INVESTMENT REPORT

LYNCH FINANCIAL GROUP LLC
— Retirement Wealth Management —

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Investment Review and Outlook

Volatility returned to the financial markets in the first quarter, for the first time in a while.

S&P 500 stocks ended down 0.8% for the quarter.

Developed international stocks also got off to a strong start to the year, before suffering similar losses to U.S. stocks during the sharp correction in early February.

European stocks (unhedged) lost a bit more than 1%.

Emerging-market stocks held true to their higher-volatility reputation. They finished the quarter with a 2.5% return.

Core bonds didn't play their typical "safe-haven" role in the first quarter.

We welcome questions or comments regarding this newsletter at jlynch@lynchfinancialgroup.com. Lynch Financial Group provides Retirement Wealth Management Services to individuals within 15 years of retirement, retirees, and surviving spouses. We also provide specialized assistance to professionals, fiduciaries and heirs in wealth transfer situations.

Benchmark and Mutual Fund Performance

The box below contains benchmark (capital market and investment style) performance results. The performance results of our recommended mutual funds and their benchmarks are shown on page 4. For the quarter, most client portfolios matched or slightly outperformed their benchmarks.

First Quarter 2018 Key Takeaways

Volatility returned to the financial markets in the first quarter, for the first time in a while. Stocks surged out of the gates in January, then corrected sharply, before rebounding into mid-March, clawing back much of their losses. They then dipped again into quarter-end, buffeted by a potential trade war and a Facebook data scandal. When the dust settled, large caps ended down 0.8% for the quarter.

Developed international stocks also got off to a strong start to the year, before suffering similar losses to U.S. stocks during the sharp correction in early February. They made up ground relative to U.S. stocks in March and ended the quarter down 1%.

European stocks (unhedged) lost a bit more than 1%. This could be due to a variety of reasons from European politics to a lower exposure to technology.

Emerging-market stocks held true to their higher-volatility reputation. They shot up 11% to start the year, fell 12% during the mid-quarter correction, and then once again outgained U.S. and international stocks to finish the quarter with a 2.5% return.

Core bonds didn't play their typical "safe-haven" role in the first quarter. They posted losses during the sharp stock market correction in February and delivered a 1.5% loss for the quarter overall, as Treasury yields rose across the maturity curve.

At the end of last year, by some measures U.S. stock market

Benchmark Returns (Periods Ended 3/31/18)

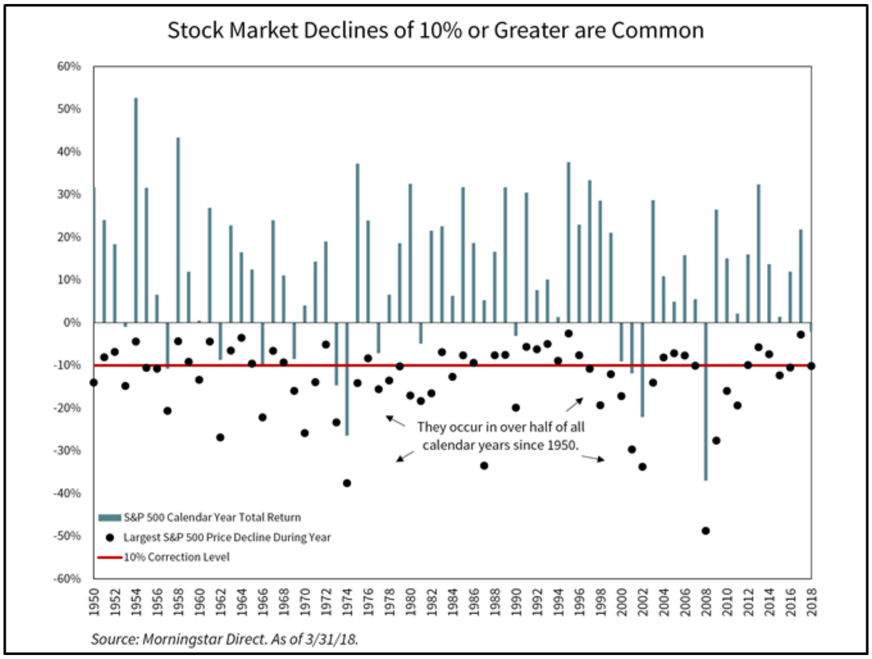
	Quarter	12 Months
Large-Cap Benchmarks		
Vanguard 500 Index	-0.8%	13.8%
Russell 1000 Growth iShares	1.4%	21.0%
Russell 1000 Value iShares	-2.9%	6.8%
Mid-Cap Benchmarks		
Russell Midcap iShares	-0.5%	12.0%
Russell Midcap Growth iShares	2.1%	19.5%
Russell Midcap Value iShares	-2.5%	6.3%
Small-Cap Benchmarks		
Russell 2000 iShares	-0.1%	11.8%
Russell 2000 Growth iShares	2.3%	18.7%
Russell 2000 Value iShares	-2.6%	5.1%
Other Benchmarks		
Vanguard Developed Mkts Idx	-1.2%	15.8%
Vanguard Emerging Markets	2.0%	20.7%
Vanguard REIT Index	-8.2%	-4.6%
Vanguard Total Bond Mkt Index	-1.5%	1.0%
Credit Suisse High Yield Index	-0.9%	3.7%

volatility was the lowest it had ever been in *90 years* of market history. While the 10% market correction this year was short-lived, it provided a reality check for equity investors. However, the global economy still looks solid in the near term. And looking ahead, we have positioned our portfolios for further volatility and likely lower equity returns as the markets ride out what is already a longer-than-usual economic cycle.

Market and Portfolio Recap

Needless to say, it was a bumpy start to the year for financial markets—something we'd suggest getting used to in the months and years ahead. After years of record-low volatility, the 10% market correction this quarter was a reality check for investors: Stocks can go down as well as up.

Equity investors should understand that stock market declines of 10% or more are *normal*. They've happened in over half of all calendar years since 1950. In exchange for their higher long-term expected returns, you must be willing and able to ride through these inevitable periods of decline.



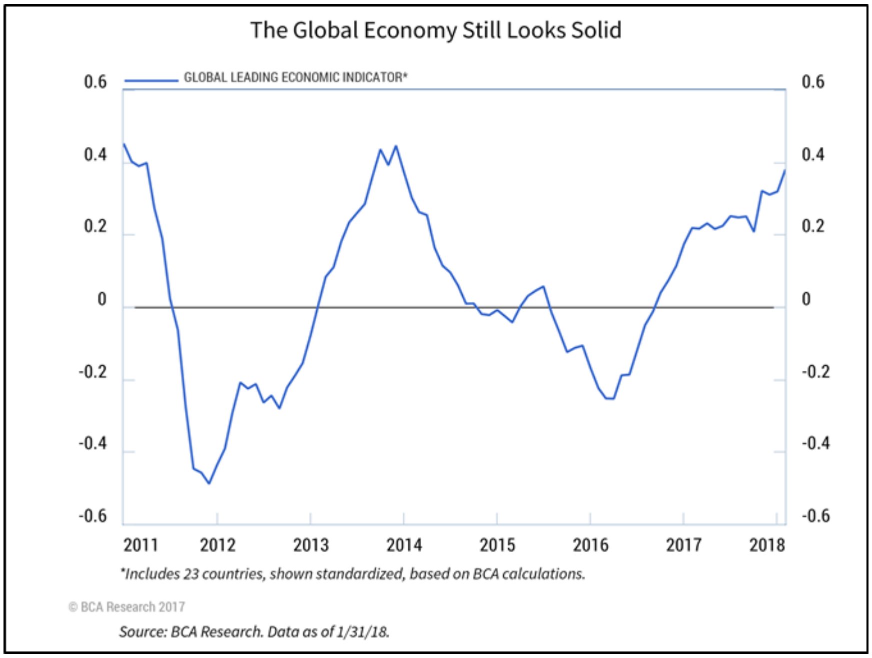
Market and Portfolio Outlook

We have two primary observations about the quarter's rocky ride. First, the declines witnessed serve as a good reminder that markets do not exclusively go up. Until the recent drop, the S&P 500 had rallied for more than 400 days without registering even a 3% decline from its high. That was the longest streak in 90 years of market history. So, from that perspective, the return of market volatility is a return to "normal" market form. We believe investors should be prepared for continued volatility rather than expect things will revert back to the unnaturally smooth markets we experienced in 2017.

Our second observation is that despite the dramatic news headlines and market volatility that might suggest otherwise, the global macroeconomic and corporate earnings growth outlook has not materially changed or deteriorated from what it was at the start of the year. In fact, the economic news that triggered the recent selloff was not a report of economic weakness but one that suggested the economy might be getting a bit too *strong*, with a tight labor market finally translating into higher wage growth and broader inflationary pressures. Fundamentally, even after the correction, the U.S. and global economies still look solid. Global growth may no longer be accelerating, but it remains at above-trend levels and the likelihood of a recession over the next year or so still appears low (absent a macro/geopolitical shock).

The U.S. economy is getting later, if not late, in its cycle. We are experiencing the unwinding of an unprecedented period of global monetary policy influence, and geopolitical tensions fill the headlines—the latest being the potential for a trade war between the United States and China.

It is not in our nature to speculate on whether any of these factors will trigger more market volatility, and what their impact will be if and when markets react. However, it *is* in our nature to ensure we've properly assessed and managed risk in our client portfolios across a wide range of shorter-term outcomes, while positioning them to capture longer-term returns.



We also remain defensively positioned in our equity risk allocation and tilted in favor of more attractive foreign market valuations. While not table-pounding in an absolute-return sense, the outcomes we see for European and emerging-market stocks continue to be more relatively attractive than U.S. stocks.

Our analysis suggests the positive economic outlook has already been discounted to a meaningful degree in current U.S. stock market prices. So while the economy is strong, the stock market has been reflecting this for a while. The valuation of the S&P 500 is well above our estimate of its fair-value range on a normalized (longer-term) basis. As the valuation multiple comes down, it will be a significant drag on the total return of the market index over our five-year investment horizon, regardless of the earnings outlook.

The Best Defense

As we reflect on the volatility levels we have witnessed so far this year, it's worth reiterating why we emphasize a five-year or longer time horizon as the basis for our expected-returns analysis. It is over those longer-term periods that valuation (i.e., what you pay for an investment relative to its future cash flows) is the most important predictor of returns. Over the shorter term, markets are driven by innumerable and often random factors (i.e., noise) that are impossible to *consistently* predict (although that doesn't stop lots of people from trying).

There are a lot of paths financial markets and the economy can take to reach our base case scenario destination. And there is a wide range of reasonably likely outcomes around that base case. Simply put: markets and economies are unpredictable. But when it comes to the investment world, we are often our own worst enemy. We fall prey to performance-chasing, our natural inclination to "do something," and other behaviors that may have helped our ancestors, but hurt us as investors. The best defense is a sound, fundamentally grounded investment process like ours that you can have the confidence in to be able to stick with for the long term.

Thank you for your continued confidence and trust.

LFG Recommended Mutual Funds
Performance Results for Funds and Benchmarks

		% Returns For The Periods Ended March 31, 2018							
		3 Months		12 Months		3 Yrs Annlzd		5 Yrs Annlzd	
Fund Name[1]	**Benchmark (BM)**[2]	**Fund**	**BM**	**Fund**	**BM**	**Fund**	**BM**	**Fund**	**BM**
Baron Emerging Markets[3]	Vanguard Emerging Markets Index	+0.9	+2.0	+25.5	+20.7	+9.7	+7.3	+8.9	+4.3
Parametric Emerging Markets[3]	Vanguard Emerging Markets Index	+2.0	+2.0	+18.0	+20.7	+7.0	+7.3	+3.5	+4.3
Schwab Fundamental Emerg Mkts[3]	Vanguard Emerging Markets Index	+3.9	+2.0	+19.7	+20.7	+11.6	+7.3	NA	NA
Tweedy Browne Global Value	Vanguard Developed Markets Index	-2.1	-1.2	+5.8	+15.8	+4.3	+6.5	+5.7	+7.0
Artisan International	Vanguard Developed Markets Index	+0.3	-1.2	+20.6	+15.8	+3.1	+6.5	+5.9	+7.0
Litman Gregory Masters Select International	Vanguard Developed Markets Index	-1.1	-1.2	+13.0	+15.8	+1.5	+6.5	+4.3	+7.0
Harbor Capital Appreciation	Russell 1000 Growth iShares	+4.3	+1.4	+28.8	+21.0	+14.0	+12.7	+17.2	+15.3
Jensen	Russell 1000 Growth iShares	-0.1	+1.4	+16.0	+21.0	+11.6	+12.7	+13.6	+15.3
BBH Core Select	Vanguard 500 Index	-3.8	-0.8	+10.0	+13.8	+7.0	+10.6	+8.5	+13.1
Schwab Fundamental US Large Co[3]	Vanguard 500 Index	-2.5	-0.8	+10.2	+13.8	+8.9	+10.6	NA	NA
Dodge & Cox Stock	Russell 1000 Value iShares	-1.8	-2.9	+10.8	+6.8	+10.9	+7.7	+13.3	+10.6
Vanguard Windsor II	Russell 1000 Value iShares	-2.9	-2.9	+8.2	+6.8	+7.6	+7.7	+10.4	+10.6
FPA Crescent	60% Russell 2500 Index; 40% Vang Tot Bd	-1.0	-0.7	+5.7	+7.8	+5.6	+5.3	+7.4	+7.6
PIMCO All Asset	Barclays TIPS Bond iShares	+0.3	-0.9	+8.8	+0.8	+5.7	+1.2	+3.6	-0.1
PIMCO All Asset All Authority	50% S&P 500/50% Barclays TIPS Bond iShares	+0.1	-0.8	+7.3	+7.3	+4.2	+5.9	+0.9	+6.5
Westwood Income Opportunity[3]	25% S&P 500, 25% NAREIT All Equity, 25% Citigroup Treasury Bill 3 mo., 25% Citigroup Treasury 10 Yr	-2.2	-2.3	+4.6	+3.2	+3.9	+3.5	+5.4	+5.3
Osterweis Strategic Income	Vanguard Total Bond Index	+0.3	-1.5	+4.6	+1.0	+4.6	+1.0	+4.2	+1.6
Doubleline Total Return	Vanguard Total Bond Index	-0.5	-1.5	+2.2	+1.0	+2.0	+1.0	+2.6	+1.6
PIMCO Total Return	Vanguard Total Bond Index	-1.3	-1.5	+2.1	+1.0	+1.6	+1.0	+1.8	+1.6
Vanguard Intermed Tax-Exempt	Vanguard Total Bond Index	-1.1	-1.5	+2.0	+1.0	+1.8	+1.0	+2.3	+1.6
Loomis Sayles Bond	1/3 CSFB HY, 2/3 Vang Tot Bond	+0.2	-1.3	+4.1	+1.9	+3.3	+2.4	+3.4	+2.7

[1]Funds were selected using the LFG Proprietary Mutual Fund Rating System℠. This system is based on extensive research using both quantitative and qualitative factors. The system seeks to identify top funds in each asset class and investment style. LFG typically combines 8 to 10 funds in client investment portfolios.

[2]iShares exchange traded funds were used where available and respective Russell indices were used for the other periods.

[3]Funds which were not recommended for entire 5 year period.

The above table reflects past performance and should not be considered indicative of future results. The results contained in this schedule were obtained from sources we believe to be reliable. We cannot, however, guarantee the accuracy of this information.