NorthLanding Financial Partners, LLC

Quarterly Model Portfolio Update

April 19, 2018

U.S. Economy & Financial Market Observations

In late January, the S&P 500 had been up **7.5%**, propelled by a stream of strong corporate earnings. A slew of other positive news including dividend increases, stock buybacks, and repatriation announcements in reaction to the Tax Cuts and Jobs Act of 2017 had provided additional optimism. However, by quarter-end the S&P retreated to a modest total return loss of **-0.76%**, its first quarterly loss since Q2 of 2015. Most major stock indexes posted similar results with only the NASDAQ 100 and Emerging Markets Indexes hanging onto slight YTD gains.

By February, the 18-month period of historically low volatility that had spoiled investors finally snapped hard. Markets became increasingly concerned over the potential for both inflation and U.S. interest rates to move sharply higher. The 10-year Treasury Yield which started the year at 2.40%, rose to a high of 2.94% by month-end. As rates rose, the Barclays Aggregate Bond Index fell ending **-1.46%** during Q1. This marked an atypical period, frankly, for diversified portfolios where most major asset classes had declined in unison, albeit narrowly.

U.S. markets struggled with how the appointment of Federal Reserve Chairman Jerome Powell would affect monetary policy, while numerous economic analyses indicated that the recent tax cut would result in higher deficits, further pressuring interest rates. In March, a surprise announcement made grey clouds get downright stormy. Did President Trump's unexpected announcements of proposed trade tariffs mark the start of a global trade war? Concern heightened as Gary Cohn, the well-respected top economic advisor to the President abruptly resigned. In the several weeks since, tit-for-tat-tariff-posturing between the U.S. and China has continued to roil – or relieve – markets depending on its day-to-day tone. Fundamentally, with none of these trade restrictions possibly becoming effective before November, we think the issue is overblown. The total potential drag on economic activity of tariff/tariff retaliation activity was estimated recently by Strategas at **$36 billion**. However large, that figure pales in comparison with the stimulus just provided by 2017's tax cuts, estimated recently as a combined ***$800 billion.***

Index	2018 Q1 Total Return
S&P 500 Composite	-0.76%
S&P Mid-Cap 400	-0.77%
Russell 2000	-0.08%
MSCI ACWI Ex U.S.	-1.18%
FTSE Emerging Markets	1.43%
MSCI U.S. REIT	-8.39%
Barclays U.S. Agg. Bond	-1.46%
Barclays US High Yield	-0.86%
Barclays Global Agg. Bond ($ hedged)	-0.12%
Barclays Global Agg Bond (Unhedged)	1.36%
Barclays Municipal	-1.11%
Bloomberg Commodity	-0.79%

Regardless of whether you like the tax cuts or the idea of tariffs, the basic math says stay bullish and ignore the tariff-tweet du jour. It is worth noting that protectionism, like tariffs, is often inflationary and may spark fear about rapidly rising interest rates and excessive inflation.

In summary, rising markets absent volatility feel great, but are *not* generally sustainable. We see the return of downside volatility so far in 2018 as a healthy and normal dynamic. In fact, by many measures, the retreat from January highs coupled with higher estimated earnings for 2018 make market indexes cheaper than they have been at any time since 2015. We encourage long-term investors to continue to avoid being distracted by political noise.

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Instead, focus on portfolio diversification that can hedge against more serious risks facing markets: the potential for unhealthy inflation and the sharply higher interest rates that the Fed would be required to use to combat it.

Current Portfolio Stance & Adjustments

In April we completed our semi-annual corridor-width rebalancing test and analysis of Core Model Portfolio weightings. Several areas of the models were rebalanced or adjusted in accordance with our discipline of keeping each model in line with its risk and allocation targets.

Over the last year, large cap growth stocks have been among the strongest performing areas of the markets. Our position in **Vanguard Growth Index (VUG)**, +17.98% over the trailing 12-months, was trimmed, harvesting profits in a position that had exceeded its target-ceiling in our portfolios. A portion of its sale proceeds were added to a new Core Model Portfolio component, the **Fidelity MSCI Information Technology Index (FTEC)**. Technology sector exposure had been slightly underweight in models and given the recent sharp weakness there, we saw an opportunity to add to this sector of the market where both earnings and dividend growth have remained persistently robust.

Additionally, on the equity side of our models, three other adjustments occurred[2]:

- **Real estate index positions were bolstered:** The Vanguard Real Estate Index, down 8.2% year-to-date and now yielding 4.80% represents an excellent inflation hedge and potentially undervalued portfolio diversifier in our opinion.
- **International developed market stock index exposure was increased:** International equity valuations continue to indicate some likelihood of sustained outperformance. Our position in defensive international holding **First Eagle Overseas (SGOIX)** was reduced in favor of additions to the **iShares Core MSCI EAFE International Index (IEFA)**.
- **Emerging markets exposure was trimmed back to target.** Profits were harvested from the **iShares Core MSCI Emerging Markets Index, IEMG** (+37.40%, 2017).

In the fixed income arena, portfolios were slightly light in bond exposure versus target allocation. Our position in the long-held **iShares Treasury Inflation Protected Securities (TIP)** index was supplanted with an increased weighting in the **Fidelity Inflation Protected Bond Index (FSIYX).** The latter holding provides similar inflation protection and a moderately reduced duration at a slightly lower internal fund expense (0.20% to 0.09%).

It's likely that the long, unprecedented period of low volatility and gradually rising prices we've experienced in financial markets has ended. Since 2014, we held the unpopular, yet correct, position that interest rates would remain lower for longer. However, we increasingly believe that the market narrative may shift from accommodative monetary and fiscal policy supporting growth to why those exact policies might create inflation and pressure interest rates.

We encourage you to contact your advisor for information regarding your current portfolio holdings, performance or this most recent update.

NorthLanding Financial Partners, Investment Direction Committee

NorthLanding Financial Partners, LLC
We are committed to empowering our clients to discover and direct action toward their most important financial goals. Our advisors have over 100 years of combined experience and advanced credentials in counseling clients to develop and implement strategies to meet their personal and family financial objectives.

We welcome your feedback!

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[1] Investment index and NLFP portfolio performance data through 3/31/2018 is provided by Morningstar and believed to be accurate as of the date of this publication, gross of any advisory fees. Other sources include the Wall St. Journal, FactSet Research, and Strategas. All investment strategies including diversified asset allocation have risk. Past performance of our investment approach, and component holdings does not guarantee future results. Advisory services are offered through NorthLanding Financial Partners, LLC, ("NLFP") Registered Investment Advisor. Securities may be offered through Mutual Securities, Inc., ("MSI"), member FINRA/SIPC. MSI and NLFP are independently owned and operated. MSI did not assist in the preparation of this memo. While all data is believed to be from reliable sources, accuracy and completeness are not guaranteed. [2] Model component changes referenced refer to model accounts with a minimum account balance of $100,000. Starter model accounts with lower balances, were also evaluated and rebalanced during this time with slightly different results due to different component holdings.