GROWTH EQUITY REVIEW

First Quarter 2017

CONFIDENCE – THE CHEAPEST FORM OF STIMULUS

PERFORMANCE COMMENTARY

We began this ninth year of a great bull market on a strong note with a gain of 6.1% in the S&P 500 Total Return. There are diverging views as to the cause of this rise, ranging more likely from the hope that the enactment of the new President's promises for aggressive fiscal policy initiatives would accelerate economic activity to a post election relief rally naively celebrating the end of discordant political campaigning.

Looking into the internal dynamics of the market's 1Q advance, the signals, considering the magnitude of the move, were less constructive with leadership becoming more conservative. The defensive stocks outperformed the cyclicals (beneficiaries of fiscal stimulus) and large caps outpaced more speculative small cap stocks. Leadership was found in utilities, consumer staples, information technology, health care and consumer discretionary sectors. Relative weakness was in financials, industrials, materials, real estate and energy shares. Analyzing the rotation within the market, concerns over prospects for future economic growth were apparent.

Going forward, the direction of the economy and the market rests on the ability of the new political leadership to enact some sensible fiscal policies. While it is too early to tell, we remain cautiously hopeful that modest progress will be made in stimulating the economy and financial markets will remain attractive.

	Periods Ending March 31, 2017					
	QTD	**1 Yr**	**3 Yrs**	**5 Yrs**	**7 Yrs**	**10 Yrs**
Growth Equity Wrap Composite - GROSS*	**13.3**	**24.1**	**7.7**	**12.5**	**13.5**	**9.3**
*Growth Equity Wrap Composite - NET***	12.6	21.3	5.3	10.0	11.0	7.1
S&P 500 Total Return Index	6.1	17.2	10.4	13.3	12.9	7.5
Russell 3000 Growth Total Return Index	8.6	16.3	10.9	13.2	13.6	9.0

*Gross performance is presented as supplemental information to the full GIPS compliant presentation which is available upon request.

**Net Returns reflect the highest fee any advisor charges - most advisory clients are not charged the highest fee

Performance figures for periods one year and longer are annualized.

PORTFOLIO COMMENTARY

The investment themes coming out of the Trump victory in November continued to play through the first Quarter. Belief in pending economic stimulation, reduced regulation, lower taxes, and repatriation of overseas monies favored large cap stocks and favored growth over value. There recently has also been a growing awareness that size matters and scale is ever more vital in determining winners. During the quarter **Universal Display (OLED)** had a strong gain of 53%.

The leading supplier of organic light emitting diodes for flat panel displays saw strong increase in demand and their outlook for 2017 and beyond was increased significantly. Also participating in the more favorable outlook for electronic devices, **Qorvo (QRVO)** rose 30%. QRVO manufactures RF chips that send/receive data. With smart phones becoming ever more complex, QRVO's dollar content per phone is rising rapidly. Their future is also enhanced by the prospects of the internet of things where their chips will find strong demand. 2015-16 were dismal years for the biotech sector. In the first quarter of 2017 the combination of cheap valuations and a good flow of new products brought investors back to these stocks. **Mesoblast (MESO)** +68%, **Incyte (INCY)** +3% and **Vertex (VRTX)** +48% were beneficiaries of this strong recovery.

Detracting from performance in the quarter were a diverse group of companies. **United Parcel Service (UPS)**, -4%, was weak on issues of cost control/profitability and threats of competition from Amazon. **United Continental (UAL)** was off 3% as rising energy prices and price competition from low cost carriers threaten profits. **Bristol Myers Squibb (BMY)** fell 6% as data from trials on oncology drugs fell short of expectations. **Unisys (UIS)**, -7%, was off on concerns of a slower than expected turn around in anticipated earnings as the new management team was slow in bringing about change. **Qualcomm (QCOM)** fell 8% as the ongoing battle over royalty payments with a major customer, Apple, heightened with legal actions taking place.

PORTFOLIO ACTIVITY

In January we reduced our exposure to the airline industry selling our position in **American Airlines (AAL)**. We do still own **United Continental** (UAL). We think that much of the benefits from industry consolidation, rational fare pricing and lower fuel costs seem to be waning. We added to our position in **(QCOM)** believing that despite the current price action in the stock, they have the strongest portfolio of patents around the transmission of voice and data. Also, their pending acquisition of **NXP Semiconductor (NXPI)** will position them to be the leading provider of semiconductor chips for the ever increasing demand for sending data around the internet of things. Weakness in the price of **United Parcel Service (UPS)** provided an opportunity to add to our position in this high quality growth company.

Investing in our belief that the need for sending data is the surest and strongest of all demand drivers, we built positions in **Acacia Communications (ACIA)** and **Oclaro (OCLR)** in February and March. Both companies provide components or systems that enable the communications industry to push data at faster and faster speeds - migrating from today's standard 4G (400 gigabits per second) to 5G (500 gigabits per second). ACIA is focused on providing laser processors and circuits for use in long-haul, local, and inter-data center markets. OCLR provides lasers and optical components for communications networks used by large telecommunications and datacom systems, and operations of hyper scale data center operators. It enables "the cloud" to function more efficiently and data centers to run faster and more efficiently. The stocks have retreated on a slowdown in demand from China, which we see as merely a short-term issue. At the end to the day, demand from China will resume as this is critical to competing in a global economy.

MARKET COMMENTARY

On March 30th on the Charlie Rose show, Larry Summers (ex Secretary of the Treasury under President Clinton), during a discussion on monetary and fiscal policies, stated "Confidence is the cheapest form of stimulus." A simple but profound observation.

If one looks at monetary policy post the Great Recession, we see a Federal Reserve that by historic proportions flooded the financial system with very cheap money. However, given the lingering psychological wounds from the 2008-9 experience, there was little appetite by consumers and businessmen to avail themselves of this credit. Lenders did not want to lend. Borrowers did not want to borrow. The velocity of money plummeted, reserves in the banking system soared. The expression of pushing on a string had come to pass.

What business and Main Street lacked was a strong sense of confidence. Without it monetary policy was emasculated and the US economy experienced one of the slowest recoveries on record.

We entered the post recession period with a dichotomy in confidence. The election of President Obama brought optimism for the potential for change and a uniting of the country. Juxtaposed was a deep pessimism on economic prospects and lingering fears of a financial relapse.

Eight years later the political euphoria had waned and the country had not come together. Conversely, our financial system had healed and economic stability was at hand. But in both cases there was insufficient confidence to enable satisfactory economic growth.

Currently, the US is presented with the opposite scenario. There is profound pessimism over our political system and Presidential leadership. Conversely, there is optimism that the economy may experience an acceleration of growth. Four years from now, as we look back, we are hopeful that President Trump will have learned on the job and become a more effective leader with moderate legislative successes. The resultant economy will have disappointed and not reached a 3-4% growth rate, but lingered at the 2% rate.

Again, holding back faster growth will be a lack of confidence. Effective fiscal policy addressing the country's infrastructure shortfalls CANNOT be a Keynesian policy of "digging holes in the ground and then filling them in." Shovel ready projects do not address our needs. We need commitment to large, long running projects and investment in plant and equipment, not share repurchases or increased dividends, to expand the economy. These projects can only be undertaken by confident business leaders. We are not there yet and prospects are waning.

Thus, we believe the US can expect some modest stimulus from fiscal spending, but smaller and later than the optimists hope for.

The implications of a hopefully better political environment and modestly underperforming economy should be that the next two to three years look much like the past seven; subpar growth (2%), low interest rates, continued political "noise", and a stock market that continues to climb the wall of worry. We remain ever hopeful that a constructive dialogue can emerge so that confidence builds, but we are ever vigilant to the challenging dynamics of the increasingly complex world we live (and invest) in.

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