

January 31st, 2017

We have closed the books on 2017 and rung in 2018; a year we hope provides you happiness and prosperity. Our year end letter begins with a look at the dimensions of risk and how we work with our clients to turn risk assessment into meaningful portfolio construction. We also provide our outlook on the market and economy including impacts, real or presumed, of the 2017 Tax Cuts and Jobs Acts. Given the 2017 tax act was the first major tax policy change in decades, in Planners' Corner we talk about estate planning and introduce four fundamental estate planning tools that we should all consider. And, lastly, in Albion Community, we introduce the newest member of the Albion team, Brady Jeppsen.

As we reflect back on 2017 we want to thank our clients and friends of the firm. We realize and appreciate how lucky we are to work with you and your families.

Sincerely,

The Albion Team

Three Dimensions of Risk

Albion has spent decades grappling with how to assess client risk and how to translate that assessment into investment portfolio construction. Our experience points to risk being an oscillating multidimensional issue. We address client risk in three dimensions; risk capacity, risk tolerance, and risk perception. Of these dimensions, risk capacity, the objective, often mathematical, analysis of how much risk a particular client can afford to accept, is the easiest to assess.

The next dimension is risk tolerance; the ability of an investor to remain committed to a long-term investment plan. We work to

quantify how volatile an individual's investment plan can be without fear or greed causing them to exit the strategy. Investors rarely believe they exit investment plans for emotional reasons; rather exits are almost always based on the belief that because of what markets are doing the current investment course is illogical; and market action typically supports this view! However this almost always means changing course at the wrong time. An accurate reading of risk tolerance aims to avoid this unsuccessful scenario.

Risk capacity and risk tolerance may be out of alignment. We work with risk averse families with tens of millions of dollars who spend as much as a typical middle class household. They have a high risk capacity but a low risk tolerance. On the other hand are retirees who withdraw a substantial percentage of their portfolios each year to fund large living expenses. These clients are going to run out of money yet want an aggressive investment approach to forestall the inevitable. They have a low risk capacity but a high risk tolerance.

Finally, risk perception. This is the headline risk revolving around current events. For example, concerns that the election of a new president may ruin the economy, or, the risk that a potential trade war may cause financial markets to collapse. Risk perception aims to understand the degree to which our clients react to what they read or see in the news.

Risk capacity usually remains fairly constant, barring a dramatic change in a client's financial circumstances. However, the same cannot be said for risk tolerance and risk perception. Clients' risk tolerance will vary based on recent experience. Clients who initially present as highly risk tolerant may change their tune and become more interested in stable, moderate returns. Perhaps in the interim a friend had a deal go sour or they realized their parents were not on as solid a financial footing as they had originally thought. We have

found that it takes many conversations across time to truly understand how our clients feel about risk.

Economy & Markets

The U.S. economy in the fourth quarter appeared to be humming along. Core measures of economic health remain upbeat with jobs, household spending, and general activity driving continued growth. In particular one spot that seems to have picked up these days is general confidence levels. To be clear, broad sentiment indicators were already enjoying a nice multi-year recovery prior to 2017. Nevertheless we do sense a noticeable lift of late that cannot be ignored, and that surely has delivered an extra boost to an already balanced and stable eight-year economic expansion.

We also had our first *major* policy change from Congress and the new administration; a sweeping tax bill. The true impact of these tax cuts won't be known for years, but in the direct aftermath many analysts, politicians, and pundits have argued the cuts' stimulative powers are already evident on American business. While it's premature to state that tax cuts have flowed through to earnings it may be that the cuts may have loosened corporate purse strings. Nevertheless what is almost certain is that corporate profits will see a boost from their portion of the tax cut. Markets cheered this notion, and in conjunction with the solid economy continued the bull market in stocks through the fourth quarter.

Corporate profits marched uphill in the fourth quarter as well. As we've stated before, it's looking as though 2017 will log the best annual earnings growth pace since 2011. We believe that it's this fundamental factor that's doing most of the heavy lifting in the stock market. However, we must again repeat that we do not expect double-digit earnings growth to continue over the longer-run. While it's correct that corporate tax cuts should provide some boost in 2018, core growth is likely to *ultimately* moderate into a single-digit pace. Meanwhile, valuations remain neither cheap nor expensive. We

recognize that on a simple monochromatic basis – looking at nominal market price to earnings ratio – stocks appear overvalued. However when applying a fuller analysis, using other critical factors like interest rates, inflation, and corporate margins, a fair value assessment becomes more reasonable.

As 2017 drew to a close the global economy continued its harmonized upturn. This is the first truly coordinated and sustained world increase in economic output in over a decade; undoubtedly a good thing and America should benefit from more trade and purchases of various U.S. products. Of particular note, after years of deep economic, social, and political challenges in Europe a true recovery appears more established. So much so that the European Central Bank (ECB) is preparing to remove unorthodox monetary stimulus, much like our Fed did here a few years ago.

Speaking of the Fed, as we anticipated interest rates were raised another +0.25% in December. Concurrently the formal reduction in the size of their balance sheet that began in October continues. We will also have a new Fed chairperson beginning in February – Jerome “Jay” Powell. Mr. Powell has been a member of the Board of Governors at the central bank since 2012. And while perhaps a touch more “hawkish” than Janet Yellen, we believe that he will likely continue along the policy path she has forged.

Planners' Corner

Everyone needs an estate plan regardless of financial situation. Such plans range from short simple documents to complex series of interlocking trusts, partnerships and wills. It all depends on the nature of the estate and desires of the family. When done right, estate planning is more than a plan to transfer assets at death or a way to avoid tax, but rather a structure for families to transfer values to the next generation. Estate planning documents let you make your wishes known both for yourself and your loved ones during life, in the event of incapacity, and at death.

Here are 4 things everyone should know about estate planning:

1. Everyone needs a will. A will is a document that states your final wishes. It can include instructions for transferring property, paying debts and taxes, as well as naming guardians for children and pets. In your will you name a personal representative or executor who will be responsible for carrying out your wishes. Many people use an estate planning attorney to help draft a will, a tactic we strongly encourage as there are legal requirements, which vary by state.
2. Health care directives, also known as advanced directives for medical decisions or medical power of attorney, is a legal document which states your preferences for medical care if you are unable to make decisions for yourself. It also allows you to name a person to make decisions on your behalf. While you do not need an attorney to draft this document we recommend consulting legal counsel. Each state has a standard form you can download and fill out on your own. Utah's document is called the Utah Advance Health Care Directive. It's important to give a copy to your primary care physician as well as your named health care agent.
3. Make sure you designate beneficiaries on your financial accounts. This includes 401ks/403bs, IRAs and life insurance policies. Death, divorce, or aging family members are all reasons to revisit your beneficiary designations to make sure they are up to date. Most beneficiary designations supersede instructions in a will, so it is critical they are accurate.
4. Trusts can be great estate planning tools. You don't have to have an overly complex estate to benefit from having a trust.

There are many different types of trusts and it is important to work with an estate planning attorney when creating these tools. The benefits of trusts depend on the type of trust you create, but in general, they can provide tax, asset protection, and legacy planning benefits.

At Albion, we work with our clients to understand their overall financial picture and help determine which estate planning vehicles make sense for their situation. We then work in conjunction with our clients and their estate planning attorneys to ensure the success of the planning process. Please contact us if you have any questions or would like us to help think through the next steps in your estate plan.

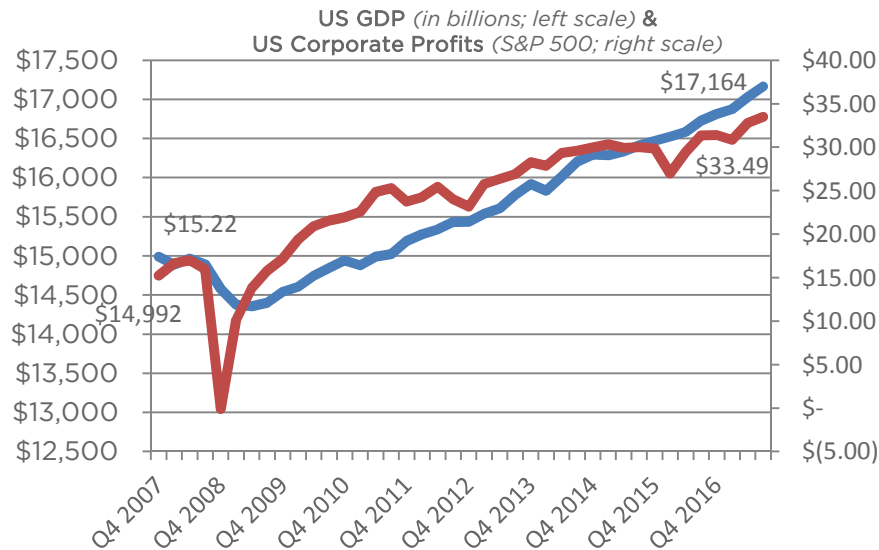
Albion Community

The Albion Financial Group team is growing and our newest member is Brady Jeppsen. Brady took an unconventional path toward financial planning. After getting his degree in Microbiology and working in a laboratory for several years, he started paying closer attention to his own personal finances. He became fascinated with some of the different investing, planning, and tax strategies that can be used to build and sustain wealth.

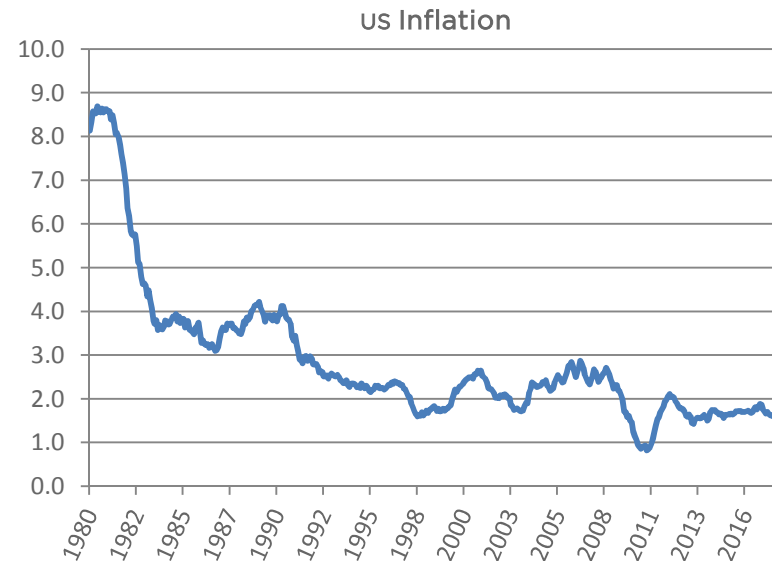
In September 2017, Brady took the career-changing leap and began his career at Albion as a Financial Planner. He works closely with Senior Wealth Advisor Liz Bernhard and Associate Wealth Advisor Mallory Davis, where he uses his strong analytical skills to help clients optimize their financial situation. Brady is currently working toward obtaining his CERTIFIED FINANCIAL PLANNER™ designation.

Brady enjoys spending time outdoors with his wife and two daughters. He also loves travelling and enjoys local eateries.

UNITED STATES GDP ANNUAL GROWTH RATE



UNITED STATES INFLATION RATE

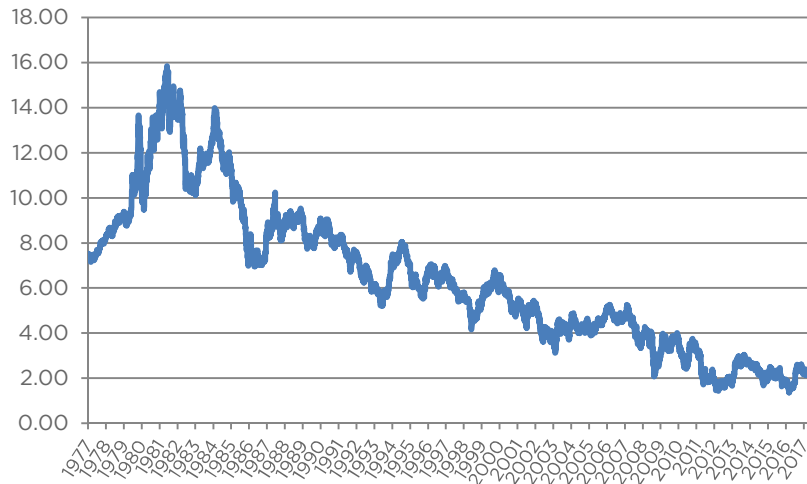


Steady economic growth persists and S&P 500 corporate profits continued to expand. In Q3 2017 broad-based earnings hit yet another record high. The general economic data - output, labor market, private sector balance sheets, and sentiment - are encouraging. On the latter, it seems that business, consumer, and investor mood has picked up from what was already a notable multi-year recovery.

Using the Fed's preferred measure inflation remains tame with the most recent data showing a pace stubbornly below the Fed's 2% target. Additional measures like CPI have picked up some, while various other inflation-oriented data have perhaps begun to warrant closer attention. We continue to closely monitor the pace of inflation against the preponderance of data. On net, our present opinion is that general price growth remains in check.

US 10 YEAR TREASURY YIELD

Interest Rates
US 10 Yr Bond Yield



TRAILING 12M P/E RATIO: 10 YEAR



In December the Fed hiked their target rate an additional 0.25%, the fifth such hike since December 2015. Concurrently, the Fed is also reducing the size of their large balance sheet by letting mature Treasury bonds “run off” without replacing them. Our thinking has been that this behavior may cause longer yields to gradually rise, which we have seen over the past few months. Nonetheless interest rates remain quite low, especially in the context of history.

While the S&P 500 trades at a clear premium to its longer-run average on a P/E basis, we reason that the market is fairly valued when considering modest inflation and low interest rates – particularly in light of record corporate earnings and a now synchronized global economic expansion. Either way, it’s also important to remember that bull markets seldom end simply because stocks are perceived as overvalued, especially when only modestly so.