Dear Clients and Friends,

The S&P 500 index finished the first quarter with a total return of minus 0.8%. What a quiet start for the year…NOT! After a historic lack of volatility in 2017, it came back with a vengeance in the first three months of 2018. Following a 7.5% rally over the first four weeks of the year, the stock market fell almost 12% from that peak over the proceeding ten trading days and then gyrated violently within a 10% range over the balance of February and March only to finish nearly unchanged for the quarter. The typical safe havens did not provide much relief as the U.S. fixed income market posted a total return of minus 1.5% (as measured by the Bloomberg Barclays U.S. Aggregate Bond Index) and gold was up only 1.7%.

The change in market behavior has been attributed to a number of causes including the President's tweeting habits and fears of a trade war, but we think the biggest factor has been the change in policy by the Federal Reserve. After maintaining the federal funds rate at 0.00% since the end of 2008, the Federal Reserve has now raised the rate six times since December 2015 to the current level of 1.50-1.75%. Current market expectations include an additional 50-75 basis points of tightening this year. In September of last year, the Fed also reversed its nearly 9-year policy of quantitative easing in which it expanded its balance sheet by buying approximately $4 trillion of debt securities. This unwinding is resulting in the Fed becoming a major seller of Treasury and mortgage bonds to the tune of $420 billion this year and $600 billion in 2019. Net combined bond purchases by the Fed and the European Central Bank are projected to turn negative by the middle of this year. We believe the very easy monetary policies pursued by the Fed and other major central banks played an important role in the recovery of stock markets and economies since the Financial Crisis; the removal of that stimulus is likely to exert a negative impact at the margin.

Although market behavior such as we are currently experiencing can be stressful, periods of volatility are a normal feature of markets. Stocks are the best long-term vehicle for outpacing inflation and creating wealth; however, that greater return comes with short-term volatility such as we are living through at present. The recent correction in equity markets saw the first 10% decline since early 2016; however, that is entirely normal behavior. Over the long term, the stock market has averaged a 5% decline once per year, a 10% decline every two years, and a 20% decline every five years. The steady rally with very low volatility we experienced in 2017 was actually the exception to the rule.

How we react to volatile periods in the markets teaches us something about our tolerance for risk. Human nature and emotion being what they are, most people want more exposure to stocks the higher they climb and want less exposure the lower they fall. Part of our job as wealth managers is to protect our clients from those emotions so they do not make significant allocation changes at the wrong time. Buying high and selling low is not a winning investment strategy. If you are feeling stressed about recent market movements, please call us so we can discuss your current asset allocation to ensure you are taking enough risk to achieve your goals, but not so much that you feel overly uncomfortable during corrections in the markets.

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Market Outlook

We remain constructive on equity markets but anticipate that a higher level of volatility and lower overall returns will be key features over the balance of this year. U.S. corporate profit growth should be quite strong with current estimates calling for increases of 19.7% in 2018 and 10.1% in 2019 in S&P 500 earnings. The combination of that profit growth and the recent decline in the stock market brought the price/earnings multiple for the index down to 16.0 for this year and 14.5 for next year, levels that we view as reasonable relative to the expected rate of earnings growth. The increase in volatility and price declines over the last couple of months have also wrung much of the excess optimism out of market participants with many sentiment indicators registering their lowest readings since the correction in early 2016.

We expect interest rates to continue to move gradually higher in the coming months due to both supply and demand factors. In addition to the change in policy at the Fed, the new tax law and recent budget agreement are estimated to add about $450 billion to the U.S. deficit both this year and next year. This added supply of U.S. Treasury paper and fiscal stimulus is coming at a time of near full employment which we believe will result in higher rates of wage increases that will in turn put upward pressure on broader measures of inflation and the nominal levels of interest rates that investors will demand.

Current Investing Themes

At present, several themes are influencing our asset class, segment, and sector weightings. Within risk assets, we are becoming more favorable on commodities relative to equities. As U.S. stocks have approximately quadrupled over the last nine years, commodities have lost about 75% of their value since peaking in mid-2008. This combination has resulted in commodities now being the cheapest relative to U.S. equities in decades (See Chart 1). This is against a current commodity market backdrop of steady global demand growth and limited supply increases which should translate into higher prices. We will continue to look to increase direct and indirect exposures to commodities through ETFs such as GLD and DBC and individual equities in the energy and materials sectors as those sectors are approaching all-time low weightings within the S&P 500 index (See Chart 2 and 3).

Our expectation of higher interest rates has caused us to keep durations in the fixed income portions of portfolios relatively short. The 1-year Treasury bill is now one of our largest holdings as we believe that getting 2.00% or better (which is exempt from state and local income taxes) over the next year and then looking to reinvest the proceeds at higher rates is preferable to getting 3.00-5.00% interest in a longer-term fixed income security only to see that security’s price decline by 10-30% as interest rates climb.

We have also reflected our higher interest rate forecast in our equity portfolios. For a number of months we have been underweighted the Utility, Consumer Staples and Real Estate Sectors which are largely viewed as bond proxies. Banks have been an overweight as they should benefit from higher interest rates in conjunction with lessened regulation and a strong economy, yet trade at very reasonable price/earnings multiples of 10.5-12.5 times 2018 and 2019 estimates.

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Chart 1: Goldman Sachs Commodity Index / S&P 500 Total Return

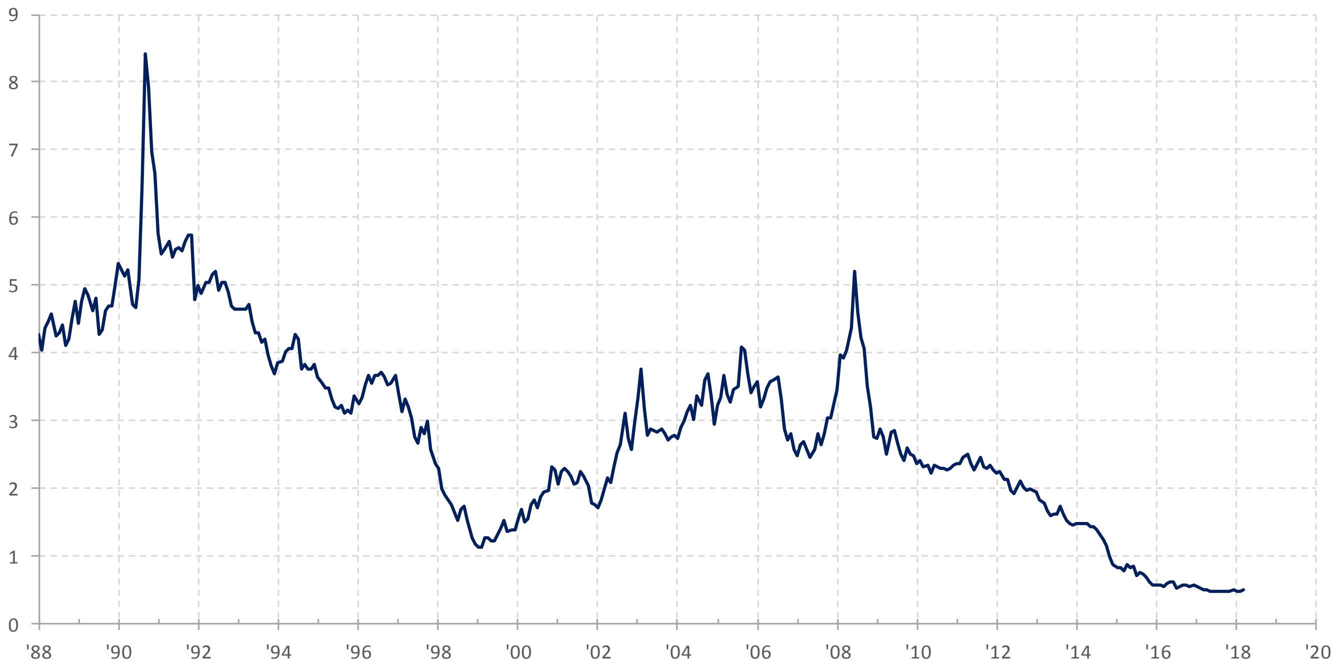

Chart 2: Energy as % of S&P 500 Index

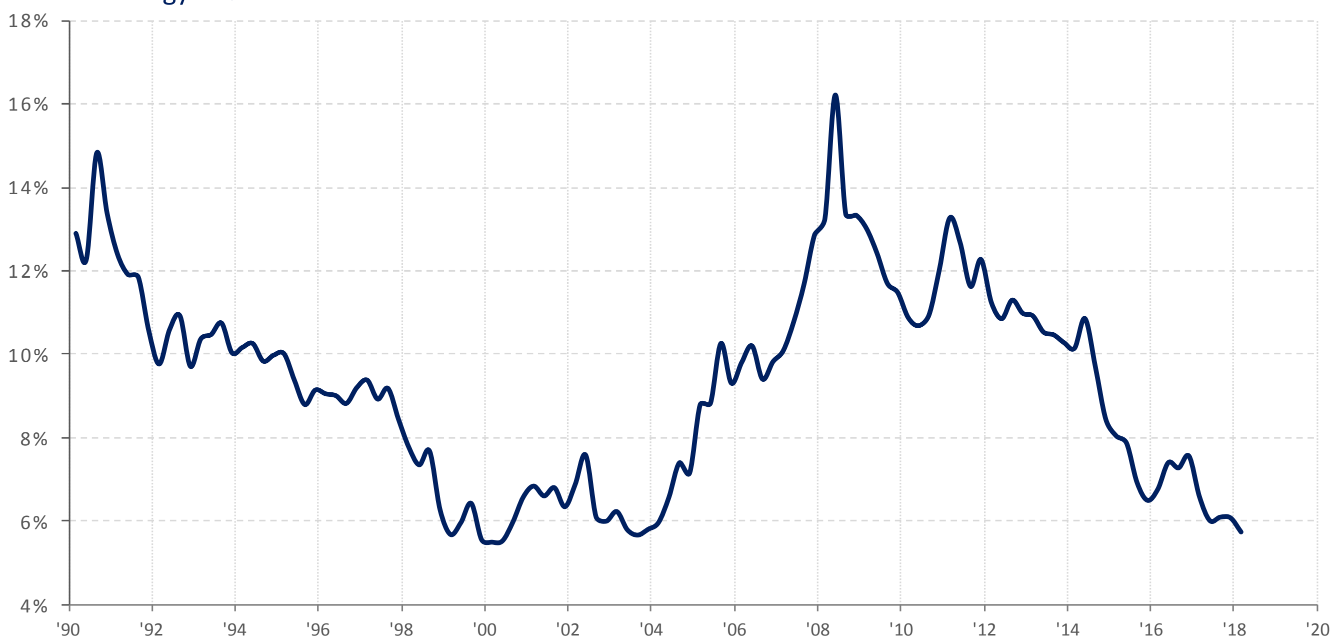

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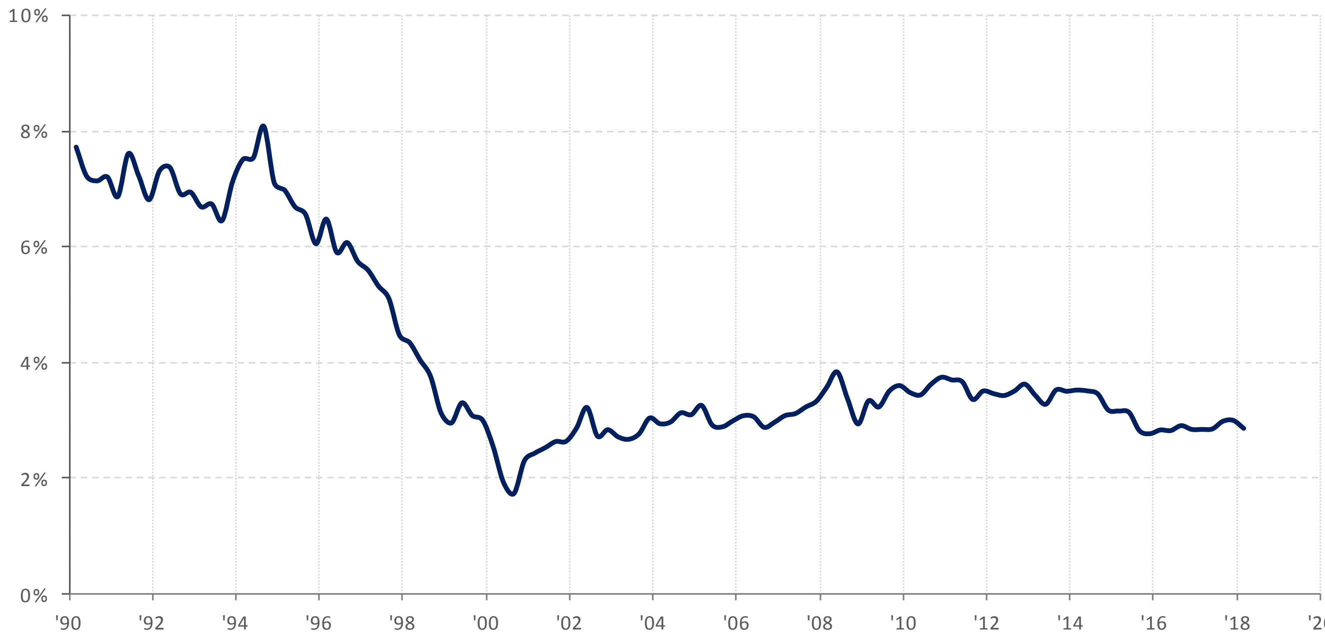
Chart 3: Materials as % of S&P 500 Index



A final theme is underweighting the Technology Sector within equity portfolios. We believe the overall outlook for technology companies is very bright; however, the issue of valuation is what increasingly concerns us. With the exception of about a year around the peak of the internet bubble in early-2000, the sector has never been this highly weighted within the S&P 500 index (See Chart 4). High valuation doesn't mean the sector has to decline or even begin underperforming, but it is a "yellow warning light". For that reason, we have generally been underweighted the sector and increasingly focused on the valuations of the stocks that are in this sector of our equity portfolios.

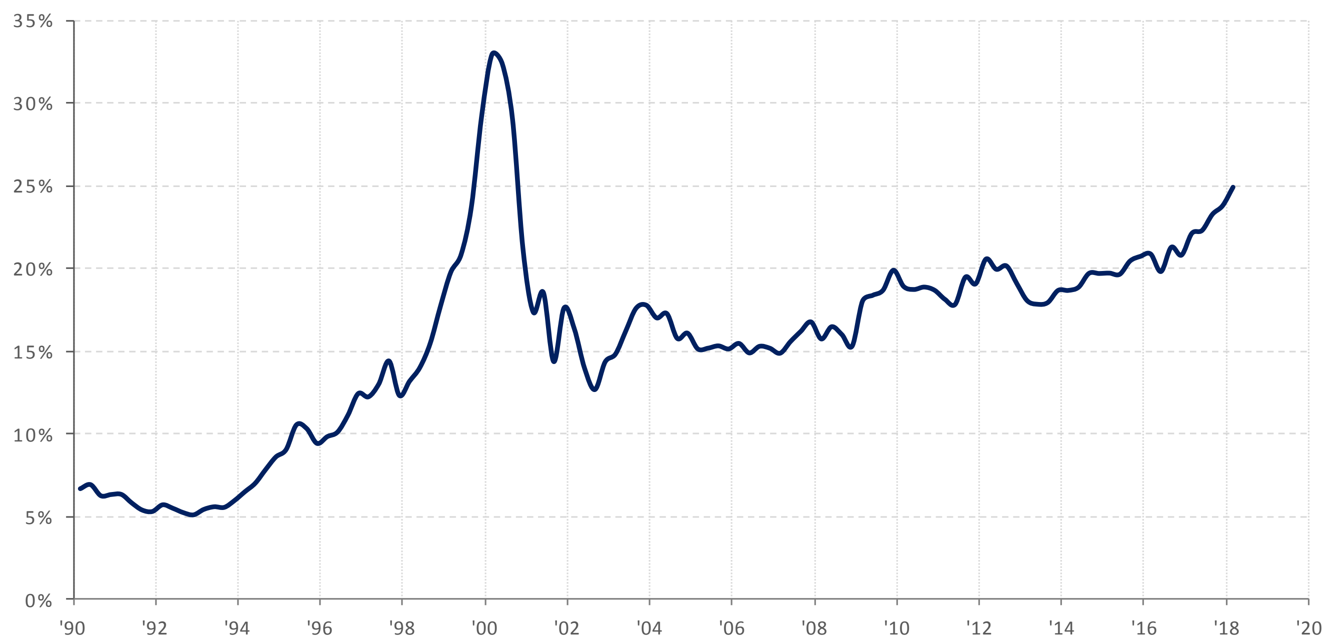
Our Portfolio Management Approach

We often get asked by clients to explain our process for managing portfolios, so we thought it might be helpful to give an overview here.

Our approach is a multi-level process that is focused on attempting to give each of our clients the best possible chance of achieving their financial goals.

- The first step, and the most important, is to determine your appropriate overall allocation between asset classes such as equities, fixed income, commodities, and cash. This balance is driven by the competing needs for growth, safety, and income which in turn are driven by your financial goals relative to your current balance sheet and your comfort with risk.

Chart 4: Info Tech as % of S&P 500 Index



- The next step is to choose which specific segments and/or sectors within those asset classes to use to create the determined allocation. We do that by attempting to identify how the various segments and sectors are positioned relative to our view of the intermediate- to long-term investing future. That determination is based on our assessment of both whether they will benefit or be hurt if our view proves correct and whether that is appropriately reflected in their current values. While being sensitive to tax implications, we attempt to maximize exposures to those areas that we see as being undervalued relative to their potential and vice-versa. As examples, we may be overweight U.S. equities and within that the Energy Sector and within that refining companies but be underweight the Consumer Staples Sector by having no holdings in that area. In our fixed income holdings, we might prefer high-grade corporate bonds over Treasuries.

- The final step is to actually choose what we believe to be the best individual securities to fill out the determined weightings of the specific segments and sectors in the portfolio. The following are a couple of recent examples of how we do this. We have been getting more favorable towards commodities and commodity stocks so in many cases we have been increasing the weighting of the Materials Sector within equity portfolios. In order to accomplish that, we bought shares of steel and steel related companies, such as Steel Dynamics (Ticker: STLD) and Reliance Steel & Aluminum (Ticker RS) because they were attractively valued, are U.S. companies so will benefit from the decrease in the corporate tax rate and should see an added benefit to their product prices due to the implementation of tariffs on imports of steel. As we mentioned above, we have been using the 1-year Treasury bill as a major component of many fixed income portfolios because we believe interest rates are going to continue rising which will have a negative impact on longer-dated securities and we do not view current market spreads for most corporate and municipal debt as being adequate to compensate for the additional credit risk. If we want to have exposure to a market segment such as preferred stocks where the individual components often do not offer great liquidity or such as emerging market equities where we do not have the in-house expertise to build a diversified portfolio, then we will typically invest through an exchange traded fund (ETF).

Company Developments

BAM is continuing to expand both in terms of size and the services that we can offer our clients. We opened a new office in Tiverton, RI, on March 1. For those of you who are not Rhode Islanders, Tiverton is a neighboring town to Little Compton where Scott lives and Brett spends his summers. Please stop by for a visit if you find yourself in the neighborhood!

We now offer a financial planning service and a new online document/information storage system. We can work with you to build a financial plan with the help of a program called MoneyGuidePro. We have found this to be a very effective tool in helping clients get a better understanding of where they are on their path to financial security. Your plan will take into account your entire personal balance sheet and income statement and compare those to what you think you need and want in order to give you a "financial grade". The process of building the plan will also highlight concerns and risks that we can help you address and can provide insight into your asset allocation across your entire balance sheet. Having a financial plan that provides a roadmap to your financial future can prove to be enormously comforting as the markets go through their cycles.

Everplans is a very user-friendly and intuitive secure online system for storing personal information and financial data and documents. You can store information on subjects such as your home and pets, emergency contacts, and funeral preferences. You can also upload documents including insurance policies and estate plans. Once you have established a plan you can "deputize" specific people to have access to selected areas of it. For example, you could give access to certain areas to the executor of your estate and give access to other areas to your children. Please click on this link here to watch a video about Everplans.

Let us know if you would like to learn more about either of these services.

Administrative Items

As the result of feedback from clients, we have decided to go to an annual distribution of the BAM report version of your account statement. You will continue to receive monthly account statements from Pershing. If you wish to continue to receive a BAM quarterly statement, then please let Suzie know. You also can get a BAM account statement any time you would like by emailing or calling us.

Remember that you have until April 17 to make contributions to your IRA for 2017. Limits for traditional and Roth IRAs are $5,500 for people under 50 years of age and $6,500 if you are 50 or over. Limits for SEP IRAs for 2017 are the lower of $54,000 or 25% of compensation. Please let us know if you need any assistance in making a contribution or setting up a new IRA.

For security reasons please remember any request to distribute money or change monthly distribution instructions will require a confirming phone call.

At this time of year, SEC Rule 204-3(b) mandates the delivery of our information brochure which can be viewed in the shared documents section of your Vault.

As always, we welcome your comments and questions. Please don't hesitate to call, visit or email at any time.

Scott, Brett, & Dave