ALBION FINANCIAL GROUP

October 27th, 2017

It was a busy quarter for the news cycle as devastating hurricanes and earthquakes competed with the ongoing political discussions in our nation's capital. Yet cutting through the noise was the security breach at Equifax, the credit monitoring and reporting company. An unfortunate characteristic of our brave new world of connectivity is the reality that the hackers really are out to get you. We address the Equifax breach while highlighting steps you can take to make it a little harder for the bad guys to get their hands on your data. We also review the economy and despite the voices shouting from the rooftops both for and against the state of the markets we come down on the side of more of the same; a Goldilocks combination of not too hot nor too cold. We hope this letter finds you happy, healthy, and looking forward to the holiday season.

Equifax Breach

There are moments when we reflect with longing on our pre-internet past. We pine for the days when Amazon, Google, Facebook, and countless others were not tracking our every move, building databases of our behaviors, and trying to anticipate what we want before we do. The area of biggest concern, though, is data security. Although data breaches are not new and happened even before the digitalization of information, the recent Equifax breach highlights the vulnerability we all face as more and more of our personal data is online and available to hackers. According to Privacy Rights Clearinghouse, a non-profit consumer education and advocacy organization, there have been 7,699 breaches made public since 2005 affecting 1,073,490,127 records.

On September 7, 2017 Equifax reported a security breach that could impact as many as 145.5 million consumers (nearly half of the U.S. population). Equifax is one of the three major credit reporting agencies and as such has a treasure trove of data on U.S. consumers, including confidential, personal and account information.

In light of this major breach, consumers can check online to see if they have been impacted by using the tool on the Equifax website that requires entry of your last name and last six digits of your social security number. Additionally, Equifax is offering free use of their credit monitoring service accessed through their website www.equifax.com. Equifax has announced that by the end of January 2018 they will be rolling out a product that allows consumers to implement free lifetime credit locking.

You can also contact each of the credit reporting bureaus independently and put a fraud alert on your credit files. Such an alert means you will be notified if anyone requests your credit information from that agency. The lock is free but only lasts 90 days. If you notify one of the big three agencies (Equifax, Experian, and TransUnion) they will notify the other two. However, you will need to separately contact Innovis.

The Equifax hack is not just a near-term issue; it will likely have repercussions for years to come. While we fully expect credit bureaus and other entities with sensitive information to aggressively pursue improvements in data security, we also recognize that hackers never sleep and will continue to create new tools and techniques to breach security systems. Unfortunately this means we will all need to be more vigilant in monitoring how our personal information is being used and disseminated.

Credit Bureau Contact Information

Equifax	(1-888-766-0008)	www.equifax.com
Experian	(1-888-397-3742)	www.experian.com
TransUnion	(1-800-680-7289)	www.transunion.com
Innovis	(1-800-540-2505)	www.innovis.com

Economy & Markets

The U.S. economy continues on its years-long path of expansion. Despite the endless cacophony from Washington D.C. the track of growth has neither picked up nor dissipated. Our broad assessment is that the bedrock of the economy – e.g., jobs, sentiment, private sector balance sheets, and aggregate demand – is healthy. Meanwhile lawmakers have been in a state of gridlock for the majority of the year. Taken together, a measured and stable economy with little in the way of dramatic new policies from Washington is a celebrated backdrop for equities. As a result the bull market in stocks pushed on in the third quarter.

Further down the economic stream corporate profits grew once again and it's looking as though 2017 will record the best annual earnings pace since 2011. We believe that it's this fundamental factor that's driving stock returns this year. However, we would be remiss to not reiterate that combined earnings growth at this pace is unlikely to continue. Rather we trust that while the upward trajectory should stay intact it's likely to ultimately settle at a more normalized mid-single digit speed, perhaps as early as in the third quarter.

As equity markets continue their ascent so too have calls from the pundits and perma-bears saying that stocks are wildly overpriced. There are many often cited metrics that propose a frothy market. Some have merit, while others are clear distortions of logical measures of valuation. We are not fans of cherry-picked data. Instead, we prefer to evaluate a broad collection of evidence for analysis of both financial markets and individual investments. As such we continue to declare that current valuations are levelheaded, particularly considering low interest rates, lukewarm inflation, and record corporate earnings. Low interest rates are perhaps most critical in examining present valuations. As Warren Buffett likes to say, "*interest rates are to asset prices sort of like gravity is to the apple. When rates are low there is little gravitational pull on stock prices.*" We agree.

In past musings – both in our quarterly letters and in the financial press – we've been ardent promoters of the notion that the global economy is finally experiencing a synchronized bounce. Indeed, Europe, for the first time in this recovery, may see *faster* growth than the U.S. ; Japan is perking up to the point where their Prime Minister (Abe) is attempting to capitalize on better times by having a snap election to validate and consolidate his power; and China appears steady. Short of a surprising shock to the system, the world economy is looking quite good.

Fed policy has been benign over the summer months. As we anticipated their target interest rate has been unchanged since June. Our expectation for the next rate hike at their December meeting continues to sit at better than 50% odds. In September the Fed formally announced its balance sheet reduction plan, to commence this autumn. On net this is a good move. Financial markets yawned in response – a testament to Yellen & Co.'s deft management at the central bank. Supposing that the general economy continues its expansion we think that the Fed further normalizes monetary policy. The effect of (possibly) gradually rising interest rates is something we will be closely monitoring. Nevertheless we still think that both the economy and stock market are in a state of relative wellbeing at the moment.

Planners' Corner

This quarters' Planners' Corner focuses on the same issue as our Quarter Letter introductory paragraphs as we believe online security warrants the added emphasis. With the recent Equifax security breach which affected approximately 145.5 million consumers, here are 5 things you can do to help protect yourself from identity theft:

1. Get a free credit report every year from each of the 3 major reporting agencies (Equifax, Experian, and Transunion). You

can stagger them to get one report every 4 months. Review the reports for accuracy to make sure there are no mistakes or fraudulent lines of credit.

2. Setup a fraud alert. A fraud alert on your credit report will notify lenders and creditors to take an extra step of identity verification before opening a credit line in your name. Fraud alerts are free. Once you contact one of the 3 major agencies, they are required to contact the other two. Fraud alerts last for 90 days (1 year if you are in the military on active duty), but can be extended up to 7 years if you are a victim of identity theft.

3. Consider freezing your credit. If you freeze your credit no one, including you, can access your credit report to open new lines. You will get a PIN that you have to use each time you want to unfreeze and freeze your credit. In Utah there is a $10 fee for each credit reporting agency to add a freeze and an additional $10 fee each time you want an agency to "thaw" a freeze. There are no fees for victims of identity theft.

4. Sign up for credit monitoring services which notify you if a new account or credit inquiry show up on your report. Some credit monitoring services are free and others can cost up to $50 per month depending on the services offered. Equifax is offering 1 year of free credit monitoring to all Americans.

5. General good practices are to shred documents that contain personal information, make sure your devices are password protected, use strong passwords and PINs, and don't be an open book online. Set your social media preferences appropriately and avoid volunteering information about yourself to people you don't personally know.

Albion Community

Thank you to all who joined the team at Albion Financial Group for our recent blood drive in partnership with ARUP Blood Services. This is the first blood drive we have done and given the success and positive community impact, we will likely make it an annual event.

We also want to share that our Chief Investment Officer, Jason Ware, was recently spotlighted as an alumni "connection that matters" by the University of Utah College of Social and Behavioral Science for his work and achievements in the field of investment management, including his work with national media outlets like Barron's, the Wall Street Journal, and CNBC.

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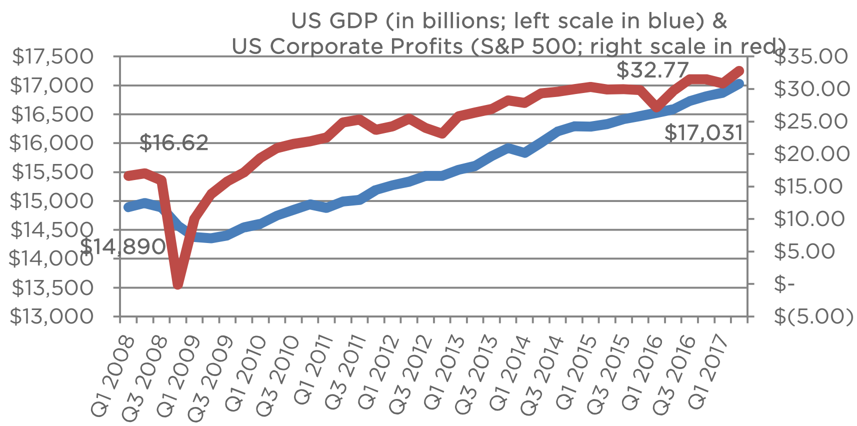
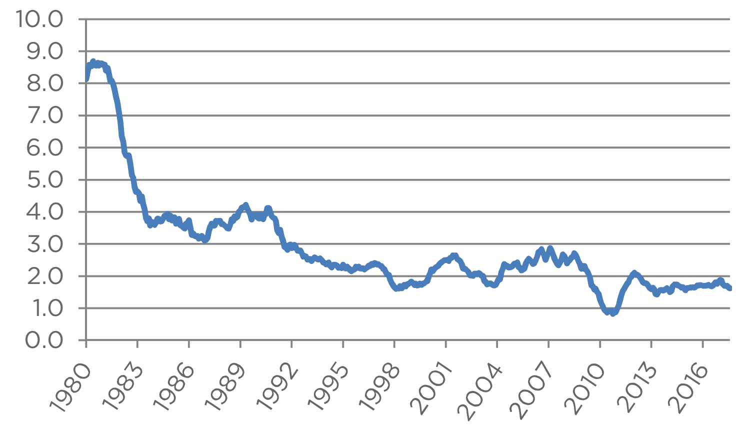
UNITED STATES GDP ANNUAL GROWTH RATE



UNITED STATES INFLATION RATE



Steady economic growth persists and S&P 500 corporate profits continued their recovery. In Q2 2017 broad-based earnings hit a record high. The general economic data – output, labor market, private sector balance sheets, and sentiment – are encouraging.

Inflation remains tame by most measures with the most recent data showing a rate slightly below the Fed's 2% target. We continue to monitor the pace of wage growth, which could push up inflation over the longer-run if it were to accelerate in a tightening labor market. However, at present price growth remains in check.

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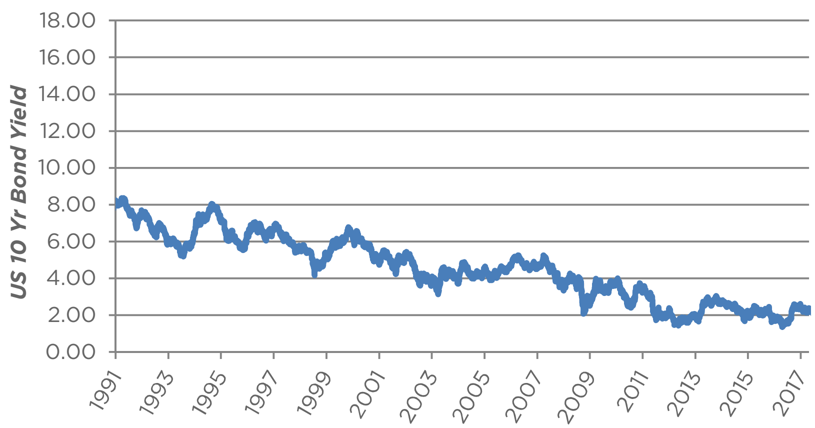
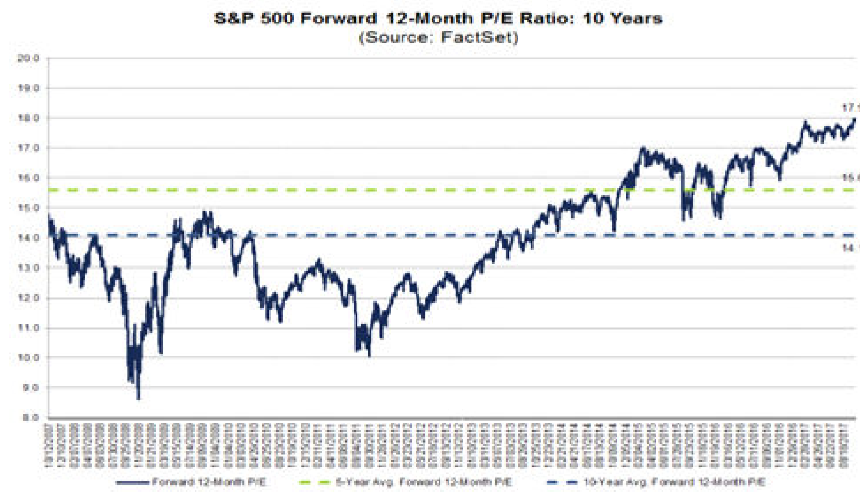
US 10 YEAR TREASURY YIELD



TRAILING 12M P/E RATIO: 10 YEAR



In June the Fed hiked their target rate an additional 0.25%, the fourth such hike since December 2015. The Fed has since paused their pace of short-term hikes for now as their focus has pivoted towards reducing the size of their large balance sheet. This behavior may cause longer yields to gradually rise. Nonetheless interest rates remain low, especially in the context of history.

Valuation on the stock market is not cheap. Based on forward looking profits the S&P 500 trades at a clear premium to its longer-run average. Yet, considering this level within the framework of modest inflation and low interest rates we consider market valuation rational – specifically in light of record corporate earnings. As a footnote, it's important to remember that bull markets seldom end simply because stocks are perceived as overvalued, particularly when only moderately so.