BARRETT CAPITAL

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Quarterly Investment Letter

First Quarter 2018 **Vol. XVII Issue 1**

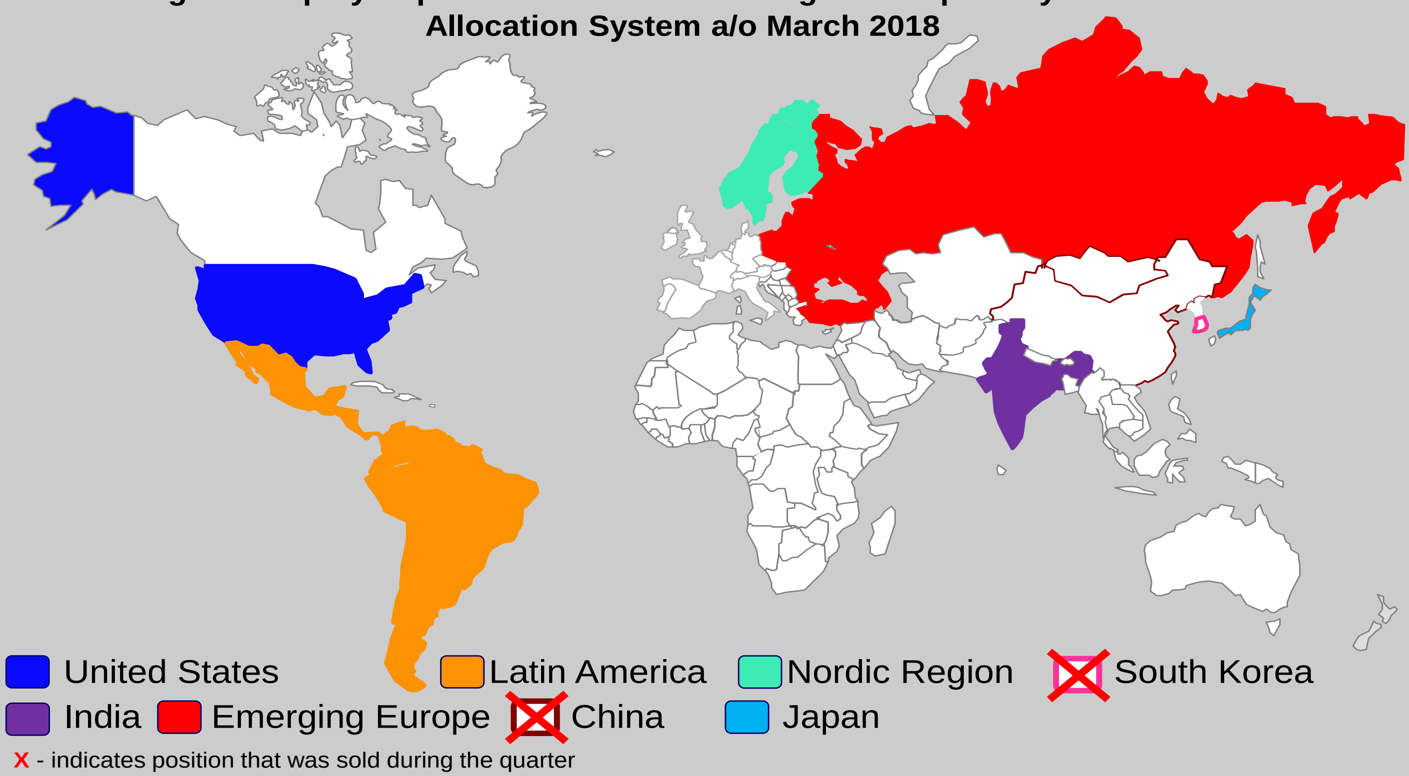
Key Takeaways

The year started off with higher volatility and mostly lower equities. After starting the year with a surge higher in January, global equities tumbled more than 10% in the middle of the quarter before attempting to rally back in March. U.S. and developed international equities failed to erase the losses from February; both ended the quarter down 1%*. Emerging market equities managed to recoup the losses, and ended the quarter up 2.5%*.

2018 saw a return of volatility and the threat of higher interest rates. After being nearly non-existent in 2017, volatility returned to financial markets in 2018. A better than expected jobs report in early February raised fears that the Federal Reserve would raise interest rates faster than the market had been anticipating. This caused a global rout in equities and bonds alike.

GLOBAL AI™
ALLOCATION INTELLIGENCE

Regional Equity Exposure of Portfolios Using our Proprietary Global AI™ Allocation System a/o March 2018



* - Emerging markets stocks represented by Vanguard FTSE Emerging markets ETF, Developed International stocks represented by Vanguard FTSE Developed Markets ETF, U.S. Stocks represented by SPDR S&P 500 ETF. Source Bloomberg LP.

GLOBAL AI™

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Country/Regional Outlook

= Positive Outlook (green) = Negative Outlook (red)

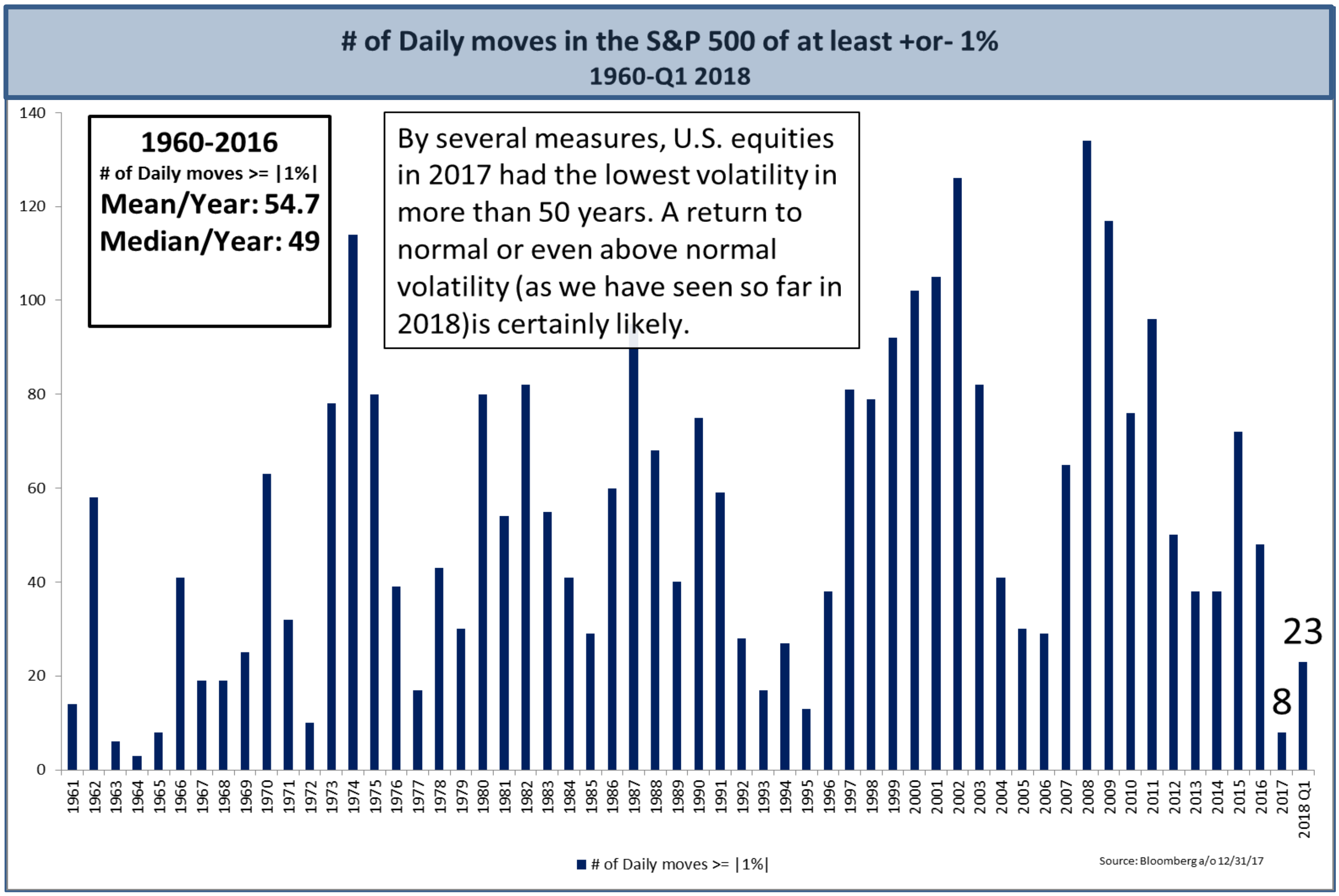
China	• Exited position • Rate of Return up 14.4%
South Korea	• Exited position • Rate of Return up 1.3%
Latin America	• Rate of Return range up 9.4-10.4%
Emerging Europe	• Rate of Return range up 3.4-6.2%
India	• Rate of Return range down 2.6-4.7%
Japan	• Rate of Return up 1.4%
Nordic Region	• Rate of Return down 3.9%
U.S.	• Rate of Return range -4.5-+4.2

*-Rate of Return represents the rate of return of the fund(s) for the period during the quarter that the fund was held by a standard portfolio using our proprietary Global AI™ program. Source: Morningstar and Bloomberg LP

First Quarter 2018 Investment Commentary

U.S. Stocks: Our U.S. equity managers turned in a mixed performance during the quarter with growth focused managers delivering positive results and value oriented managers posting losses. After solid earnings results spurred stocks higher in January, a stronger than expected jobs report fueled investors' fears of inflation. The Labor department report showed much higher than expected wage growth which led investors to believe that inflationary pressure might lead the Federal Reserve to raise interest rates faster than expected. After a 10% correction in February, stocks attempted to reclaim some of the losses, but came up short, ending the quarter down 1%.

2018 has been marked by a return of volatility in financial markets. As you can see in the chart below, the number of 1% daily moves (up or down) in the S&P 500 hit a more than 50 year low in 2017 with only 8 such moves. In the first quarter of 2018 there were 23 daily moves of at least 1% in the S&P 500. It is not unusual to see heightened levels of volatility follow sustained periods of unusually low volatility, so we would not be surprised if volatility remains elevated for much of 2018.



International Stocks: International equities were mixed for the first quarter. Developed international equities were down 1%, while emerging market equites posted gains of 2.5%. Despite continued strength in corporate and economic fundamentals, overseas markets moved lower in sympathy with U.S. equities on the back of inflation worries. Speculation that U.S. import tariffs could cause an international trade war also weighed on markets.

We eliminated our positions in South Korea and China during the quarter after our Global AI™ program gave us sell signals.

Asian stocks were mostly negative for the quarter with Japan bucking the trend and showing a positive return for U.S. Dollar investors. Japan's economy logged its eighth straight quarter of GDP growth, the longest such streak in nearly three decades. Strong trade figures and optimistic corporate sentiment helped calm much of the fears of a potential trade war.

Chinese and South Korean stocks moved lower during the quarter as the U.S. announced tariffs on as much as $50 Billion U.S. Dollars of Chinese imports. **Despite negative performance for the full quarter, our Global AI™ program triggered an exit of our positions in both South Korea and China prior to much of the downturn. As a result, we were able to exit both of these positions in client portfolios with a profit for the quarter.**

After hitting a record high in January, Indian stocks moved lower in the second half of the quarter as negative sentiment mounted in the wake of a scandal at India's second largest state owned bank, the introduction of a capitals gains tax, and fears of a possible central bank rate hike.

Developed European stocks suffered a similar fate as U.S. markets. After initially rising on the back of strong economic data, fears of an overheating economy and higher interest rates led to panic selling in February. Emerging European stocks fared better, with most markets moving higher. Russian stocks were a standout performer, posting gains on the back of rising oils prices and a decision by Standard & Poor's to upgrade Russia's credit rating.

Latin America was by far the biggest winner of the quarter. Stocks in Brazil hit new all-time record highs in January after an appellate court ruling upheld the conviction of Former President Lula for graft and money laundering. The conviction dismantled Lula's bid to run for President once again. This allayed investors' fear that Lula's return to power would mean the demise of many of the market-friendly reforms that the current government has implemented.

Putting It All Together

Our clients have seen concrete examples of how our proprietary Global AI™ allocation system is helping us navigate the volatility in financial markets. As financial market volatility increases, so too does the importance of the risk management components of Global AI™. Seasoned investors know that successful investing involves not just striving to capture gains when markets move higher, but also attempting to mitigate losses when markets inevitably correct. We designed Global AI™ to do both.

Best Regards,

Russell E. Lundeberg Jr., CPA

Principal & Chief Investment Officer
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