Modera Perspectives – Fourth Quarter 2017

Investment Commentary

At the start of 2017, few would have predicted that the equity markets would have had such an incredible year. Furthermore, even fewer would have predicted that strong global returns would have been accompanied by such low volatility. Even scarcer were predictions of international equities outperforming US equities. Despite numerous risks that could have derailed stock prices, the nearly nine-year bull market continued moving ahead.

In this investment commentary we will review a number of factors that impacted markets in 2017 and also illustrate why it is so important not only to be diversified but also to be realistic in expectations of future returns.

In 2017, US equities, as evidenced by various indices, experienced a year of strong returns and historically low volatility. According to Standard & Poor's, for the first time ever, U.S. equity markets have had gains for fourteen straight months. In addition, intra-day volatility was the lowest since 1962.

In the U.S., large cap equities gained nearly 22%, while small caps returned just under 15%. International markets were even stronger, with developed markets up nearly 26% and emerging markets up 37.8%. The return in emerging markets follows an 11% gain in 2016.

Data ending 12/31/2017 (not annualized if less than 1 year)

Indices	Q4 2017	1 year	3 years	5 years	10 years
Equities					
MSCI ACWI (All Country World)	5.8%	24.6%	9.9%	11.4%	5.2%
S&P 500 (U.S. Large Cap)	6.6%	21.8%	11.4%	15.8%	8.5%
Russell 2000 (U.S. Small Cap)	3.3%	14.7%	10.0%	14.1%	8.7%
MSCI EAFE (International Developed)	4.3%	25.6%	8.3%	8.4%	2.4%
MSCI EM Emerging Markets (International Emerging)	7.5%	37.8%	9.5%	4.7%	2.0%
Fixed Income					
Citigroup World Government Bond (Global Bonds)	1.0%	7.5%	1.7%	0.1%	2.7%
Barclays U.S. Aggregate (U.S. Investment Grade Bonds)	0.4%	3.5%	2.2%	2.1%	4.0%
Barclays Municipal Bond 5Y (4 - 6) (Municipal Bonds)	-0.7%	3.1%	1.7%	1.8%	3.5%
Barclays U.S. Corporate High Yield (U.S. High Yield)	0.5%	7.5%	6.4%	5.8%	8.0%
Other Indices					
S&P Developed REIT (Global Real Estate)	3.2%	8.4%	5.4%	8.3%	5.4%
HFRI FOF: Conservative Index (Diversifiers)	0.9%	3.8%	2.0%	3.4%	2.9%

The returns above are of benchmark indices for certain selected asset classes.

While the overall numbers looked strong for 2017, drilling deeper into the numbers reveals that the advances of the major indices were relatively narrow and highly concentrated. For example, while the S&P 500 index gained nearly 22% in 2017, the returns of five stocks (Apple, Amazon, Facebook and two classes of Google, GOOG and GOOGL) accounted for 24% of the total return. Meanwhile, in the Dow Jones Industrial Average Boeing accounted for more than 20%

of the index's gain for the year. It may be surprising to note that not every stock was up in 2017. Within the S&P 500, while 315 companies were up more than 10%, 20 were down more than 25%.

According to Standard & Poor's, large cap growth outperformed large cap value by the widest margin since 1999. The S&P 500 Growth index gained 27% compared to 15% gain for its Value counterpart. The gap was even more pronounced on the small-cap side, with the Russell 2000 Small Cap Growth Index up 22%, and the Small Cap Value index had only a 7.8% gain. This was a radical change to the advantage held by value stocks during 2016. Modera continues to institute a value bias to client portfolios, given longer term returns that have favored this approach.

Other asset class indices also performed well in 2017. Real estate gained 8.4%, high yield bonds were up 7.5% (after gaining 17% in 2016), and the U.S. aggregate bond index was up 3.5%. Unhedged international bonds gained 7.5%, while hedged international bonds were up a modest 2.1%, reflecting a weaker U.S. dollar relative to foreign currencies.

In the United States stocks were buoyed by multiple factors throughout the year. On one hand, there were prospects of fiscal stimulus, corporate and personal tax cuts, and deregulation. There was evidence of lower unemployment, increased consumer and business confidence, an expanding manufacturing base and a modest inflationary environment. Finally, while the Federal Reserve did increase interest rates moderately, the increases were in line with expectations.

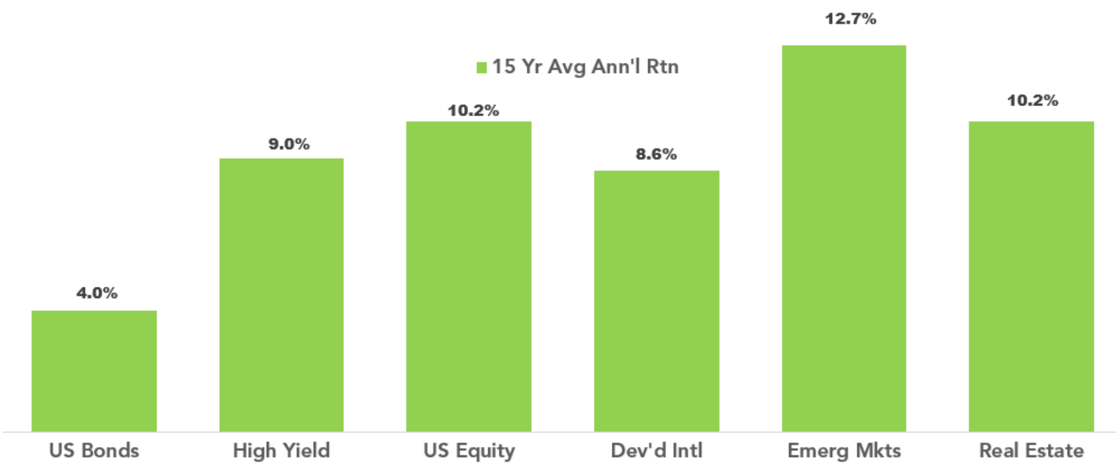
For the first time in quite a while, investors experienced synchronized global growth. The majority of the Organization for Economic Cooperation and Development developed nations grew their economies in 2017. Europe is slowly climbing out of the economic and political crises of the past few years. Emerging economies benefited from stronger currencies relative to the US dollar. China is maintaining its financial stability, while commodities are benefiting from stable prices and accelerating economic demand.

Despite all of the positive news, many investors continue to be nervous. While economic growth has been positive, it is still relatively slow as compared with many previous expansions. The bull market is in its ninth year, equity valuations are a bit elevated, interest rates are going up, and there is a general feeling of unease, both real and imagined. After all, monetary policies could become much tighter than forecasted, there could be unforeseen geopolitical flare-ups, earnings growth may not be as robust as hoped, and the tax cuts may not provide the necessary long-term stimulus needed to keep equity valuations in check. All of these could lead to market volatility and bring stock market prices down.

"When and how will it end?" are two questions we have been fielding with regularity, and they are among the toughest to answer. The economist John Kenneth Galbraith is quoted as saying "THE only function of economic forecasting is to make astrology look respectable."

We try not to make predictions or forecasts, and our clients recognize that we do not "time the markets." Doing so only invites problems. If one may be lucky enough to get out of the market before a downturn, very few are similarly lucky enough to perfectly time the reentry.

Given a domestic bias, many of us think that the U.S. markets should be the place to invest. This has not always been the case. As the table below shows, for the 15 years ending December 31, 2017, emerging markets equities gained an average of 12.7%, well ahead of other major equity markets. The real estate sector performed just as well as U.S. stocks and high yield bonds were not that far behind. According to data from Callan Associates, international equities finished either #1 or #2 in twelve of the twenty years ending in 2017. Bonds (either core or high yield) were #1 or #2 in nine of those years. Think of all that has gone on in the past 15-20 years: the technology bubble, the credit crisis and rebound, two U.S. recessions, major terrorist attacks and significant international crises. To try and predict short-term returns for any given year is a fool's errand.



Source: Returns data are through December 31, 2017 from Tamarac for the following benchmark indices: US Bonds: Barclays U.S. Aggregate: High Yield: Barclays U.S. Corporate High Yield; US Equity: Russell 2000; Dev'd Intl: MSCI EAFE; Emerg. Mkts.: MSCI EM; Real Estate: S&P Developed REIT

The economic expansion may be maturing. If this is so, we believe it is appropriate to vigilantly maintain a disciplined investment strategy, diversify the portfolio as broadly as possible and be realistic on expectations.

Financial Planning Perspectives

Your Portfolio Should Never Walk Alone
By Kevin P. Sweeney, JD, CFP®, Financial Planning Committee

For a number of years, we've been writing to you each quarter to report on investment themes and the performance of various markets. Last quarter we began adding a financial planning component to *Modera Perspectives*, our quarterly letter. This addition to the content of our communications with you presents an opportunity to review for you our thinking on how your investment portfolio should best be understood as fitting into your larger financial plan.

For our wealth management clients, the idea that your portfolio should "never walk alone" is probably obvious enough. Wealth management constitutes a comprehensive approach to creating, implementing and monitoring a financial plan tailored to each client's individual goals, needs and circumstances. This holistic financial plan should include, where applicable, our services in areas such as cash flow analysis, insurance, income tax planning, retirement planning, investments, estate planning, college funding, executive benefits and other matters. As you can see from this list, the investment portfolio is but one part of the critical larger financial plan. Often, however, and understandably, it can take on out-sized significance in a wealth management client's eyes and end up being viewed on its own, divorced from and independent of the progress of the overall financial plan of which it is but a component.

While one can think of your financial plan as a pie and the investment portfolio as a slice of it, a better analogy is to think of your financial plan as a machine designed and built to achieve your goals. Your portfolio, the investment component, is a part in that machine with a particular job to perform in helping the machine achieve its purpose. It is a part, along with other equally important parts such as retirement planning, estate planning and insurance coverage analysis.

Given its role in a financial plan, Modera doesn't construct client portfolios in the abstract with a singular goal of simply maximizing return. Rather, the portfolio properly should be understood and constructed to help create a successful overall financial plan. Instead of designing a portfolio merely to maximize return, it is the financial plan that drives the choice of the portfolio. The portfolio results from the plan and is but one contributor to it.

In working with you to select an appropriate preferred allocation, we consider a number of factors. Paramount among those is what our overall financial planning indicates is the long-term rate of return that you need to achieve to help meet your goals and have a successful outcome. This exercise starts by spending often considerable time working with you to discover your goals, both long-term and more immediate. From there, we assess the expected costs over time of those goals, the assets available to meet them and your expected contributions to savings. With your goals delineated and the other data assembled, your wealth management team works to determine what rate of return is needed from your investment portfolio to enable you to meet your life's goals.

In conjunction with this analysis, our planning process assesses your risk tolerance, another important factor to help arrive at an appropriate portfolio allocation. Many of you have completed the FinaMetrica risk tolerance questionnaire that we use. That questionnaire helps us gauge your comfort level with investment risk so that the portfolio allocation incorporates potential emotional and behavioral considerations.

Our clients are no doubt well aware of a central tenet of Modera's wealth management philosophy: *One should take no more risk in the investment portfolio (and elsewhere in the overall financial plan) than is necessary to reach one's goals*. This simple philosophy nicely demonstrates the critical intersection of financial planning and investing and highlights the appropriate role investing plays. Understood in this way, the portfolio doesn't walk alone or lead the way. Rather, it travels hand-in-hand with and in service to the other elements of your financial plan.

At times we all can get fixated on assessing the performance of the portfolio standing alone or relative to some single benchmark such as the S&P 500 Index or the Dow Jones Industrial Average. This often occurs in times of market out-performance or negative market returns. In either situation, it can be helpful to remember that the investment portfolio is a part in the larger machine that is your financial plan. Consider not its absolute performance, but rather evaluate whether the investment portfolio is holding up its end in providing the returns needed to make your overall financial plan successful and help give you peace of mind.

In closing, we want to advise you of an upcoming change in the manner of our delivery to you of your quarterly performance report, invoice and *Modera Perspectives* (the “quarterly materials”). Responding to a number of client requests, this will be the last quarter for which we will provide these quarterly materials to you by mail unless you notify us of your desire to continue to receive hard copies. Starting in April, we instead will upload the quarterly materials to your secure client portal. This electronic transmission and notification will be similar to the method by which many of you already receive various other financial items such as brokerage statements, vendor invoices and banking information If you wish to continue to receive these quarterly materials by regular mail, please contact our office. Those clients who do not have an e-mail address will continue to receive the quarterly materials from us by regular mail.

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Thank you for your continued confidence and trust in our services. We welcome your questions and comments.

Modera Wealth Management, LLC

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This quarterly commentary is limited to the dissemination of general information pertaining to our investment advisory services and financial planning services and general economic and market conditions that is not suitable for everyone. The information contained herein should not be construed as personalized investment, financial planning or tax advice. The returns shown in the table on page 1 are annualized returns, except for periods less than one year, for selected asset classes as represented by benchmark indices. Investors cannot invest directly in an index. Unmanaged indices do not reflect management fees or transaction costs associated with some investments. Past performance is no guarantee of future results, and there is no guarantee that the views and opinions expressed herein will come to pass. This document contains forward-looking statements that use words such as "anticipates," "projects," "believes, and/or "expects," that indicate future possibilities. Due to known and unknown risks, other uncertainties and factors, actual results may differ materially from the expectations portrayed in such forward-looking statements. Readers are cautioned not to place undue reliance on forward looking statements, which speak only as of the date of this document.

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