



FALL 2017

A View From The Hill

A QUARTERLY PUBLICATION FROM CEDAR HILL WEALTH MANAGEMENT

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Feature Article

In the wake of the Equifax data breach, we received phone calls and emails from clients looking for advice and guidance. Below is an excerpt from a recent white paper written by Managing Director Asha Goldstein about how Cedar Hill protects clients' personal information, as well as our guidance for how you can protect your information from identity theft and phone, charitable and tax scams. To read the entire white paper, please visit our website at www.cedhill.com/commentary. We want to take this opportunity to reassure you that our policies are in full force for safeguarding client data and identities. We are vigilant with regard to requests that are out of the ordinary and have "red flag" procedures in place to defend against fraud.

From a technology perspective, the Cedar Hill network is designed to contain the workspace in a single environment which is heavily protected with various layers of security. Our email system has its own safeguards for keeping all confidential business correspondence secure. Our network is monitored 24/7, and the system is regularly updated to protect against security attacks.

Perhaps it's been overdone, but after learning that only 19% of American consumers have taken protective measures following the Equifax breach, we thought we'd send another friendly reminder of things you can do to avoid fraud.

While we at Cedar Hill are committed to protecting our clients' data, individuals can take their own steps to protect themselves from falling victim to identity theft. Following are some guidelines and resources for maintaining your online security.

Phone Scams

Unfortunately, there are many different tactics and clever schemes crooks use to defraud millions of people every year. In addition to hackers, identity theft and fake IRS communication, the FCC (Federal Communications Commission) is also warning consumers about new phone scams.

The technique involves a robocall or an actual person who calls consumers and asks: "Can you hear me?" The consumer responds, "Yes" thus providing the scammers a recorded voice signature. Subsequently, the voice signature can be used by the scammers to authorize fraudulent charges via telephone. A one-word response is all it takes.

We take data privacy and security very seriously, and we protect client information as we would protect our own.

Identity Theft

Review your credit reports for free by visiting www.annualcreditreport.com. Federal law requires each of the three major credit bureaus provide you a free credit report each year. You can spread out your requests by getting one free report every four months if you want to monitor your credit throughout the year.

While no service can protect you from having your personal information stolen, there are monitoring and recovery services to which you can subscribe. Often sold together, monitoring services watch for signs that someone may be using your personal information, while recovery services help you deal with the effects of identity theft after it happens.

For a free online resource which provides your current credit score, as well as free credit monitoring through Equifax and TransUnion, check out www.creditkarma.com. With this service, if unusual activity is suspected,

Feature Article

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you will be alerted. Following the Equifax breach, CreditKarma announced they will launch a new free ID monitoring service that will keep track of data breaches and will let you know if you are potentially a victim.

How can CreditKarma offer these services for free? CreditKarma makes their money through ads and collects a small fee should you decide to sign up for one of their credit card offers.

There are several other subscription-based credit monitoring services that charge a monthly or annual fee - usually following a 30- or 60-day free trial. We encourage you to do your due diligence, as most of these services are essentially the same but repackaged by different companies. A list of credit monitoring resources is provided at the end of this article.

Another option, which is the most restrictive path, is to place a credit freeze with each of the bureaus. A credit freeze largely stops all access to your credit report and makes it difficult for anyone (including you) to open accounts using your personal information. To place a freeze, contact one of the nationwide credit bureaus listed at the end of this article.

Depending on your state of residence, there is likely a nominal fee to place or lift a credit freeze. Additionally, each credit reporting company will send you a confirmation email or letter containing a PIN or password that you will need in order to lift the freeze.

Don't forget your kids! A child's social security number can be used by identity thieves to open bank and credit card accounts, to apply for government benefits, or even rent a place to live. A strong preventative measure would be to place a freeze on your child's credit report until they are of age to establish credit. The credit bureaus will not allow you to place a freeze for a minor online, but there are manual steps you can take.

To see if your minor children have credit reports, TransUnion will do a search for free: <https://www.transunion.com/credit-disputes/child-identity-theft-inquiry-form>.

If you think you've been a victim of identity theft, visit the Federal Trade Commission www.identitytheft.gov for advice and resources.

At Cedar Hill, we take pride in our personal approach to each client's unique circumstances. If you have questions or concerns regarding Cedar Hill's cybersecurity policies and procedures, please feel free to contact us.

Please feel free to reach out to a member of the Cedar Hill team if you have further questions about this article.

Credit Monitoring Resources

Identity Guard: <https://www.identityguard.com>

FreeScoresAndMore:
<https://www.freescoresandmore.com>

Privacy Guard: <https://www.privacyguard.com>

LifeLock: <https://www.lifelock.com>

Nationwide Credit Bureaus

Equifax: 1-800-349-9960 or https://www.freeze.equifax.com/Freeze/jsp/SFF_PersonalIDInfo.jsp

Experian: 1-888-397-3742 or
<https://www.experian.com/freeze/center.html>

TransUnion: 1-888-909-8872 or
<https://www.transunion.com/freeze>

Market Outlook / Equities

Equities

Global equity markets continued their steady upward trend in the third quarter and have posted strong year-to-date results through September with the S&P 500, MSCI EAFE and MSCI Emerging Markets up 14.2%, 20.5% and 27.8%, respectively. With the exception of consumer staples, all of the other S&P 500 sectors ended the quarter higher.

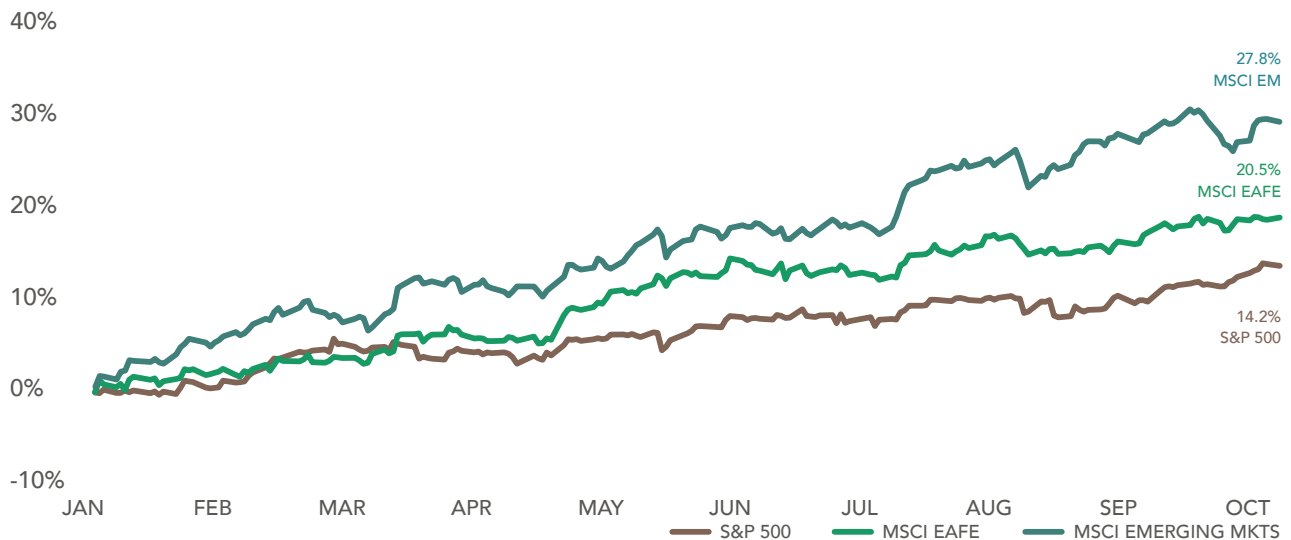
Over the past few quarters, strong underlying fundamentals have buoyed equity markets. During the first and second quarters, corporate earnings growth has exceeded expectations, growing at rates of 14% and 10%, respectively, according to FactSet. U.S. and global economies are also heading in the right direction. The most recent GDP data showed the U.S. economy growing at a 3.1% annualized rate in the April-June period. While this may be the high point for the year due to an expected temporary slowdown in hurricane-affected areas, it should be enough to support additional corporate earnings growth for the next few quarters. As for global economies, the Organisation for Economic Co-operation and Development (OECD) estimates that all 46 economies that it tracks will see positive growth this year, marking the first time this has happened since 2007 according to BCA Research.

Despite two short-term interest rate hikes by the U.S. Federal Reserve during the first half of the year, and a third-quarter announcement that it will begin reducing the size of its balance sheet, interest rates are not much above their record low levels. On a global basis, central bank balance sheets are expected to increase 8% year over year. This highly accommodative interest rate policy continues to force investors to search beyond safe haven bonds for higher returning investments. With the Fed telegraphing their intent to remain cautious when raising interest rates, monetary policy is expected to remain accommodative well into 2018.

Some may fret that the market has gotten ahead of itself, however, valuation levels can best be described as elevated, not in bubble territory. The forward P/E ratio on the MSCI All-Country World Index finished the third quarter at 16.1, only a slight rise from the 15.7 level at which it began the year. As discussed previously, stronger-than-expected corporate earnings growth has kept valuations in check as markets have kept pace with corporate earnings. As we have discussed in past letters, the historical valuations outlined above are not a good indicator for near-term equity market performance, but will more likely

EQUITY MARKET TOTAL RETURNS

S&P 500, MSCI EAFE, AND MSCI EMERGING MARKETS, FROM 1/1/17 THROUGH 9/30/17



Source: Bloomberg

Market Outlook / Equities

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lead to lower returns over the next market cycle. Hence, in the near term, low interest rates (monetary stimulus), potential tax policy reform (fiscal stimulus), and unanimity in global economic growth all lead us to believe this market rally will continue into 2018, and possibly surprise to the upside.

While the news has been positive, we are highly cognizant that risks remain and markets will often defy expectations. In analyzing potential risks, though geopolitical tensions with North Korea and escalating state sponsored cyberhackers come to mind first, we are paying more attention to whether the U.S. Fed can successfully continue on its gradual path toward interest rate normalization. We are fully aware that there is no precedent for the Fed reducing the size of its balance sheet by the proposed magnitude; coupled with a policy mistake, this move could have a severe impact. Add to these risks the difficulty of passing tax reform legislation through an acrimonious Washington, and it becomes clear that some degree of caution remains warranted.

We are positioning client portfolios for what we will refer to as “participation with protection.” In doing so, our objective is to stick to our clients’ long-term asset allocation strategy. Given the strong equity returns since the financial crisis and post-2017 Presidential elections, we have been rebalancing portfolios to reduce equity and increase fixed income exposure. Fixed income remains the best asset class to preserve capital in bear markets. While rates remain low, we are not lowering our credit standards and reaching for yield, and we know the role that this allocation plays in portfolios.

Within equities, we are calibrating position sizes based on each investment’s risk/reward potential. For investments that have worked well in 2017, we are evaluating the current downside risk and only maintaining opportunities we believe offer a healthy margin of safety. Valuations on these investments have increased over the past year;

we feel there is additional upside so long as the current economic growth environment is maintained.

Though opportunities are scarce, there are still a few strategies that represent strong value for investors over the medium term with limited downside risk. Many of these investments, however, are out of favor in the current environment, and may need market sentiment to shift in order to realize potential gains. Since a bell does not ring indicating when sentiment has turned, we are careful not to have too many out-of-favor value opportunities in any portfolio, but we do think these ideas play an important part of a properly diversified portfolio. And of course, we are avoiding opportunities that require a host of factors to break in their favor in order to justify the current valuation level.

We concede that while calibrating equity risk sounds good on paper, the unintended consequence is that we may not always keep up with a momentum-driven market. With the current environment being driven by easy global central bank monetary policy, which is reminiscent of the technology bubble in the late-1990s or the leverage bubble in 2008, we believe investors will be rewarded over the long term by having a portfolio that captures most of the upside in strong markets and mitigates losses in down markets.

Market Outlook / Fixed Income

Fixed Income

Fixed income yields spent the majority of the third quarter at the low end of their recent trading range. For example, the yield on the U.S. 10-year Treasury has ranged between 2.05% and 2.62% during 2017, but traded between 2.05% and 2.39% during the third quarter. Yields finished off their lows at the end of the quarter as inflation data announced in September picked up.

While inflation remains subdued by historical standards, the Federal Open Market Committee (FOMC) remains convinced that inflation pressures are building and is expected to raise interest rates by another .25% in December. Short-term rates have ticked up slightly, but investors at the longer end of the yield curve appear unconvinced as longer-term yields trended lower.

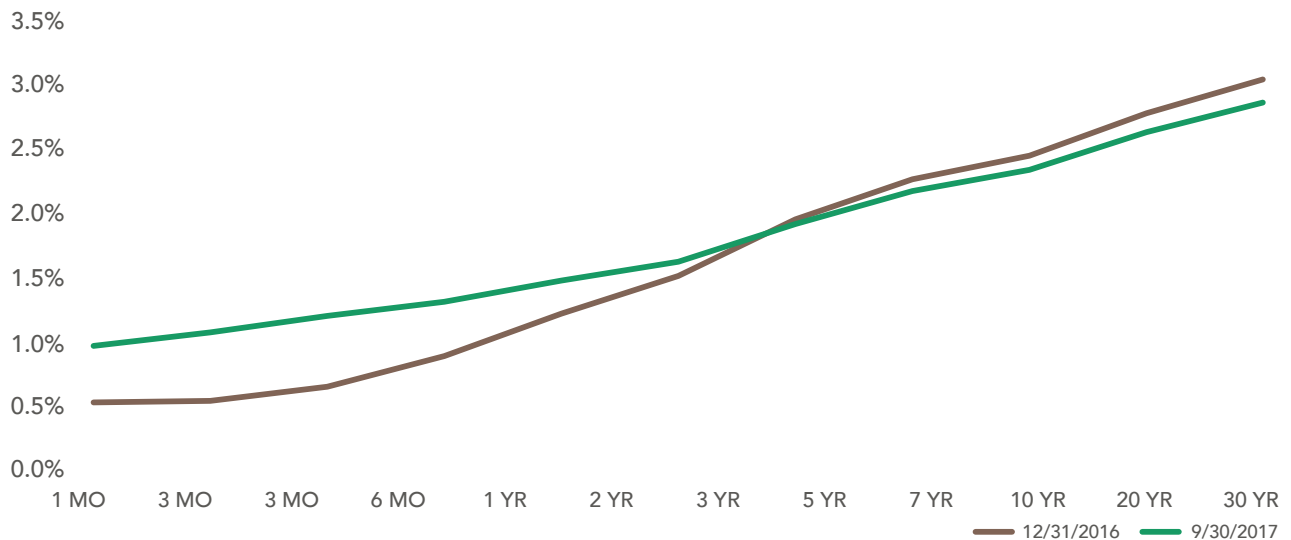
The bifurcation between longer- and shorter-term bond yields is consistent with previous interest rate hiking cycles. With longer-term

yields remaining depressed and shorter-term yields increasing, this yield curve flattening is typical late in a market cycle.

Credit spreads remain extraordinarily tight, and we are using this opportunity to increase the quality of our fixed income holdings. We have recently sold a few lower-rated bonds and purchased higher credit quality fixed income with little impact to portfolio yield. We also view the movement by high-yield bond managers toward increasing equity investments, as opposed to high-yield bonds, as confirmation that lower quality bonds offer little value.

With the U.S. Treasury yield curve flattening over the quarter, municipal markets followed suit. Municipal bond investors also fretted about credit quality late in the quarter due to worries over Puerto Rico's ability to repay its debt after Hurricane Maria devastated the country's infrastructure. Cedar Hill maintains a commitment to high quality bonds and does not hold any Puerto Rico municipal bonds.

U.S. TREASURY YIELD CURVE



Source: Bloomberg

Other Topics / A Straight Up Market

If 2017 isn't the definition of a straight up market, we don't know what is.

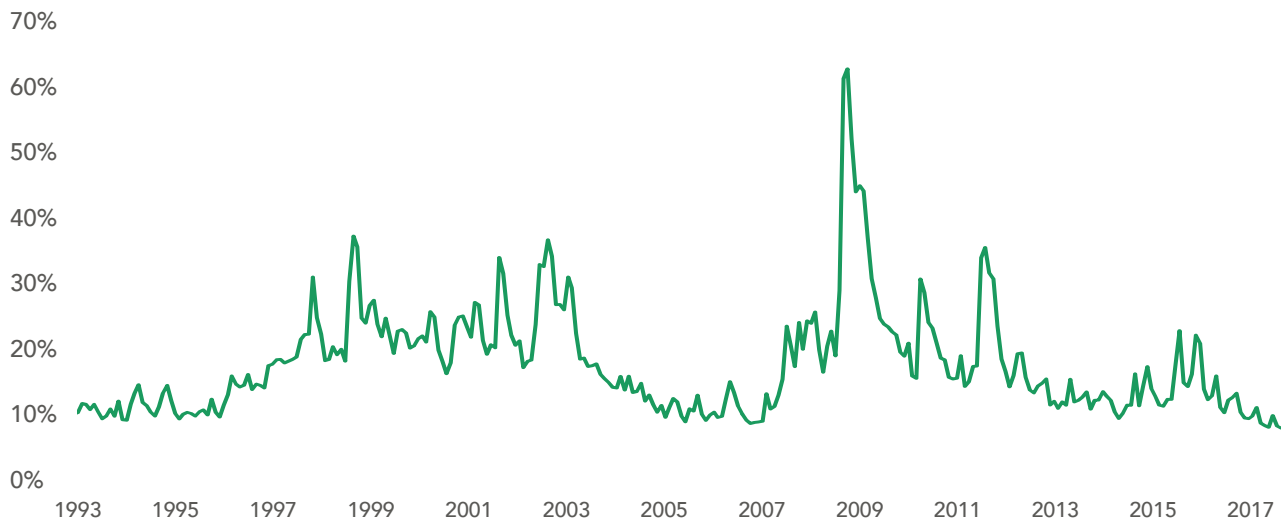
With less than three months before year end, the S&P 500 has moved 1% or more in either direction on just eight occasions. The last time the index had so few big moves was 1972.

If we were to tell you eleven months ago that Donald Trump would be elected President, all of Trump's major policy agenda items would fail to gain traction in Congress, and tensions with North Korea and Russia would escalate, a likely response would have been "expect equity volatility to increase."

Instead, the market has been anything but unstable this year. The CBOE Volatility Index (or VIX), is a measure that tends to rise and fall alongside expected swings in the stock market. The VIX has averaged 11.3 this year, on track for its lowest level since the index was launched in 1993, according to data compiled by the *Wall Street Journal*.

We think this scenario serves as a reminder that sometimes it is more important to pay attention to underlying economic and company fundamentals than the noise we read in the press every day.

CBOE VOLATILITY CHART
MONTHLY INDEX PRICE FROM 1/1/93 THROUGH 9/30/17



Source: Bloomberg

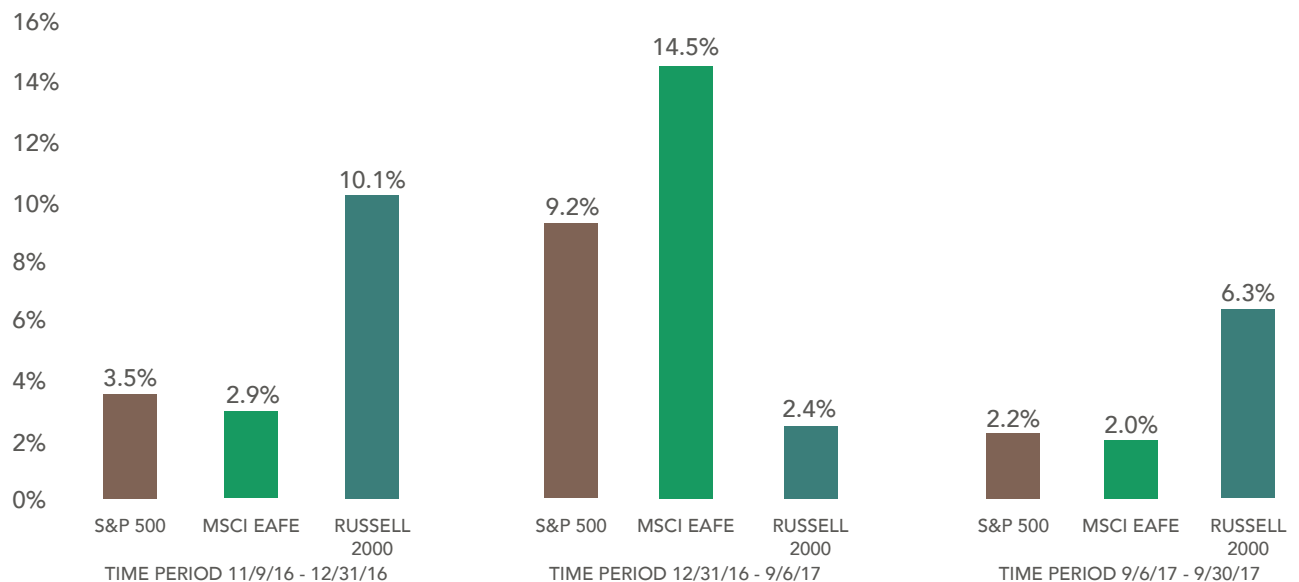
Other Topics / The Trump Trade

After Donald Trump was elected President on November 8, 2017, investors took notice that changing political tides could affect investment strategies differently. There was much speculation that President Trump's proposed policies, many of which were thought to be quite protectionist, would boost U.S. GDP growth, the U.S. dollar and small cap stocks, while international equities would be negatively impacted. Small cap stocks tend to have more exposure to our domestic economy than larger multinational companies.

From November 9, 2016 through year-end 2016, small cap equities rallied 10.1%. This sentiment, however, has reversed for most of 2017 as investors have been concerned about Trump's ability to get legislation passed through Congress. As a result, the dollar has fallen sharply, and companies with more international exposure have rallied.

We find it interesting to note that sentiment reversed again in September after Trump struck a deal with U.S. House Minority Leader Nancy Pelosi and U.S. Senator Chuck Schumer to extend the debt ceiling by three months. With tax reform next on the legislative docket, watching the performance of these indices may be a better indicator of whether legislation will be passed than most opinion polls.

COMPARISON OF DOMESTIC AND INTERNATIONAL EQUITY PERFORMANCE OVER VARIOUS TIME PERIODS



Source: Bloomberg

In The News

Other Cedar Hill News

Cedar Hill recently hosted a client luncheon at The Standard Club featuring Roz Chast, noted cartoonist from *The New Yorker* magazine. We are thankful to all our clients who could attend and enjoy Roz's humor with us. During the event, we appreciated greeting many of you who already know your client representative well, but whom the rest of Cedar Hill hadn't yet met.

To all of our clients, we extend an invitation to visit our LaSalle Street offices to meet Cedar Hill's associates that you communicate with regularly who manage and administer your portfolio. It's a pleasure for all of us to put a voice and face together. We look forward to welcoming you soon — in person.

Emergency Contact

As a reminder, our website (www.cedhill.com) has an "Emergency" link under the Contact Us tab. In the event of an interruption to normal business operations at our office, this link will redirect users to a web page that will provide updates and alternative phone numbers for communications with clients and interested parties. In such an event, updates will be provided continually until operations are fully restored to normal.

Disclosure

This newsletter is intended to provide general information only and should not be construed as an offer of specifically tailored individualized advice or results. Clients or prospective clients should not assume that their performance will equal or exceed historical market results and/or averages.

Specific securities identified do not represent all of the securities purchased, sold, or recommended for advisory clients, and the reader should not assume that investments in the securities identified and discussed were or will be profitable. Past performance is not indicative of any specific investment or future results.

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