HUDSON ADVISOR SERVICES, INC

OUR VIEW OF THE MARKET

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We were cautious three months ago about the Trump effect on the market. We said let us "wait and see" if the Republican President and Congress actually could establish a more business friendly environment that drives up corporate earnings. We seem to be joined by a lot of skepticism now. One recent headline asked: "Is the Trump Trade Fading?" Another headline said: "Trump economy starting to look like the same-old, same-old."

Yes, Wall Street surged in the months after the unexpected Trump victory. The Dow Jones Industrial Average increased 8.3% in the fourth quarter. It continued to rise in the new year and reached over 21,000 in March. Then came the dramatic collapse of health care legislation and all the exposed fissures between the President and the Congress and within the Congress. The Dow retreated and has wobbled around in recent weeks. Here is the recognition of tough reality: A new president may boost economic spirits for a period, but achieving actual growth rates is a bit more difficult.

Fortunately, the stock market bounce of recent months is not entirely political. Some if it is rooted in the economic fundamentals. The economy is not about to tank, nor is it about to overheat. The almost universal consensus is that GDP growth rate will be somewhere in the 2% range in 2017 and future years. That growth rate is comparable to recent years – stable, not spectacular. The Federal Reserve is confident enough to announce plans for gradual increase in interest rates.

The problem for Mr. Trump is that he promised to push GDP growth rate to 3.5% -- a rate not seen since 2004. His main tools are the proposed initiatives to reform and reduce taxes and to invest in infrastructure. Here is where the skepticism is now growing on Wall Street. Can the President and Congress actually agree and enact these ambitious plans? Or will the political fissures evident during the health care debate remain?

At Hudson Advisors, we remain in "wait and see" posture.

We do not perceive immediate risk of the market losing its recent gains. But we do not anticipate much prospect of further advances without significant and concrete action from the leadership in Washington.

MARKET TRENDS

The accompanying chart summarizes stock and bond market prices for the first quarter. The stock market posted a solid quarter despite the most recent concerns over the political turmoil in Washington. Meanwhile, U.S. Government bond prices edged slightly higher.

Equity Market: The post-election rally continued in January and February before stalling in March. The Dow Jones Industrial Average increased 3.67% in the quarter. The S&P 500 index gained 5.53% for the quarter. The Russell 2000 index of small cap was less impressive at 2.12%. The most impressive was technology with the Nasdaq Composite up 9.82%.

Fixed Income Market: The yield on the 10-year Treasury was 2.39% at the end of April -- down from 2.44% at the end of 2016. (Yields move inversely to prices.) The slight increase in bond prices occurred toward the end of the quarter as the stock rally began to falter. Overall, however, bonds showed no signs of recovering from the rout experienced in the last half of 2016. The certainty of measured interest rate increases from the Federal Reserve should act to keep bond prices subdued with greater prospect in the future for decline than for increase.

MAJOR MARKET INDEXES

	YTD Return
Dow Jones Industrials Composite PR	3.67
S&P 500 Index PR	5.53
Russell 2000 Index PR	2.12
NASDAQ Composite PR	9.82
EAFE Index NR	7.25
Barclays Aggregate Bond Index TR	0.67

source: Morningstar®

THE OUTLOOK

The Economy: The story with the U.S. economy is good but not too exciting. The GDP is expected to grow at just over 2% in 2017 – with a similar forecast for 2018. The trend is similar to the one in recent years: reliable but modest growth. These forecasts assume no policy initiatives.

Typical of the economic situation is the employment report for March with 98,000 jobs added – lower than recent months and below the forecast for March of 180,000 jobs. Ironically, the unemployment rate fell from 4.7% to 4.5% -- indicating some of the contradictions in the employment numbers. The service sector, especially retail, looks weak while manufacturing improved. The frustration is that the economy shows no signs of recession but cannot seem to break out of the slow growth mode.

One encouraging development is the improved outlook internationally. The Chinese have adopted fiscal and monetary policies that have stabilized their economy. The effect is to improve global trade and boost demand for commodities, which helps the emerging markets. The Europeans are also showing healthy recovery of industrial activity. This more positive global story alleviates some concerns that the U.S. economy might slip backwards.

The Market: As expressed last quarter, our caution about the market is the rich price of stocks. Shares of companies in the S&P 500 are now trading at an average of 24 times their past 12 months of earnings. That compares to a 10-year average of 16. The P/E ratio has been driven markedly higher by the post-election rally.

The only way to improve that ratio is higher corporate earnings. As with the economy, the story on earnings is mixed. The most recent forecast for Q1 is that earnings for the S&P 500 will be 9.1%. That number is improved over recent quarters but below the earlier forecast of 12.5%. This performance is not enough to reduce the rich price of stocks. It is also concentrated in a small group of companies within the total S&P 500.

Given this situation, we do not see how the stock market can advance much further in 2017. Investors would need to see prompt and coherent policies enacted on tax reform/reduction and infrastructure spending. We are "wait and see" on that possibility. Even should legislation be enacted, it would take well into 2018 for the impact to show in corporate earnings. Thus, we expect the market to stay in its current range for the rest of 2017.

OUR STRATEGIES

Asset Allocation: For clients investing new money, same as last quarter, we recommend 55% allocation to equities and the remaining portion to cash, bonds with maturities under two years, and alternative investments. We stagger the time period in which we reach that 55% level. For fully invested clients, we recommend to trim equities to 55-65% depending upon time horizon and objectives.

Preferred Equities: We remain focused on large cap companies with strong balance sheets, sustainable cash flows, and credible business models. Companies that pay attractive dividends are central to our strategy. We continue to believe that U.S. companies are the best equity investment.

Some of the sectors we are like include:

- TECHNOLOGY: This sector lagged the rest of the market in 2016 – and thus the opportunity for growth in stock prices is good. That trend was evident in the first quarter.
- FINANCIALS: This sector should be assisted by the increase in interest rates which improves the profitability of many product lines.
- INTERNATIONAL: Our preference is for U.S. equities and we have minimized international stocks in recent years. Given the better global outlook, however, we are looking to expand our international allocation through diversified mutual fund investments.

Fixed Income: Nothing changes our aversion to bonds with long maturities. The pending increase in interest rates creates the risk of a sharp decline in bond prices. For the non-equity portion of client portfolios, we prefer to find vehicles such as municipal tax liens and other alternative investments. .

Dow Jones U.S. Sectors Total Return
(Percent Change for YTD, Ending March 31, 2017)
Source: Morningstar®

Oil & Gas	**-6.59**	**Consumer Services**	**6.95**
Basic Materials	**7.56**	**Telecommunications**	**-3.13**
Industrials	**5.04**	**Utilities**	**6.28**
Consumer Goods	**7.91**	**Financials**	**3.12**
Health Care	**8.54**	**Technology**	**12.84**

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Top 25 Performing Stocks YTD 3/31/17 - US Listed companies with a market cap above $5 Billion. Source: Telemet Orion ®				
Issue	**Name**	**Last**	**Mkt Cap**	**Net Pct Q**
OMNT	Ominto, Inc.	$ 13.59	$ 5,179.00	222.22
GOL	Gol Linhas Aereas Intelgentes	$ 32.90	$ 11,423.00	94.57
MOMO	Momo Inc. ADS	$ 37.37	$ 7,219.00	85.36
CC	Chemours Company	$ 37.55	$ 6,877.00	74.29
LFL	LATAM Airlines Group SA ADS	$ 13.44	$ 7,332.00	54.89
MBLY	Mobileye N.V.	$ 61.78	$ 13,596.00	61.07
SHOP	Shopify Inc.	$ 69.06	$ 6,174.00	58.83
YPF	YPF S.A.	$ 25.59	$ 10,023.00	47.15
VRTX	Vertex Pharmaceuticals	$ 114.23	$ 28,379.00	48.43
PNRA	Panera Bread Co	$ 313.82	$ 7,131.00	27.69
NRG	NRG Energy Inc	$ 18.71	$ 5,912.00	52.53
LVNTB	Liberty Interactive Corp B Lib	$ 54.54	$ 7,799.00	19.59
TAL	TAL Education Group ADS	$ 102.33	$ 8,297.00	51.92
GGAL	Grupo Financiaro Galicia SA	$ 39.15	$ 5,091.00	40.64
TSLA	Tesla, Inc.	$ 308.71	$ 49,909.00	30.24
ARNC	Arconic Inc.	$ 26.59	$ 11,714.00	42.07
LVNTA	Liberty Interactive Corp A Lib	$ 52.42	$ 7,548.00	20.64
EDU	New Oriental Education & Techn	$ 59.68	$ 9,398.00	43.42
MELI	MercadoLibre, Inc.	$ 219.78	$ 9,705.00	35.44
EXEL	Exelixis Inc.	$ 20.96	$ 6,097.00	45.34
JAZZ	Jazz Pharmaceuticals plc	$ 152.98	$ 9,139.00	33.11
ANET	Arista Networks	$ 133.33	$ 9,468.00	36.68
ILMN	Illumina Inc	$ 175.01	$ 25,604.00	33.27
TSU	TIM Participacoes SA	$ 16.09	$ 7,781.00	35.42
SSNT	SilverSun Tech Inc Cl A	$ 4.09	$ 14,437.00	33.33

Bottom 25 Performing Stocks YTD 03/31/17 - US Listed companies with a market cap above $5 Billion. Source: Telemet Orion ®				
Issue	**Name**	**Last**	**Mkt Cap**	**Net Pct Q**
KR	Kroger Company	$ 29.57	$ 27,034.00	-14.55
RRC	Range Resources Corp	$ 29.40	$ 7,277.00	-15.31
UTHR	United Therapeutics Corp.	$ 121.78	$ 5,475.00	-5.61
QCOM	Qualcomm Inc.	$ 55.35	$ 81,754.00	-12.06
APA	Apache Corporation	$ 53.87	$ 20,454.00	-19.03
AAP	Advance Auto Parts Inc	$ 143.46	$ 10,582.00	-12.33
BRFS	BRF S.A. ADS	$ 12.28	$ 9,860.00	-17.01
M	Macy's Inc.	$ 29.71	$ 9,040.00	-17.23
PRGO	Perrigo Company	$ 69.01	$ 9,894.00	-20.23
EBR/B	Centrais Electricas Braz Pfd B	$ 6.51	$ 8,806.00	-12.31
EBRXB	Centrais Electricas Braz Pfd B	$ 6.51	$ 8,806.00	-12.31
HES	Hess Corporation	$ 51.11	$ 16,178.00	-22.6
KSS	Kohl's Corporation	$ 40.23	$ 6,934.00	-19.38
IEP	Icahn Enterprises LP	$ 48.74	$ 7,599.00	-14.49
SABK	SOUTH ATLANTIC BANCSHARES INC	$ 13.00	$ 45,500.00	-6.25
SMI	Semiconductor Manufct Intl ADS	$ 6.15	$ 5,189.00	-17.59
LULU	Lululemon Athletica Inc.	$ 51.70	$ 6,580.00	-20.19
PSO	Pearson PLC	$ 7.86	$ 6,406.00	-15.12
HPE	Hewlett Packard Enterprise Co	$ 18.18	$ 30,137.00	2.42
AYI	Acuity Brands, Inc.	$ 177.68	$ 7,834.00	-11.63
TGT	Target Corporation	$ 53.71	$ 29,684.00	-23.59
CVE	Cenovus Energy Inc.	$ 11.03	$ 8,365.00	-25.31
LB	L Brands, Inc.	$ 47.95	$ 13,668.00	-28.46
EBR	Centrais Electricas Braz Eltbr	$ 4.99	$ 6,750.00	-20.85
FNMA	Fannie Mae	$ 2.62	$ 15,013.00	-33.33