HUDSON ADVISOR SERVICES, INC

OUR VIEW OF THE MARKET

By William N. Hudson, Jr., David D. Burrows, William Hudson III, Evan Coppola, & Jeremy Hudson

Our usual practice in these quarterly commentaries is to make general predictions on the direction of the markets in the period ahead. Right now, however, we will depart from that practice. The market is buffeted by an array of positive and negative forces. So, in all candor, we confess that we are unsure what will occur in the months ahead. We do agree with the obvious comment of one Wall Street analyst: "There are enough reasons to think volatility is here to stay for the rest of 2018."

The first quarter was a sharp departure from the market trend in 2017. Calm and steady growth was replaced with turbulence and a bearish mood. Investors became concerned in February that that the economy was growing too fast and that the Federal Reserve and other central banks would raise interest rates sooner than anticipated. This worry was compounded later in the quarter by the talk of a "trade war" and the prospect of a government crackdown on technology companies.

At Hudson Advisors, we are not surprised at the market's turn to the negative. We had spent much of 2017 warning that the market boom emanating from the Trump election was due for some kind of correction. At the same time, we are comforted by the healthy outlook for the fundamentals of economic and earnings growth. But the market needs time to sort through the confusing stew of both upbeat and worrisome indictors.

One scenario is that the downturn will be short-lived and slow growth, even if rocky at times, will resume. Another scenario is that we are looking at a more sustained period of bearish events. As stated, we think it too soon to know which scenario will prevail, and that more volatility is the one certain thing to expect. As always, in such an environment, Hudson Advisors will act defensively with our clients' money while still looking for pockets of opportunity.

MARKET TRENDS

The accompanying chart summarizes stock and bond market prices for the first quarter of 2018 – which were both hit by stories of travail and decline.

Volume 75 April 2018

Equity Market: U.S. stock indexes reversed the strong upswing of 2017 and ended the quarter negatively. The Dow Jones Industrial Average was down 2.5% for the quarter, the S&P 500 was down 1.2%, and the Russell 2000 index of small cap stocks was down .40%. The only positive index was the Nasdaq Composite with a quarterly gain of 2.3% -- even though it took a beating in March with the various pieces of negative news.

The year had started well. Stocks soared in January with the S&P 500 growing 5% in the month and hitting a highpoint of 2872.87 on January 26. The woes began in February as stocks declined over the concern about whether rising interest rates would choke off economic growth. The trouble continued in March. The markets were ruffled by announcements from President Trump of trade sanctions against China. The technology sector was roiled by the issues of consumer privacy and the prospect of increased government regulation. The decline continued in early April and stocks are now down more than 10% from their January peak – technically the mark of a "corrections" period.

Fixed Income Market: The bond market was also hit by the specter of rising interest rates and possible inflation. The yield on the 10-year Treasury was 2.74% at the end of March – versus 2.40% at the end of 2017 (Yields move inversely to prices.) It had actually reached a high of 2.94% on February 21 – but the 10-year Treasury was helped somewhat in March since some investors use it as a temporary haven from stocks.

MAJOR MARKET INDEXES

	YTD Return
Dow Jones Industrials Composite PR	-2.48
S&P 500 Index PR	-1.17
Russell 2000 Index PR	-0.40
NASDAQ Composite PR	2.33
EAFE Index NR	-1.53
Barclays Aggregate Bond Index TR	-1.18

source: Morningstar®

THE OUTLOOK

The Economy: The U.S. economic performance is solid. The Federal Reserve has predicted the Gross National Product to increase by 2.7% in 2018 – similar to 2017. There is no sign of recession on the horizon even though we are in the ninth year of economic expansion. The measures of consumer, housing, and manufacturing activity are all good.

The jobs report for March was somewhat disappointing – with only 103,000 net new jobs. Nonetheless, the economy added over 500,000 new jobs in the first quarter. Unemployment remains low at 4.1% and may likely drop below 4.0% by year-end. Wage growth is slower to take hold – now at an annualized increase of 2.7% -- below the 3% level that might spark inflation.

Nonetheless, we have worries:

- The Federal Reserve has raised interest rates once this year – with two or perhaps three more hikes expected in 2018. While anticipated as part of the policy to restore interest rates to more normal levels, these hikes most likely will drive up the cost of business and consumer borrowing. This impact has caused the recent jitters in the market.
- The Federal deficit and corollary borrowing are ballooning. Normally, periods of economic strength allow opportunity to shrink the deficit. But Washington seems to have lost any sense of fiscal discipline. This policy limits options to address any future economic downturn. .

The Market: The best news for the stock market is robust corporate earnings. S&P 500 firms are forecast to grow profits 17% in the first three months of 2018 – compared to 11% in 2017. Part of this growth is attributable to last fall's major cut in corporate taxes. Higher earnings will ease concern about stocks being overvalued.

Nonetheless, we have worries:

- We think the talk of a "trade war" is overblown. The U.S., China and other trading partners will come to practical compromises. But the process may take many months and Wall Street will remain jittery.
- The technology sector faces a period of adjustment in its business approaches and the possibility of tighter regulation. Its leadership of stock price growth will be impaired.

At Hudson Advisors, we prefer the scenario in which these worries are resolved and the market resumes a growth trend. But we are prepared to live through a reasonably extended period of bearish sentiment. We will watch events keenly and re-visit our "not sure" outlook in three months.

OUR STRATEGIES

Asset Allocation: For clients investing new money, we recommend 60% 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 60% level. For fully invested clients, we recommend to trim equities to 60-70% 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. Some of the sectors getting our attention:

TECHNOLOGY: We are obviously cautious about this sector – given the issues to be resolved – but areas such as bio technology and semi- conductors have our interest.

CONSUMER DISCRETIONARY: The strong economy has expanded wealth in some consumer households and the demand for certain luxury and recreational activities is good.

FINANCIALS: Rising interest rates will make banks more attractive – and our focus is upon regional banks.

ENERGY: The stabilization of oil prices creates some interesting if selective new opportunities in this sector.

INTERNATIONAL: The strength in the global markets maintains our interest in international exposure for our clients.

Other Investments: Our repeated aversion to bonds with long maturities remains firm. We still believe the risk of a sharp decline in prices is too great a risk for our clients. We prefer to find alternative investments such as real estate limited partnerships, demand notes, and municipal tax liens.

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Dow Jones U.S. Sectors Total Return
(Percent Change for YTD, Ending March 31, 2018)
Source: Morningstar®

Oil & Gas	**-5.75**	**Consumer Services**	**1.92**
Basic Materials	**-5.53**	**Telecommunications**	**-7.69**
Industrials	**-1.08**	**Utilities**	**-3.29**
Consumer Goods	**-5.67**	**Financials**	**-0.90**
Health Care	**-0.66**	**Technology**	**3.76**

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Top 25 Performing Stocks through YTD March 31, 2018 - US Listed companies with a market cap above $5 Billion. Source: Telemet.

Issue	Name	Last	Mkt Cap	Net Pct Q	Industry Group
BIVV	Bioverativ Inc.	104.98	11,361	94.7	Pharmaceuticals
JUNO	Juno Therapeutics, Inc.	86.96	10,097	90.24	Biotechnology
MULE	Mulesoft Inc	43.97	5,735	89.08	Software
NKTR	Nektar Therapeutics	98.74	15,890	77.93	Pharmaceuticals
BGNE	Beigene, Ltd.	161.53	7,334	71.92	Biotechnology
XL	XL Group plc	55.24	14,192	57.17	Insurance
ABMD	Abiomed Inc.	277.53	12,288	55.27	Health Care Equipment & Supplies
NFLX	Netflix Inc	276.75	120,095	53.86	Catalog Retail
MOMO	Momo Inc. ADS	36.06	7,139	52.7	Software
GOL	Gol Linhas Aereas Intelgentes	12.03	20,884	48.29	Airlines
HLF	Herbalife Ltd.	96.47	8,433	43.93	Personal Products
VR	Validus Holdings, Ltd.	67.48	5,352	43.76	Insurance
MTCH	Match Group, Inc.	41.34	11,341	41.94	Diversified Consumer Services
SQ	Square, Inc. Class A	46.29	18,347	41.91	Consumer Finance
VIPS	Vipshop Holdings Ltd ADS	15.92	9,361	41.81	Catalog Retail
GRUB	GrubHub Inc.	96.63	8,426	41.32	Internet Software & Services
DISCB	Discovery, Inc. Series B	34.5	20,286	40.95	Media
STX	Seagate Technology Plc	57.56	16,395	39.87	Computers & Peripherals
NTNX	Nutanix, Inc.	48.25	7,928	39.2	Computers & Peripherals
CSRA	CSRA Inc.	41.23	6,759	37.8	IT Services
PBR	Petroleo Brasilero ADS	13.32	87,392	37.41	Oil Gas & Consumable Fuels
ZBRA	Zebra Technologies Corp	136.83	7,286	34.09	Electronic Equipment & Instruments
PAYC	Paycom Software, Inc.	103.26	6,111	33.69	Software
ATHM	Autohome Inc.	81.98	9,574	32.89	Catalog Retail
SSDOY	Shiseido Co., Ltd.	65.44	26,527	32.71	Specialty Retail

Bottom 25 Performing Stocks YTD March 31,2018 - US Listed companies with a market cap above $5 Billion. Source: Telemet.

Issue	Name	Last	Mkt Cap	Net Pct Q	Industry Group
FNMA	Fannie Mae	1.49	8,538	-46.79	Thrifts and Mortgage Finance
BRFS	BRF S.A. ADS	6.85	5,565	-38.54	Food Products
LB	L Brands, Inc.	37.3	10,401	-36.55	Specialty Retail
ALB	Albemarle Corporation	89.15	9,863	-27.48	Chemicals
EXEL	Exelixis Inc.	20.73	6,142	-27.14	Biotechnology
DB	Deutsche Bank AG	13.7	18,890	-26.54	Capital Markets
SEKEY	Seiko Epson	8.92	6,349	-26.09	
BPL	Buckeye Partners LP	37.75	5,547	-24.54	Oil Gas & Consumable Fuels
LGF/B	Lions Gate Entertainment Cl B	23.46	5,246	-24.13	Media
LGFXB	Lions Gate Entertainment Cl B	23.46	5,246	-24.13	Media
ADNT	Adient plc	61.52	5,752	-24.07	Auto Components
GIS	General Mills Inc.	44.69	25,481	-24	Food Products
LGF/A	Lions Gate Entertainment Cl A	25.04	5,559	-23.6	Media
LGFXA	Lions Gate Entertainment Cl A	25.04	5,559	-23.6	Media
THO	Thor Industries Inc.	107.94	5,688	-23.59	Automobiles
XRAY	DENTSPLY SIRONA Inc.	50.02	11,373	-23.58	Health Care Equipment & Supplies
VRX	Valeant Pharmaceuticals Int'l	15.36	5,384	-23.39	Pharmaceuticals
XEC	Cimarex Energy Co	90.58	8,645	-23.37	Oil Gas & Consumable Fuels
DVN	Devon Energy Corp	30.78	16,193	-23.21	Oil Gas & Consumable Fuels
GE	General Electric Company	12.97	112,613	-22.75	Industrial Conglomerates
ACH	Aluminum Corp. of China Ltd.	13.61	7,363	-22.36	Metals & Mining
NHYDY	Norsk Hydro ASA ADS	5.85	11,952	-21.71	Oil Gas & Consumable Fuels
IRCP	IRSA Propiedades Comerciales	44.11	5,581	-21.24	Real Estate Management & Development
AYI	Acuity Brands, Inc.	120.36	5,074	-20.91	Electrical equipment
BF/B	Brown-Forman cl B	53.99	11,647	-20.78	Beverages