tariff on imported steel and a 10% tariff on imported aluminum as a means of strengthening domestic production and enhancing national security. While tariffs were known to be a part of Trump's Presidential campaign, the timing of its communication and the lack of specificity were poor, adding to existing investor worries of inflation and possible escalation of tensions between key trading partners. In weeks since, the administration clarified that countries that share key security relationships with the United States will be at least temporarily exempt from these tariffs. These countries include Mexico, Canada, European Union, Australia, Brazil, Argentina, and South Korea. These exemptions represent a majority of our imported steel & aluminum, which should lessen the inflationary impact and keep the U.S. on good terms with these trading partners. The countries of focus that did not receive exemptions were Japan & China. In turn, China imposed a minimum 15% tariff on 128 products with value around $3 billion that are imported from the United States. In turn, the United States is considering additional tariffs on 1,300 Chinese goods carrying a value of $50 billion. None of these retaliatory tariff announcements were well received by the capital markets, as they increase

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the potential for import inflation and hurt domestic industries like farming that export food & agriculture goods to China. It's worthwhile to note that both exports and imports hit record highs in 2017, while import prices ex-energy rose just 1.4% [3]. Our trade deficit reflects the fact that the world wants to sell their goods here in the United States, which helps keep inflation low, expands consumer purchasing power, and allows our economy to efficiently allocate labor & capital to higher value goods & services. While our country operates on a profit-based model of free market capitalism & efficiency, some countries operate on a government-subsidized, production-based model that is inefficient and unresponsive to changes in supply and demand. As excess production is imported from abroad, it creates oversupply, depresses prices, and hurts domestic production. When foreign firms are unresponsive to global supply and demand shifts, tariffs can be an effective deterrent against production distortions happening across global trade. The irony is those tariffs that are intended to protect jobs across domestic industries can backfire when China levies retaliatory tariffs against domestic industries that export goods to China. In short, there are winners and losers in either scenario. While the intentions of the tariffs against China might be just, the question in the end becomes is it worth it? Up to this point, capital markets are suggesting that the answer is no.

Putting the tariff uncertainty aside, the fundamental backdrop for the economy and earnings in the near-term continues to be positive. First quarter earnings are expected to increase 17.3%, while full-year 2018 earnings are expected to rise 17.6% [4]. Lower corporate tax rates make for easier earnings comparisons over 2017, but even when adjusting for lower tax rates, earnings growth remains robust and most areas of the economy are continuing to post solid gains, which should help support the markets. Regardless of how 2018 ultimately unfolds, we encourage you to engage with us and reaffirm that your portfolios are allocated in line with your long-term goals, objectives, and risk tolerance. On April 20th at 9:30 in our Oak Ridge office, we will be hosting a client roundtable

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meeting to discuss first quarter events in more detail. If interested, please RSVP as space is limited and feel free to invite a friend. As always, thank you for the trust that you have placed in us.

Sincerely,

C&J Wealth Advisors

J. Mark King, CFP®
Jeff Loos, ChFC®, LUTCF
Scott Smith, CIMA®

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4—Factset Earnings Insight, March 29, 2018 edition.

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.

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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.