HERITAGE
WEALTH ADVISORS

Forward Thinking. Mutual Success. Peace of Mind.

Fourth Quarter 2017

Market Update & Outlook

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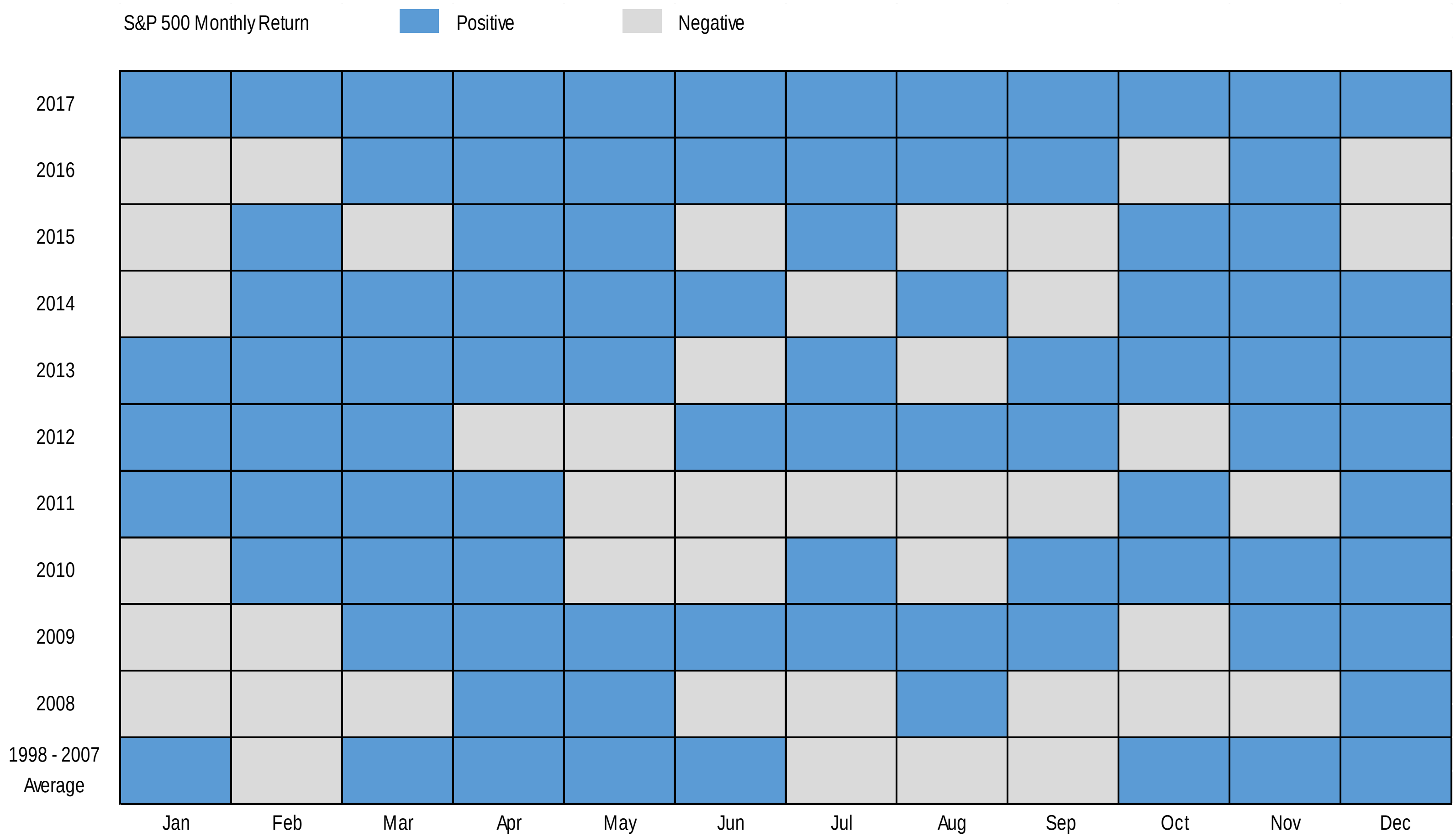
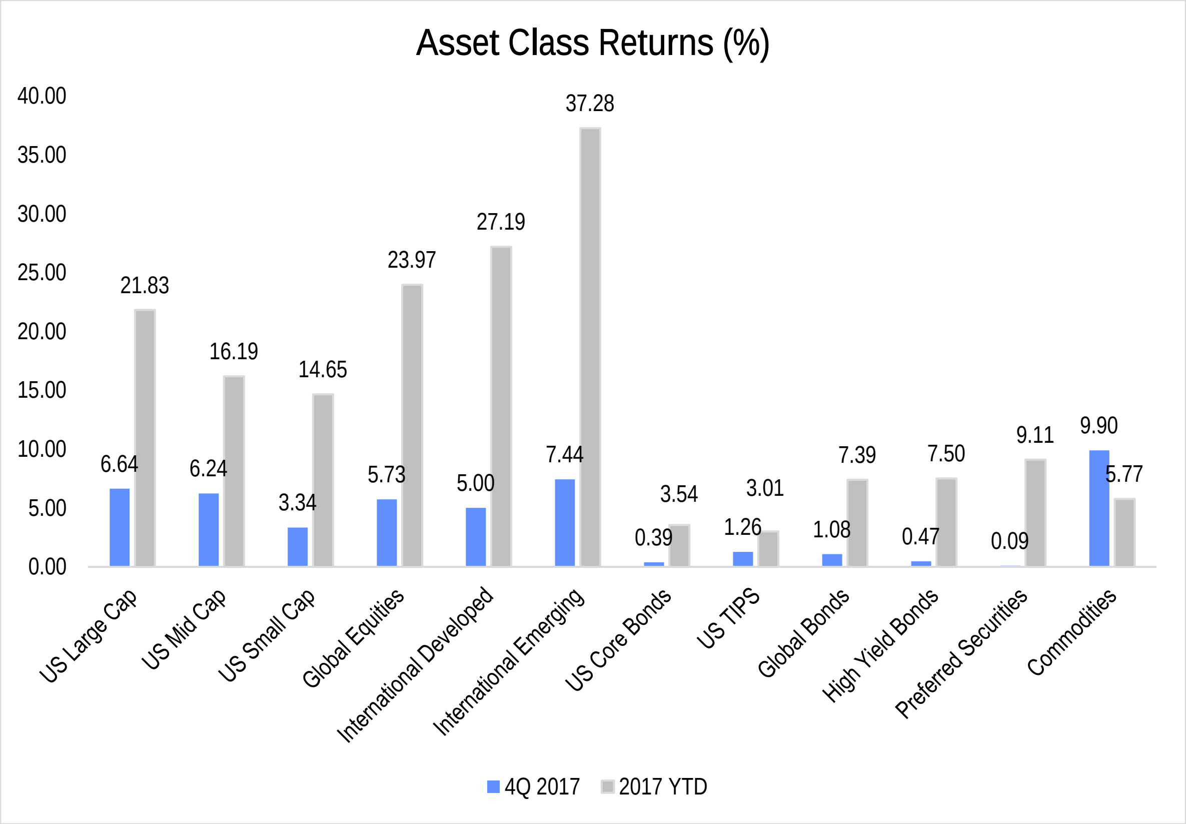
S&P 500 Posted Positive Performance in Each Month of 2017



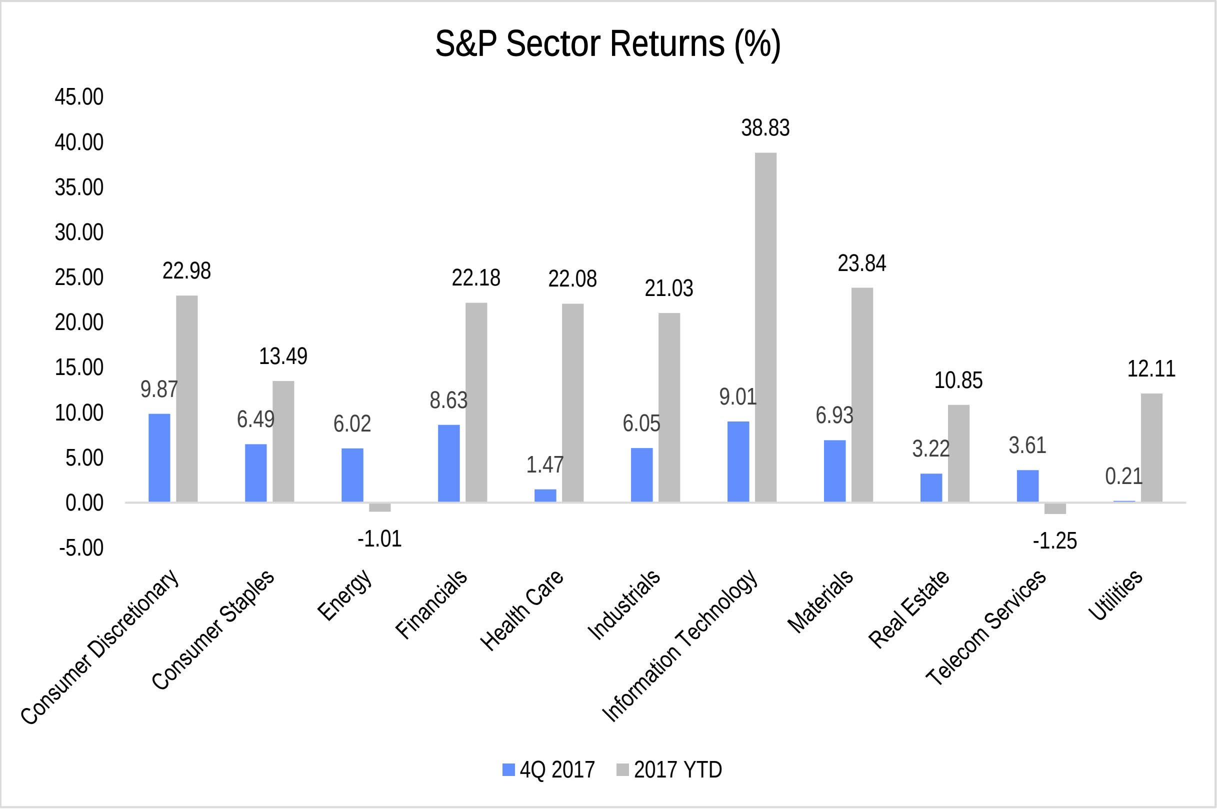
Source: Goldman Sachs

Strong Performance Across Asset Classes



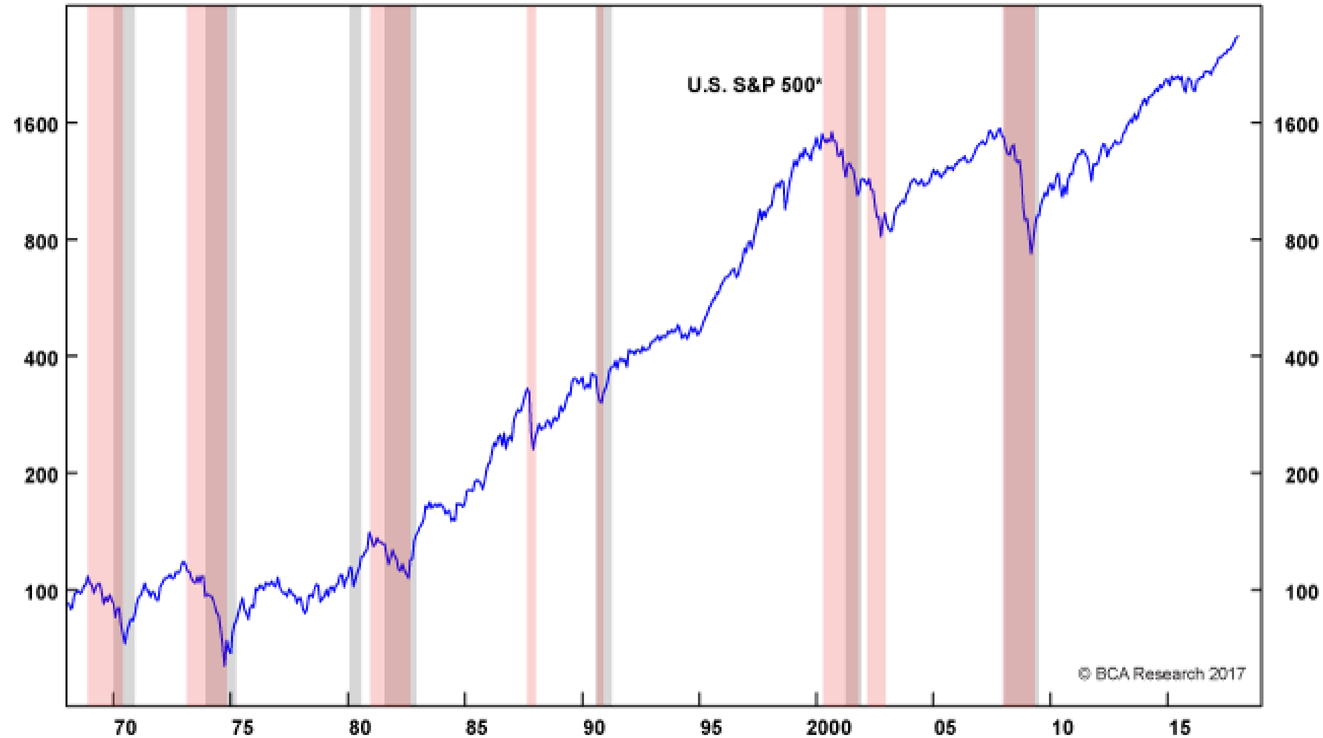
Source: Morningstar Direct

Positive Performance but Wide Divergence Across Sectors



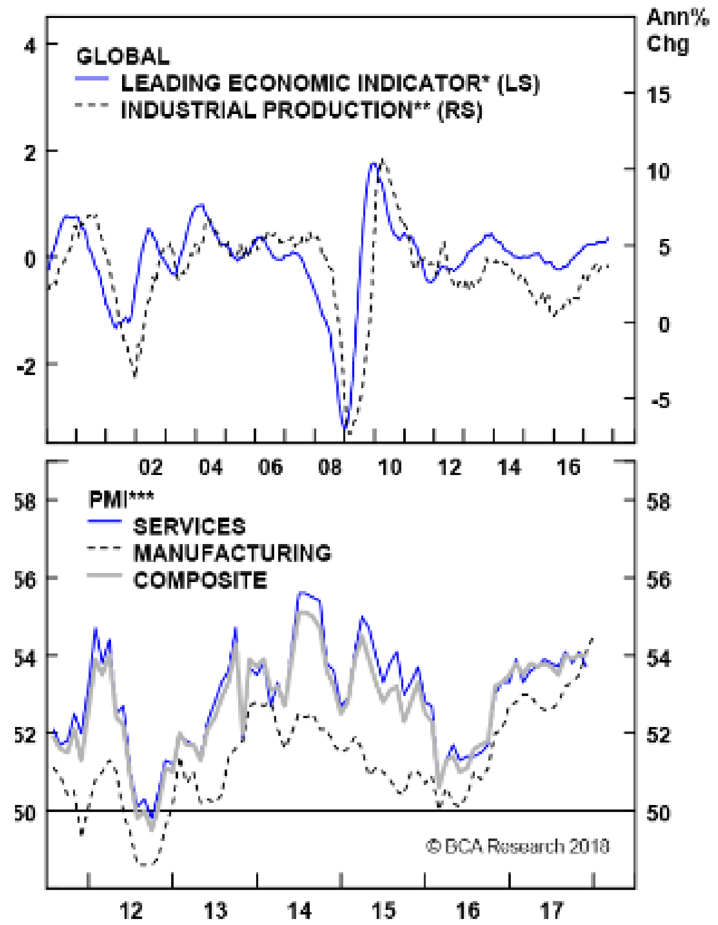
Source: Morningstar Direct

Recessions and Bear Markets Usually Overlap



Source: BCA Research

Synchronized Global Growth Continues

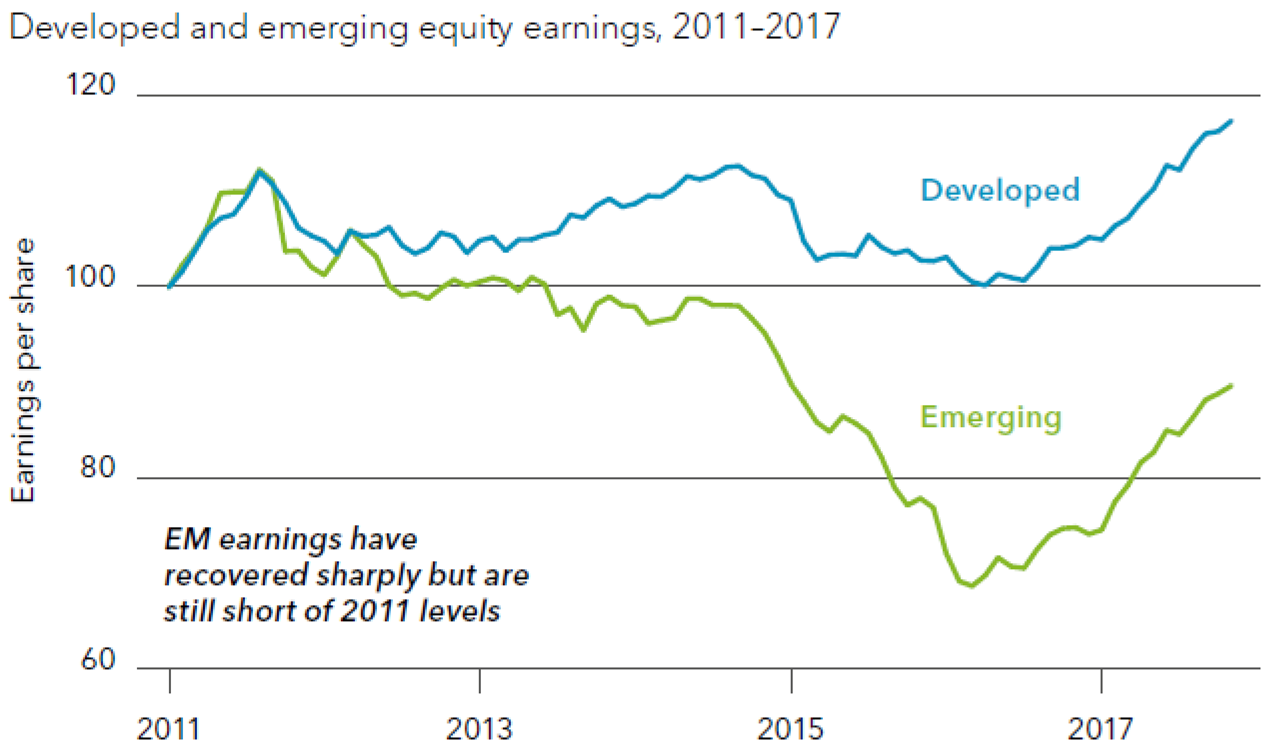


Source: BCA Research

Synchronized Global Growth Continues

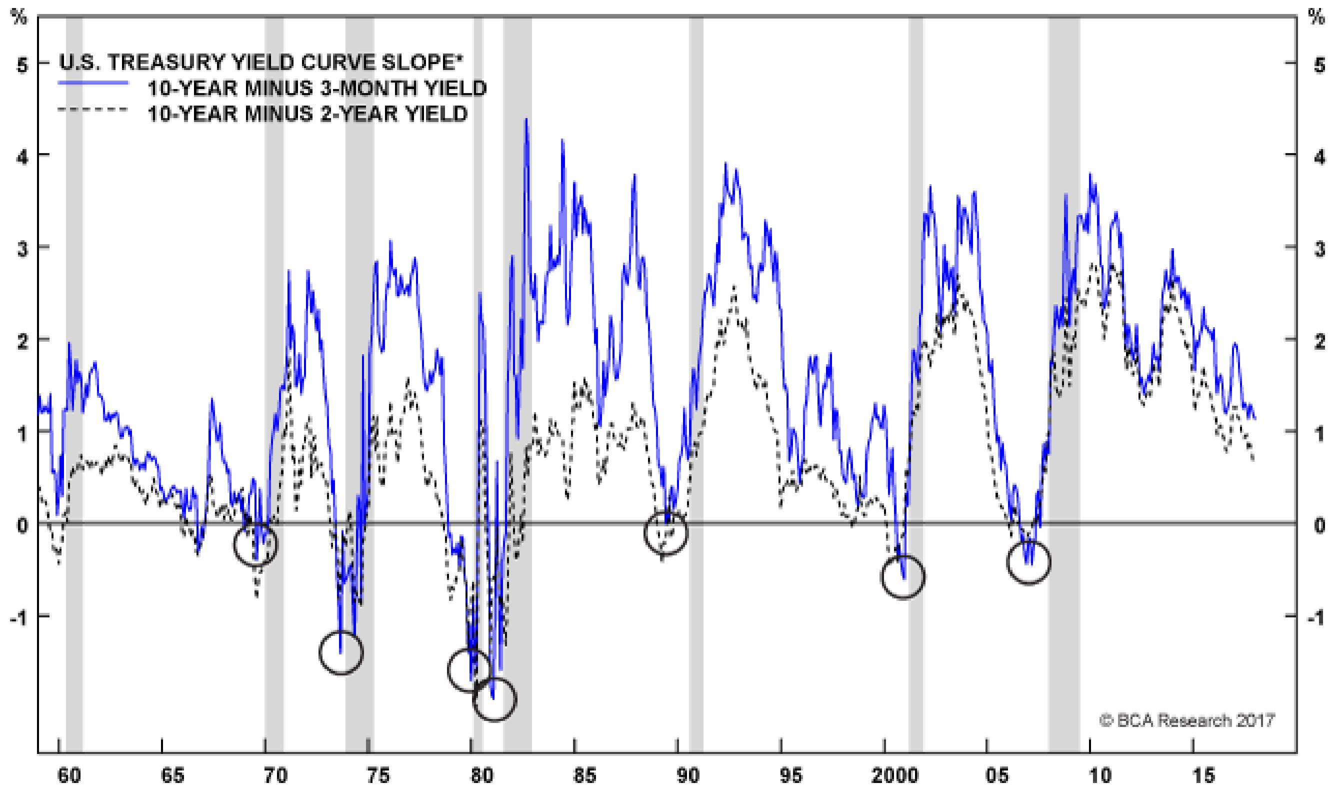
- Global PMI at 54.5, a six-year high
- Manufacturing activity in U.S. near a 13-year high (ISM at 59.7)
- Service sector trends consistent with above-average economic expansion (services ISM at 55.9)
- NFIB Small Business Optimism Index at 107.5, second highest level on record
- Factory orders up 6.5%
- Unemployment rate 4.1%, wages growing

Global Economic Strength Reflected in Earnings



Source: BlackRock

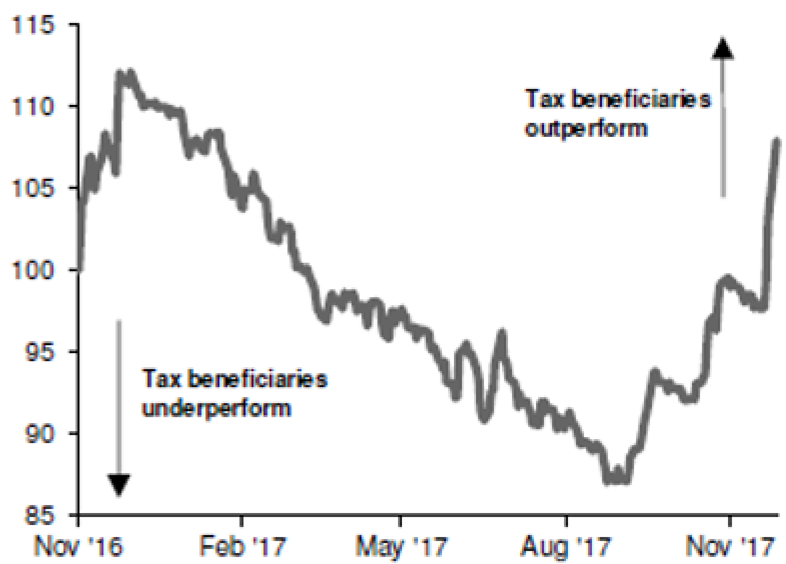
Yield Curve: Not Signaling Recession Risk Yet



Source: BCA Research

Stock Prices Have Reacted Favorably to Tax Reform

High tax vs low tax company performance, indexed to 100

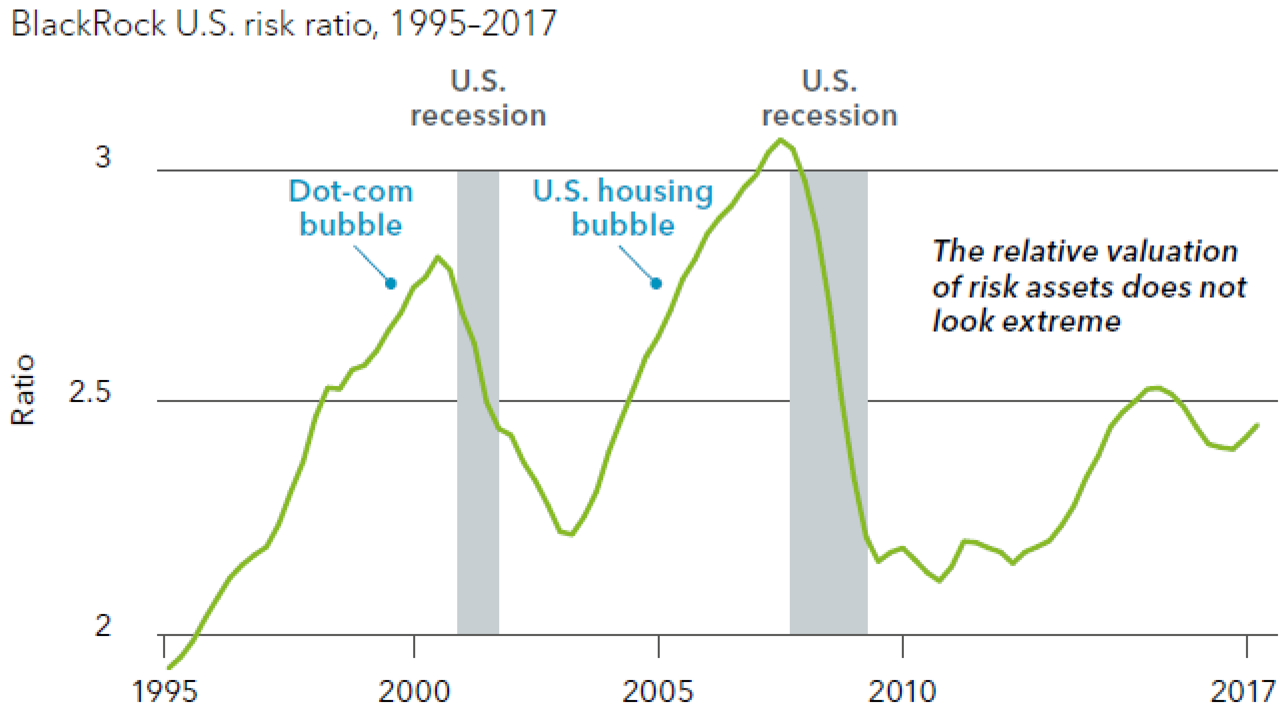


Source: JPMorgan

Valuations Inform Us About the Prospect for Future Returns

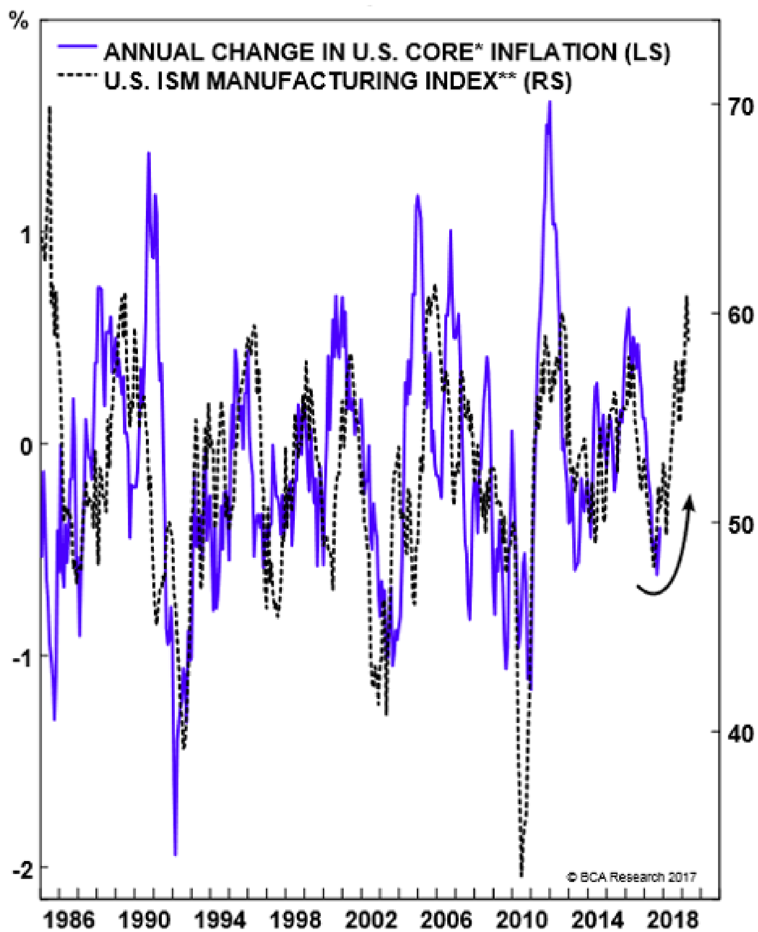
Source: JPMorgan

Exuberance in the Market is Below Previous Levels



Source: BlackRock

Growth Leads Inflation



Source: BCA Research

2018 Outlook

- Market volatility has been historically low, but think volatility is being influenced by the lack of variability in the economic data. Inflation and interest rates are low and have remained contained, economies all over the world are improving, and earnings are not only trending up but they have continued to surprise Wall St.

- Simply put, there is no sign of a recession. If anything, economic fundamentals are improving.

- Given this, we are hard pressed to be anything but constructive on the outlook for equities. International stocks seemed poised to have another good year.

- The gap in valuations between U.S. stocks and international stocks seems too wide.

- We do believe interest rates will break out of the current range and likely press toward the 2.75%-3.0% range. This leaves us a bit cautious on fixed income due to the interest rate risk.

Heritage Market Views

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Monetary Policy	Neutral

The Federal Reserve raised interest rates three times in 2017. Markets expect further rate hikes this year with short rates rising in the context of a stronger economy. Thus far, inflation has remained benign even with the unemployment rate near 4%. If wage growth accelerates the Fed would likely become more aggressive in raising interest rates. This is the biggest risk to markets, in our view.

Fiscal Policy	Accommodating

The Tax Cuts & Jobs Act was signed into law late last year. The law lowers the corporate tax rate to 21% from 35%. Fiscal stimulus usually occurs at points when the economy is weak rather than when it is near full employment stoking fears that the new legislation, while needed for long-term competitive positioning, will stoke inflation.

Economic Fundamentals	Positive

Fourth quarter GDP is poised to be the third consecutive quarter of 3% plus growth. In the U.S. manufacturing activity is improving, consumer confidence is high, and business sentiment is ebullient. In the Euro zone readings on manufacturing activity are new records with Germany, France and Italy all on an upswing. Japan's economy is in its best shape in fifteen years. Earnings is emerging markets have improved but are still below 2011 levels suggesting further upside potential.

Market Dynamics	Positive

Positive market momentum from last year carried into early January with the S&P 500 already up about 3% this year. Financial conditions are accommodating with economic activity improving across the globe making risk assets the place to be. A synchronized global economic recovery is underway.

U.S Equities	Neutral

The S&P 500 is trading at 18.5x 2018 earnings, about two-and-a-half multiple points higher than the long-term average. Given somewhat elevated valuations, prospective returns are likely to be more muted. Earnings estimates are already rising following the passage of tax legislation. In the context of improving earnings and still low interest rates, we see the market as reasonably priced but also see the potential for further gains this year. The Russell 2000 is trading at 24.2x earnings. Given the U.S.-centric nature of their business, small-cap companies are the bigger beneficiaries of a cut in the corporate tax rate.

International Equities	Positive

The MSCI EAFE index is trading at a slight discount to the LT average multiple of around 16x. Various economic indicators are improving and earnings should improve. EM is through a four-year earnings recession and the profit outlook has improved markedly. EM was up almost 38% last year, but the sector still trades for 12.8x earnings. EM economies are becoming more consumer and technology driven.

Bond Yields & Credit	Neutral

Fixed income performed well last year, but the path of least resistance for rates seems higher. Ten-year yields have recently risen above 2.5%. We would expect a move to the 2.75%-3% range based on growth dynamics. The expanded opportunity set to add income through country selection, including EM, and credit selection remains an attraction for global bonds. High yield spreads have narrowed and we are cautious on taking incremental credit risk but there is no recession in sight based positive economic fundamentals.

Commodities	Neutral

Oil inventories have become more favorable and OPEC seems inclined to keep cuts in place. Global demand is trending closer to 2% than the historic average of about 1.2%. These factors have pushed oil above $60/bbl. There has been underinvestment in legacy fields worldwide with fracking and technological advances filling the gap.

U.S. Dollar	Neutral

Weakness year-to-date in the dollar has been surprising given interest rate differentials but accelerating growth outside the U.S. is attracting capital, which may explain dollar weakness.

Disclosures

Past performance is no guarantee of future results. No assurance can be given that an investor will not lose invested capital. This performance is neither a composite performance nor actual performance experienced by any past or present client.

The "Hypothetical" or "Historical" performance is a simulated historical calculation of how this portfolio of managed assets would have performed over the period indicated. Performance calculations are based on the indicated asset weights presented and assume annual rebalancing. No annual rebalance is captured for time analysis periods less than one year in length. "Hypothetical" or "Historical" performance of the portfolio is shown Gross of the manager fees and Gross of Investment Advisory Fees. Performance of mutual funds is shown net of fees based on published expense ratios.

Definitions:

S&P 500: The Standard & Poor's 500 Index is an index of 500 stocks seen as a leading indicator of US equities and a reflection of the performance of the large cap universe, made up of companies selected by economists.

Russell 2000: The Russell 2000 index is an index measuring the performance approximately 2,000 small-cap companies in the Russell 3000 Index, which is made up of 3,000 of the biggest U.S. stocks.

MSCI ACWI: A market capitalization weighted index designed to provide a broad measure of equity-market performance throughout the world. The MSCI ACWI is maintained by Morgan Stanley Capital International, and is comprised of stocks from both developed and emerging markets.

MSCI EAFE: The MSCI EAFE Index serves as a benchmark of the performance in major international equity markets as represented by 21 major MSCI indexes from Europe, Australia and Southeast Asia.

Emerging Markets: Emerging Market Equity is represented by the MSCI Emerging Markets Index. The MSCI Emerging Markets Index is an index created by Morgan Stanley Capital International designed to measure equity market performance in global emerging markets. It is a float-adjusted market capitalization index that consists of indices in 23 emerging economies.

Investment Grade Corporates: Investment Grade Corporate bonds are represented by the iShares iBoxx $ Investment Grade Corporate Bond ETF. The iShares iBoxx $ Investment Grade Corporate Bond ETF seeks to track the investment results of an index composed of U.S. dollar-denominated, investment grade corporate bonds.

Global Bonds: Global bonds are represented by the BoAML Global Broad Market Index. The Global Broad Market Index tracks the performance of investment grade public debt issued in the major domestic and eurobond markets, including global bonds.

TIPS: Treasury Inflation Protected Securities are represented by the BBgBarc US Treasury US TIPS Index. The index includes all publicly issued, U.S. Treasury inflation-protected securities that have at least one year remaining to maturity, are rated investment grade, and have $250 million or more of outstanding face value.

High Yield Corporates: High Yield Corporates are represented by the BBg US Corporate High Yield Index. The Bloomberg Barclays U.S. Corporate High Yield Bond Index is composed of fixed-rate, publicly issued, non-investment grade debt, is unmanaged, with dividends reinvested.

Preferred Stock: Preferred stock is represented by the BoAML: Preferred Stock Adjustable Rate Index.

US Treasurys: US Treasurys are represented by the BBgBarc Aggregate Bond Treasury Index.

Commodities: Commodities are represented by the Bloomberg Commodity Index.

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