

Newsletter – April 2018

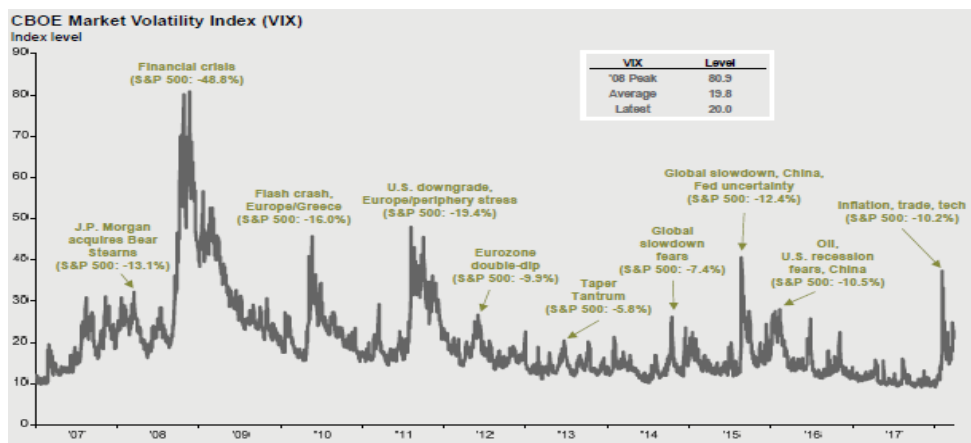
Introduction of John Barrett, CFA

We are very pleased to announce that John Barrett, CFA has joined our management team as a Senior Portfolio Manager after spending the last fifteen years of his career at Columbia Threadneedle Investments. At Columbia Threadneedle, John oversaw more than \$2B in institutional client assets within the asset allocation group. Prior to this, he spent five years as a senior portfolio manager for Columbia's \$1.1B Small Cap Value I portfolio. John began his career as an economist with the U.S. Department of Labor. Next he was an equity analyst specializing in international equity research and a sector research analyst at Fidelity Management & Research Company before joining Gannett, Welsh & Kotler as a senior equity analyst.

John is a CFA charter holder and member of the CFA Institute and the Boston Security Analysts Society. He earned his MBA from the Carroll Graduate School of Management at Boston College and his B.S. from the University of North Carolina, Greensboro. John lives in Needham, MA, with his wife and five children. He enjoys coaching youth sports and 2018 marked his 25th consecutive Boston Marathon that he has run.

Volatility Returns

2018 began with a continuation of strong equity market gains. However, February marked the beginning of heightened volatility to levels that we had not seen in years. The volatility seemed to be triggered by investor concerns over rising inflation and interest rates, global tensions with North Korea and domestic political news. Drops of 1% to 3% in a day became common place in the first quarter and we experienced our first equity market correction (down more than 10% from the highs) in 24 months.



MARKET TRENDS 3/31/2018

US Stock Markets

	Q1	12 Mos.
S&P 500 Index	-0.8%	14.0%
S&P MidCap 400 Index	-0.8%	11.0%
Russell 2000 Index	-0.1%	11.8%

Int'l Stock Markets

EAFE Index	-1.5%	14.8%
Emerging Mkts Index	1.5%	24.9%

Fixed Income

Barclays Intermediate Gov't/Credit Bond Index	-1.0%	0.4%
Barclays Capital Muni Bond 3 Year Index	0.1%	0.4%

Commodities

SPDR Gold Shares (NAV)	2.0%	5.9%
Goldman Sachs Commodities	2.2%	13.8%

Real Estate

Dow Jones US REIT Index	-5.9%	0.1%
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Yields

	3/31/2018	12/31/2017
6 Mo. US T-Bill	1.9%	1.5%
10 Yr UST	2.7%	2.4%

Sources: Total Returns from WSJ Market Data Group, Standard & Poor's, Barclays

Tim Vanech
tim@shorepointpartners.com

Luis M. Raposo, CFA
luis@shorepointpartners.com

John S. Barrett, CFA
john@shorepointpartners.com

Main 781 341 7250
Fax 781 341 7246

220 Norwood Park South
Norwood, MA 02062

shorepointpartners.com

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“...we had more 1% daily moves in the past quarter than for all of 2017!”

“The President slapped on some steel and aluminum tariffs...”

“These types of negotiating tactics are challenging for financial markets...”

January produced another ugly Washington spectacle - the ongoing dance with a government shutdown. A deal was penned to keep the government open until February when another intermediate deal was reached. This process produces a recurring general anxiety and makes no sense as politicians these days vote and act in such lockstep with their parties, they struggle to get anything substantial done. And they hold one another hostage by not agreeing to pay bills that have already been agreed to - similar to not paying your credit card bill. We hope this process is ameliorated in the future.

In addition to the ongoing gridlock in Washington, the country mourned yet another horrible mass shooting at a high school in Florida. The massacre and subsequent efforts for reform by the children of Parkland further underscored schisms in our society and the intransigence of Washington - full of leaders who can't accomplish much. As if this weren't enough tumult, the President exacerbated the volatility by starting trade war rhetoric with China (and much of the world). The President slapped on some steel and aluminum tariffs, which are in the process of producing retaliatory measures. These types of negotiating tactics are challenging for financial markets to react to and to digest – adding to daily volatility.

It was interesting to see that many newly engineered financial products did not weather or withstand the first quarter's market volatility. At Shorepoint, we are always emphasizing transparency. Our statements, online portals and reporting from your investment custodians are all meant to show you what you own, what you paid for it, and what type of return you have experienced and how it might affect your taxes. And we encourage you to always ask us why you own what you do if you have any anxiety or questions. But it's also important for you to know what you **don't own**. Shorepoint clients were not affected by product failures which were mostly in highly leveraged ETFs (exchange traded funds) and ETNs (exchange traded notes). As a firm we have passed on owning such instruments on behalf of our clients since they first appeared several years ago.

But The Economy Remains Strong

While we continue to monitor market and political conditions, global economies seem to be chugging along. And while corrections are unpleasant, they are a normal process of equity markets. The domestic economy remains healthy and strong with an ongoing resurgence of employment and wages starting to increase after a long stagnation helped by the corporate tax cut. As labor markets tightened, companies are investing in expansion, R&D and new hiring. Consumer sentiment is positive and balance sheets have been repaired. We are also seeing increased activity in mergers and acquisitions which bodes well for equity markets. Equity valuations seem to be reasonable with the S&P 500 Index

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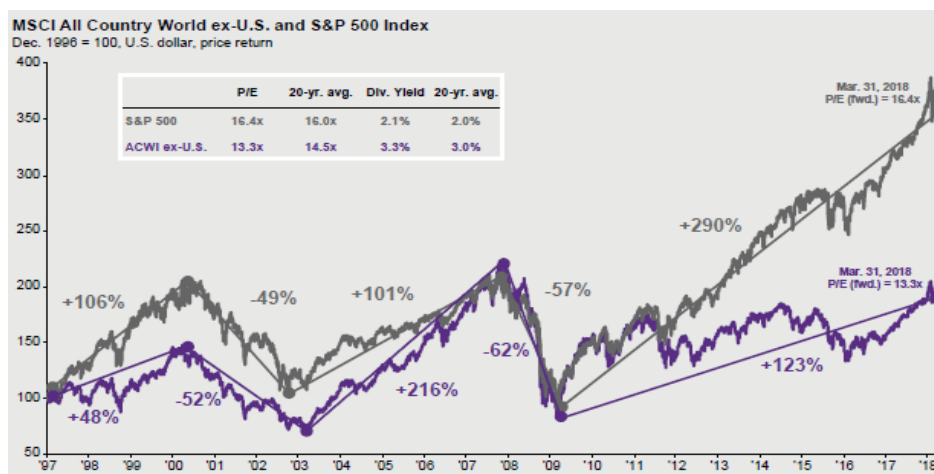
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"...corrections...are a normal process of equity markets."

"...domestic economy remains healthy and strong..."

trading close to its 25 year P/E (price to earnings ratio) average of 17x forward earnings estimates and international equities are trading below historical averages.



Corporate earnings are robust thus far and are handily exceeding the first quarter's analyst expectations. Companies are also guiding for better revenue and earnings for all 2018 than expected. Eventually, these positive fundamentals should be reflected in the equity markets.

Performance Review and Outlook

Normally, equity markets correct (10% or more) every 12 months, but we went about 24 months without a correction. Equity market volatility nearly doubled from 2017 and we had more 1% daily moves in the past quarter than for all of 2017! The volatility spread to bonds, with most major bond sectors producing negative returns. Although diversification is beneficial over the long-term, its value was limited in the first quarter. This can happen in **short periods of extreme volatility**. However, it is still wise to be disciplined and not overly react to the markets' short-term gyrations.

Generally, the first quarter's results were disappointing and below our expectations. Our focus is on defensive/dividend-paying stocks that are generally less risky and tend to hold up better in downturns. However, this was NOT the case in Q1 2018 and concerns about the impact of higher interest rates and inflation hurt not only stocks but also bonds. Growth and momentum stocks produced positive returns in the quarter and outpaced "value" stocks (dividend paying stocks tend to be more "value" oriented) by over 5%. Particularly hard-hit were consumer staples, energy, telecom, and utilities stocks along with REITs and energy MLPs. Weak bond returns also negatively contributed to quarterly performance.

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Growth Significantly Outperforms Value for Last 10 Years!



As contrarians, we are taking advantage of this correction and the positive macro environment to increase equities by 2% to 3% in client accounts (based on your investment objective/risk tolerance) which is a slight overweight from our neutral allocation. We will be funding this allocation by **decreasing** your bond allocation. If the stock market corrects further (between the 10-20% levels), we will be advocating a “buy the dips” approach. The market volatility is providing Shorepoint with an opportunity to upgrade your portfolios by adding to high quality, attractively valued companies that have robust cash flow and/or dividend growth prospects, strong earnings growth prospects and solid balance sheets. It is likely that you have noticed more trades than normal in your accounts as we reposition portfolios. We are also adding to international stocks in developed and emerging markets. As for non-equity income areas, we still favor a diversified allocation that includes short-term bonds, emerging market bonds, leverage loan funds, energy MLPs, REITs, etc.

Overall, Shorepoint’s core philosophy is to manage diversified portfolio of quality, reasonably valued assets based on your investment objectives and risk tolerance. This has and will prove to be a successful investment strategy over the long-term. We seek to take advantage of opportunities as they arise and generate attractive long-term returns to help our clients reach their financial goals. As always, we are available to discuss your concerns and answer your questions.