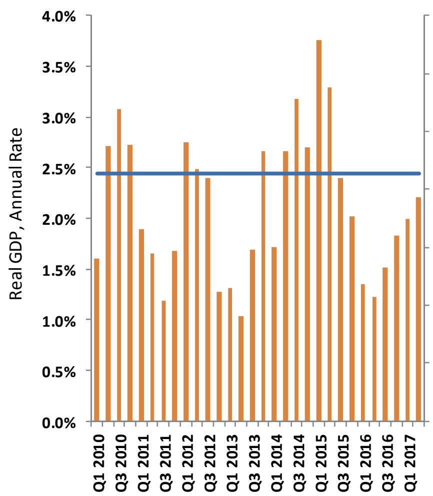
The stock market rally continued for the third quarter, producing solid returns across risk assets. The broad US market was up +4.5% (S&P 500 Index), while international markets were up +4.8% (MSCI EAFE Index). The S&P 500 Index has advanced +15.0% for the year, ending the quarter at a new all-time high level. International stocks are +21.6% higher for 2017. Bonds were also positive with the benchmark Barclay's Aggregate index advancing +1.1% for the quarter and +4.1% for the year. Client portfolios participated in the rally and are strongly positive for the year, even though our positioning remains conservative.



The world economic rebound appears to have gained momentum. The US economy posted a 3% GDP growth rate in the second quarter. The trend from prior quarters shows a clear acceleration of activity since mid-2016. These data are supported by a robust job market, low inflation, low rates, and wage growth. So far, inflation is under control. This environment should allow for companies and consumers to increase their activity, possibly creating a positive feedback loop driving future growth. Early indications are that Q3 GDP will exceed 3% annualized growth.

The stock market has been responding. The market advance in 2017 has been led by so-called growth stocks and smaller cap stocks. Further, foreign stocks advanced strongly in spite of the dollar rally during the quarter. Higher quality stocks - so called value stocks and dividend payers - tended to underperform. Changes in interest rates are responsible for this trend to a degree. Higher rates from low risk assets (like US Treasuries) can make risk assets less attractive. At the same time, investors have a tendency to "chase" returns in a strong market. Strong fund flows into passive investments (like Exchange Traded Funds and Index Funds), are consistent with return-chasing. Aside from these speculative influences, improved economic fundamentals have genuinely improved performance in many sectors. Technology, Industrial and Financial sectors were all strong areas of investment as were Energy and Material companies, whose stock prices have continued to recover from the very low levels seen in 2016 as profits have grown along with increasing commodity prices.

We still see imbalances in the global economy, but central bankers' policies foster an environment to continue the growth trends. We continue to believe that the US stock market is expensive relative to long-term averages, but reversion to this mean could take time to develop, as it's also in our view that the trend in emerging market growth will continue for some time. This strengthening economic environment in the emerging markets could put a tailwind behind developed markets as well. The international holdings in our portfolios have performed very strongly and our US holdings continue to do well. Our seasoned portfolios remain conservatively positioned. We continue to be patient with newer portfolios.

214 East Grundy Street Tullahoma, TN 37388
Phone: 931 461-5733 Fax: 931 461-5735
INFO@ASHDON.COM