CEDAR HILL
WEALTH MANAGEMENT

A VIEW FROM THE HILL™

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A Message from Our New President

JOHN CROSSON

As we begin a new year, I am excited to embark on a new journey with the Cedar Hill team. I assumed the role of President on January 1, and I look forward to continuing the firm's long tradition of providing excellent client service and customized investment solutions. I am extraordinarily pleased with what I have seen in my first few weeks here at Cedar Hill. The team has shown me the highest level of both professionalism and dedication to our clients; I couldn't be more impressed.

Since its founding more than 30 years ago, Cedar Hill has offered personalized advice, customized investment strategies and meaningful communication to clients. The firm was built by an entrepreneurial team who sought a better alternative to the often impersonal brokerage model. As an entrepreneur myself, the company's focus on building long-term client relationships resonates strongly with me.

In my 20 plus-year investment career, I have founded two Chicago-based firms devoted to providing solutions to meet our clients' needs. MainStreet Advisors is a registered investment advisor that provides portfolio management solutions and research services to institutional clients, and Cambium Asset Management is a wealth management firm, founded in 2014, serving high net worth clients and their families. (For those of you who aren't Boy Scouts, cambium lies underneath the bark of a tree and creates the tree's growth rings, a fitting analogy for the firm's work helping clients achieve sustainable growth.)

I've always been passionate about investment management, and it is a true honor to lead a firm with Cedar Hill's reputation. I believe my investing, operational and client service experience have equipped me well to serve Cedar Hill's clients. I find it incredibly gratifying to help clients establish a secure financial future, and my focus moving forward will be doing so for you. I look forward to meeting you throughout the upcoming year.

Looking Ahead to 2017

The continuity of the investment process is a top priority for Cedar Hill as we move into the new year. The firm's former president, Alan Cole, has agreed to a multi-year contract to provide investment management for our Core Equity and Equity Income strategies. Chris Engelman is our new Chief Investment Officer. Chris has been instrumental in shaping Cedar Hill's investment strategy since joining the firm in 2003, and he and I will work closely to carry on Cedar Hill's philosophy. I'm looking forward to this new working relationship with Chris and Alan.

As we continue to position the firm for growth in 2017 and beyond, we will be working to improve our infrastructure, allowing us more time to service you, our clients, more effectively.

On behalf of the entire Cedar Hill team, we thank you for your continued partnership. I look forward to working with each one of you toward reaching your investment goals. Please contact me anytime with questions or comments.

John Crosson
President, Cedar Hill Associates, LLC

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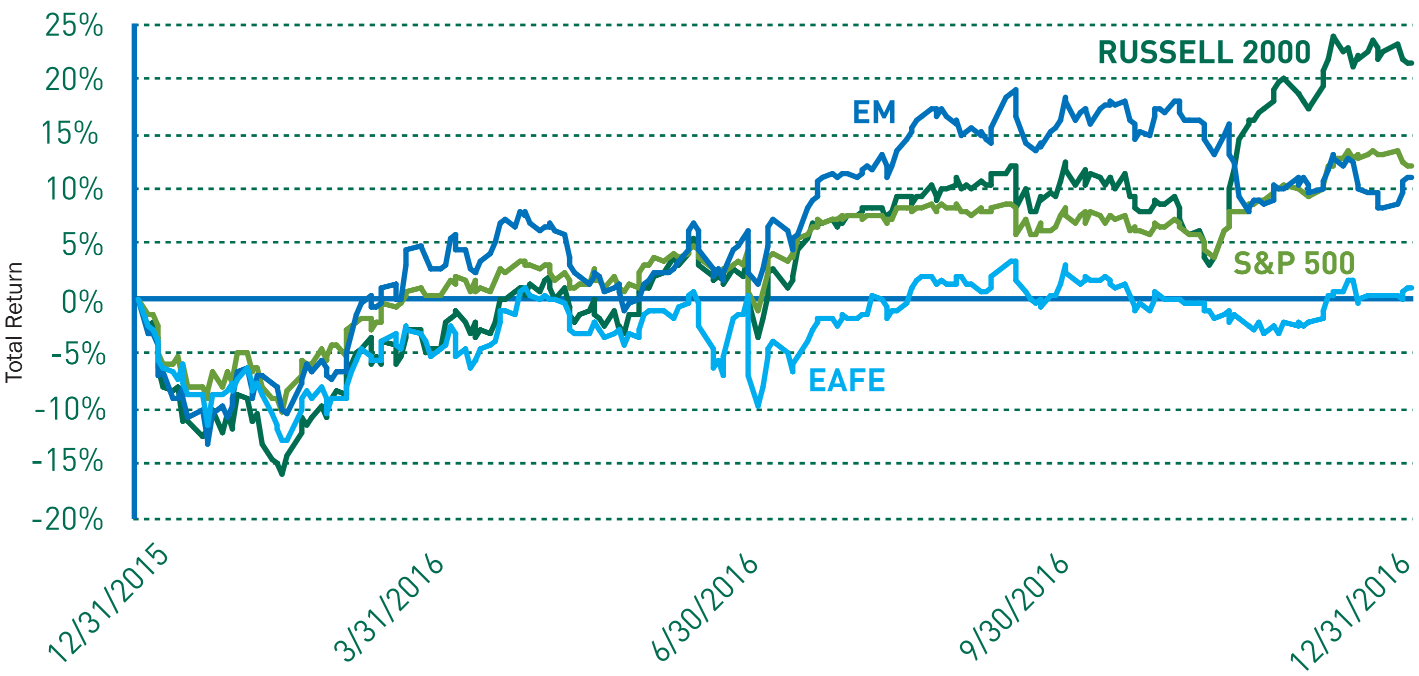
Market Outlook

Fueled by Trump's Proposed Pro-Growth Policies, Post-Election Rally Poised to Continue

The close of 2016 marked the end of an eventful year for investors. Global equities began the year with one of their worst starts ever, with each of the major equity indices declining more than 10% during the first six weeks of 2016. During the ensuing quarters, two political events stunned the world: The U.K. voted to exit the European Union in June, and Donald Trump pulled off a shocking win during the U.S. presidential election in November. The consensus was that each of these developments could derail the seven-year bull market, but global stocks once again exhibited remarkable resiliency.

Domestic equities rallied strongly after the election, with the S&P 500 Index delivering a fourth-quarter total return of 3.8% (12% YTD) and the small-cap Russell 2000 Index generating an impressive quarterly return of 8.8% (21.3% YTD). While international equities proved resilient through most of 2016, performance began to fade toward year-end. The international developed market index (MSCI EAFE) posted a fourth-quarter loss of -0.7% (1% YTD) and the emerging market index (MSCI EM) reported a quarterly decline of 4.2% (11.2% YTD).

2016 Equity Market Returns



Source: Bloomberg

The post-election rally in U.S. equities initially confounded market pundits, who believed the uncertainty associated with a Trump victory would rattle investors. That analysis proved myopic, however, as the equity market quickly warmed to the new administration's proposed pro-growth policies. In hindsight, it's clear that the economic backdrop was already improving before the election. Still, an unexpected election sweep that gave Republicans unified control in both houses of Congress and the White House prompted investors to grow more optimistic, given the party's perceived pro-business, free-market stance.

We would be remiss to ignore, however, that Republican leadership does not ensure positive post-inauguration market returns. In fact, the last four times a Republican has assumed control of the White House from a Democrat (1952, 1968, 1980 and 2000), the S&P 500 declined the following year by an average of -10.2%, despite a robust post-election rally in all but one of those election cycles.

Presidential Elections Since 1928

		S&P 500 % Price Change						
Year	Election Day	YTD Thru Election Day	Election Day Thru Year-End	Full Year	Next Year	Winner	Party	President
1952	11/4/52	3.5%	8%	11.8%	-6.6%	Challenger	Republican	Eisenhower
1968	11/5/68	6.9%	74%	7.7%	-11.4%	Challenger	Republican	Nixon
1980	11/4/80	19.6%	5.2%	25.8%	-9.7%	Challenger	Republican	Reagan
2000	11/7/00	-2.5%	-7.8%	-10.1%	-13%	Challenger	Republican	Bush II
2016	11/8/16	4.7%	4.6%	9.5%	?	Challenger	Republican	Trump

Source: Bespoke Investment Group

From a non-partisan perspective, we believe the market's positive reaction to the incoming administration's economic proposals has merit. President Trump's pledge to increase infrastructure spending, cut individual and corporate tax rates, and allow companies to repatriate cash held overseas could meaningfully boost U.S. GDP above the paltry 2.2% average growth rate of the past seven years. More sensible and less restrictive regulation would also support economic expansion, particularly for the energy and financial sectors. All of these measures would support corporate earnings growth, which, in turn, should drive equity returns.

While we recognize the beneficial impact those proposed initiatives could have, we are also cognizant of the old adage, "There's no such thing as a free lunch." Significantly increasing government spending on infrastructure and simultaneously cutting taxes would almost certainly push the United States' already bloated federal deficit and debt balances higher. This massive stimulus plan would also spur inflation, which could consequently push the Federal Reserve to keep raising interest rates – increasing the risk of a Fed-induced recession. Finally, potential protectionist policies could lead to trade wars with unknown consequences. Much speculation remains about which policies will actually become law, but we believe the new administration will ultimately succeed in pushing through some of its pro-growth agenda. That said, those proposals will likely be tempered somewhat from the initial suggested amounts to minimize the risk of the unintended consequences mentioned above.

During its December meeting, the Federal Open Market Committee (FOMC) raised the federal funds rate by 25 basis points – to a range of 0.5% to 0.75 % – for the first time this year and just the second time in the last 10 years. The Fed will likely remain cautious into 2017, though it has now penciled in three rate hikes for the year (instead of two under its prior forecast), since inflation is expected to climb steadily in the coming quarters. Regardless, we continue to believe today's still-low interest rate and inflation environment provides a supportive backdrop for the economy and equity prices. With the most recent Consumer Price Index (CPI) reading of 1.7%, the U.S. is still in what has historically proven to be an optimal inflation range of 1% to 3.9%. This is well below the range where we would be concerned about the negative effects of inflation, such as slower economic expansion and lower valuation multiples for stocks.

1954-2016

	Inflation	GDP Growth	Average P/E (ttm)
	0-1%	2.5	18.4
Optimal Level of Inflation	1-1.9%	3.2	17.5
	2-2.9%	3.5	17.8
	3-3.9%	3.2	17.7
	4-4.9%	3.1	16.7
	5-5.9%	2.5	15.4
	6-6.9%	2.3	12
	7%+	1.1	8.5

Source: Charles Schwab, Bloomberg

As we approach the eight-year anniversary of this bull market, we are mindful of the unusual duration and magnitude of this rally. This is already the second most robust post-WWII recovery, trailing only the vigorous bull-market run of the 1990s.

Start Date	End Date	Duration (Months)	Magnitude
04/1942	05/1946	49	157%
06/1949	12/1952	42	96%
09/1953	08/1956	35	119%
12/1957	07/1959	19	54%
01/1960	12/1961	14	39%
06/1962	01/1966	43	80%
09/1966	11/1968	25	48%
06/1970	01/1973	31	74%
01/1974	12/1976	26	73%
03/1978	11/1980	32	62%
08/1982	08/1987	60	229%
12/1987	07/1990	31	65%
01/1990	03/2000	112	417%
01/2002	01/2007	60	102%
03/2009	Present	93	293%
Average		41	115%
Median		34	77%

Source: Standard & Poor's

Every bull market eventually comes to an end, and this one will be no different. That said, we remain sanguine about current data that shows the U.S. economy continuing to gain momentum and corporate earnings growth recovering from last year's energy-led slump. As a result, we think this secular upturn still has room to run.

Given the market's surprisingly strong run following the election, however, we would not be surprised to see a modest post-inauguration pullback in early 2017. While the new administration has promised some compelling pro-growth initiatives that have rejuvenated market sentiment, the post-election honeymoon period could wear off if the long-standing bureaucratic dysfunction in Washington delays or restrains the full impact of these proposals and deflates investor optimism. Nonetheless, as we have done throughout this upturn, we plan to remain focused on the medium- to long-term horizon. Short-term swings in sentiment won't deter us from partaking in what we still view as an opportunistic investing environment.

Investment Overview

Core Portfolio

During the fourth quarter, we did not initiate or exit any Core Portfolio holdings.

Equity Income

mREITs continue to perform despite rising interest rates

Income-producing equity investments, such as Mortgage Real Estate Investment Trusts (mREITs) and Master Limited Partnerships (MLPs), extended their solid year-to-date gains during the fourth quarter.

The Mortgage REIT Index posted a 2.2% increase in the quarter and generated an impressive 22.8% total return for the full year. As a reminder, mortgage REITs borrow short-term money at low interest rates and use it to buy long-term mortgage-related debt. This enables them to pocket the spread on interest rates and distribute the majority of earnings to shareholders as income. Despite a rise in interest rates, mortgage REITs have performed well post-election, as the steepening of the yield curve has improved their near-term reinvestment outlook and provided added income to support their lofty dividend payments. The biggest risk to the space comes from fast or large rate increases, which could cause Agency MBS spreads to widen and impact mortgage REITs current investments (i.e., book values) negatively. Thus, while we are encouraged by the performance of mortgage REITs over the past year, we plan to keep a close eye on the trajectory of interest rates going forward.

MLPs, which provide commodity logistics and transportation for the energy industry, continued to recover with the rebound in oil and gas prices. The Alerian MLP index gained an additional 1.3% during the fourth quarter, boosting its total return for the year to 18.3%. Despite the strong returns posted in 2016, we believe this space continues to offer attractive values. With the sector's stable dividend yield (7.1%) and sustained annual distribution growth (5-7%), the low-teen total return outlook for MLPs remains a compelling investment opportunity in what is generally expected to be a lower return environment for traditional stock and bond investments over the coming years.

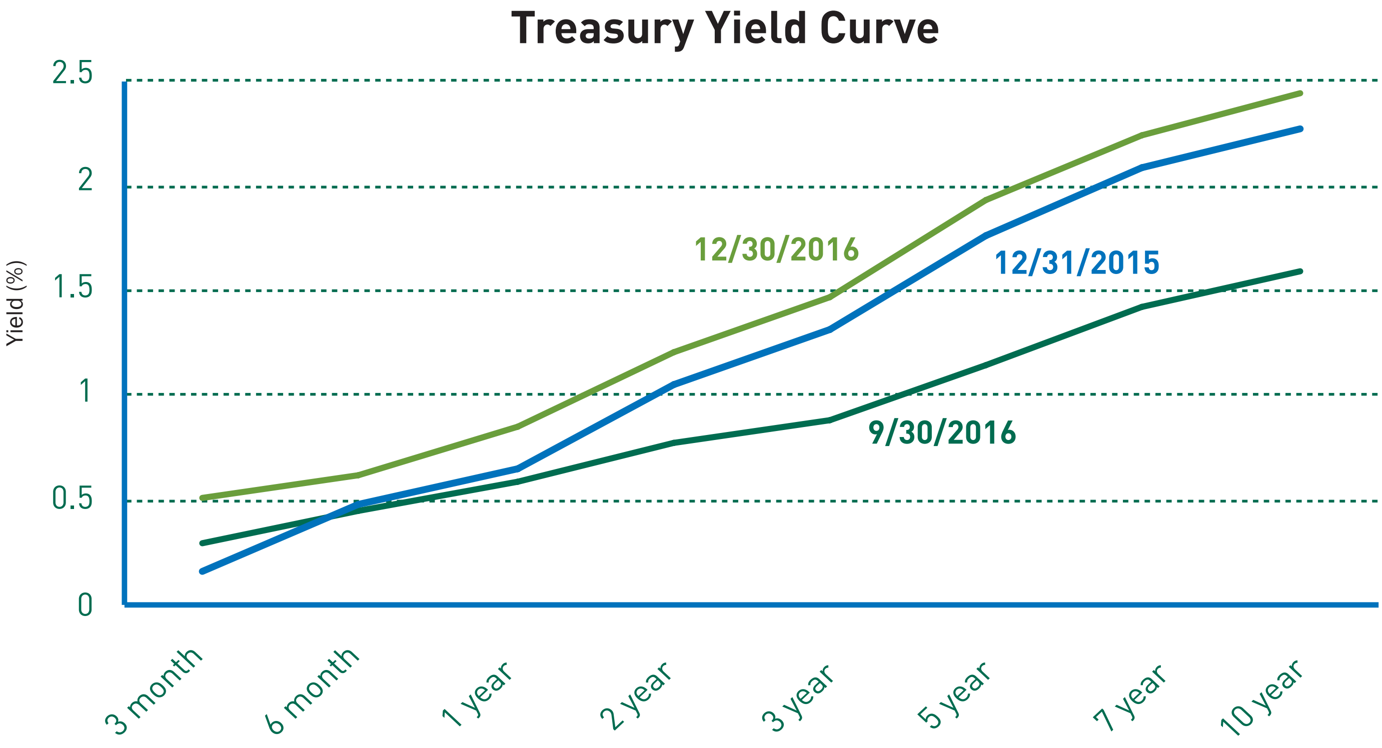
Fixed Income

Steepening yield curve could signal economic growth

U.S. Treasury rates finished 2016 slightly ahead of the levels reported at the end of 2015, but this modest change obscured the more extreme rate moves throughout the year. Low to negative interest rates overseas, along with major geopolitical events, such the Brexit vote, pushed U.S. rates lower during the first half of the year. The 10-year Treasury reached an all-time low of 1.36% in July. Rates moved higher throughout the second half of the year, however, because of improving economic data, rising inflation expectations and the Federal Reserve's interest rate hike in December. The 10-year Treasury finished the year at 2.44%, only 0.17% higher than where it began the year.

While rising interest rates dampened all bond prices in the fourth quarter, corporate bonds performed better than most fixed income instruments, as credit spreads tightened alongside an improving economy. Municipal bonds underperformed, since post-election speculation about personal income tax cuts reduced the attractiveness of tax-exempt interest income.

Encouragingly, the yield curve has steepened since the election. When this happens, economic growth usually follows.



Source: Bloomberg

Alternatives

Hedge Fund results varied by strategy in 2016

Hedge Funds results were mixed last year, with event-driven and distressed credit strategies posting respectable results. The market's positive response to Brexit and the U.S. presidential election caught most long/short equity managers off-guard, and consequently, they had their portfolios positioned too conservatively. After many years of underperforming most equity markets, there is much speculation about the future of the hedge fund industry. While we expect fees to come down and many strategies to shift from private vehicles to liquid mutual funds and ETFs, managers who use the illiquidity offered by their private structures to their advantage should still be able to provide compelling results over a full market cycle that includes both up and down markets.

Real Estate investments continue to attract capital as investors look for current income, inflation protection and diversification away from traditional stocks and bonds. Though some overbuilding has likely occurred in certain pockets, such as high-end apartments and retail properties, real estate should remain resilient, assuming the economy remains strong and lending is available.

Private Equity continues to attract capital, though managers are taking a more cautious approach. Valuations are near all-time peak levels and managers realize that both the purchase price and the exit price matter. We have seen a pullback in valuations assigned to early-stage venture capital backed start-ups, as less than a dozen technology IPOs took place in 2016 and many of those that did go public in recent years have posted lackluster results. Overall though, enthusiasm for private equity remains strong, as private companies still benefit from less cumbersome regulation than public entities.

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

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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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