CURBSTONE
FINANCIAL
MANAGEMENT
CORPORATION

From the Curb

Letter to Clients

Quarter Ending December 30, 2017

2017 was a year of superlatives, at least when talking about returns for stocks. "Epic, stellar and record-breaking" are examples of just a few of the adjectives the media used in describing the performance of the S&P 500 and the Dow Jones Industrial Average. The Dow had 71 record closes and had four 1,000 point milestones in the year. Large-cap stocks led the way, but the rally was broad and a number of stock indices recorded their best years since 2013.

Size, style and geography mattered. Large-cap stocks led the markets higher in the US, while emerging market returns outpaced not only developed market performance, but all stock returns regardless of domicile. Growth oriented issues further enhanced returns within all segments; large, mid, small and international. Bonds had a reasonable year although returns were a bit muted due to the impact of rising rates.

Index	2017 Return	Index	2017 Return
Dow Jones Industrial Avg.	28.11%		
S&P500	21.83%	S&P500 Growth	27.44%
S&P500 Equal Weight	18.90%		
S&P Mid Cap	16.24%	S&P Mid Cap 400 Growth	19.92%
S&P Small Cap	13.23%	S&P Small Cap 600 Growth	14.79%
MSCI EAFE	25.03%		
MSCI Emerging Markets	37.28%	MSCI Emerging Markets Growth	46.80%
Bloomberg Barclays Aggregate	3.54%		
Bloomberg Barclays Int. Corp/Gov	2.14%		

Broadly diversified portfolios performed quite well as they captured the strong upside bias of stocks, with the stability provided by bonds and money market funds. Regardless of which asset class is performing, asset allocation is designed to balance your tolerance for volatility with your current needs and future commitments. When one asset class, in this case stocks, significantly outperforms other investments in your portfolio, it results in a higher return for the overall portfolio.

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So what drove overall returns in 2017? From our standpoint, it was a combination of fundamentals, sentiment and policy. Both earnings and revenue growth were strong throughout the year, which has had the effect of keeping P/E ratios at rich, but not speculative, levels. Investor optimism, as measured by the Wells Fargo/Gallup Investor and Retirement Optimism Index, found that investors are most upbeat about the economy, the stock market, unemployment and their personal finances. Certainly investor optimism helped shrug off a number of headwinds presented during the year, as markets avoided a correction of even 5%. Corporations focused on the business-friendly conditions supported by the current administration and the potential benefits of tax reform. Whether or not the new tax legislation drives economic stimulus, both individuals and business are betting on better days ahead.

There are numerous issues that could easily up-end this present state. How long does this rally stay in place? It's hard to know. It is difficult to predict the duration of any rally, and we understand that as clients you rely on your asset base to meet your current as well as long-term needs. We believe that volatility will likely return this year as fundamentals, sentiment, and policy adjust to reflect the impact of tax reform, global growth and socio-political issues. We are confident that a disciplined approach to asset allocation is the preferred strategy for achieving your investment goals.

A balanced portfolio will never realize 100% of stock or bond index returns. Instead, your return will appropriately reflect your risk profile and the associated asset allocation. By remaining focused on your long-term objectives, we will avoid the common pitfall of so many investors...buying rallies and selling into declines. Discipline and a well-articulated investment objective are key factors to achieving long-term investment success.

We appreciate the opportunity to serve as your investment advisor and we look forward to another year together. We welcome your thoughts, comments and questions as we begin this New Year.