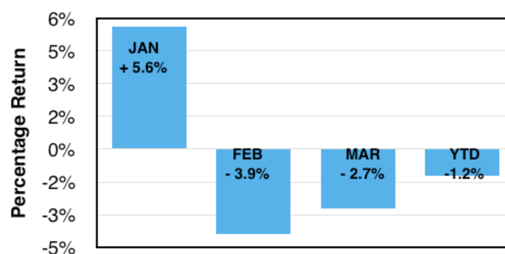
ASCEND
Investment Management, Inc.

Quarterly Investment Report
March 31, 2018

Stock Market + Uncertainty = Volatility

Dear Investor:



The stock market gave an impressive January opening, successfully lulling investors into the dream that stocks move in only one direction, up. Buckets of ice water in February and March reminded investors that stocks can go down as well as up, and that fear can overpower greed.

We haven't seen such volatility since the late summers of 2011and 2015. It's fitting, though, that on the anniversary month of the S&P 500's second ever longest bull market (the longest was in the 1990's) the bull would snort and stomp for attention.

February's snort was over a long-awaited increase in average hourly wages that raised our inflation fears. March's stomp was in response to President Trump's protectionist trade tariff announcements and the uncertain repercussions of potential trade wars. But it's not only trade policy that has investors on edge. There's also unease over the uncertainty of a new Federal Reserve Chairman and the divergence of interest rate policy around the globe. Jerome Powell, made his debut with slightly more hawkish intentions than both his predecessors and global central bank peers. He raised the Fed Funds interest rate (overnight rate that banks charge each other for loans) by .25% and inferred that at least two more quarter point increases are likely this year. Normally we would see longer term bond yields increase as U.S. policy rates are tightened, but ongoing central banks bond buying in Europe and Japan puts pressure on how far bond yields can rise in the U.S., resulting in a flatter U.S. yield curve. Like a red cape ignites a bull's anger, a flattening yield curve invites investor fears that the curve could easily invert and potentially signal a recession. Though we don't expect the yield curve to invert in 2018, and we don't see the next inevitable recession appearing in 2018 or even the first half of 2019, the treasury bond yield curve is an important indicator to watch.

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Investment Backdrop

Bears say watch out. A combination of a very long bull market, extended valuations, a rising interest rate cycle, inflation worries, and untenable deficit and debt levels have been more than enough reason for financial markets to falter. Protectionist policy and global trade revisions add even more uncertainty.

It's been a busy quarter for trade policy. President Trump has been making very clear his desire to reconsider long-standing efforts to integrate global economies. Soon after he took office Trump announced tariffs on washing machines and solar panels, and in January he fulfilled his vow to withdraw from the Trans-Pacific Partnership which was a trade deal between the U.S. and 11 other countries. In August of 2017 his administration opened up the trilateral North American Free Trade Agreement (NAFTA) for renegotiation. In early March Trump announced 25% and 10% duties on imports of foreign made steel and aluminum respectively. The defense argument for these actions is curious since, of the top 10 foreign suppliers of steel, China isn't one and six are countries with whom the U.S. has mutual defense arrangements. With regards to alumunum, the number one source of imports in 2016 was NATO-ally Canada, and accounted for more aluminum imports than the next 11 biggest sources combined. The economic case for tariffs is even more questionable. While Trump argues that the steel and aluminum tariffs will boost employment in those sectors, those gains stand to be dwarfed by many more job losses in steel consuming industries, such as the automotive and aerospace industries.

Most recently, President Trump announced plans to levy restrictions on a vast $60 billion swath of imports and investment from China. It's common knowledge that China routinely transgresses in the realm of intellectual property, but the collateral damage inflicted from trade and investment restrictions could be enormous. Trump's so-called remedies are likely to raise production costs for U.S. businesses, diminish U.S. productivity, hurt real household incomes, reduce the revenues of U.S. farmers and other export-dependent industries targeted by Chinese retaliation, exacerbate tensions with China and other countries adversely affected by restrictions, and most unnerving, hasten the demise of the rules based trading system.

The last U.S. major effort to invoke substantial broad-based tariffs was the passage of the Smoot-Hawley Tariff Act in 1930. That legislation raised import duties on more than 20,0000 agricultural and industrial goods. Foreign nations retaliated and U.S. exports to Europe fell by two-thirds between 1929 and 1932, exacerbating an already historic U.S. economic downturn. Of course, the stakes are even higher today since global economies are more deeply tied to one another. The international trading system could be threatened by opening a pandora's box of tariffs by allowing World Trade Organization (WTO) members to follow suit with tariffs based on flimsy justifications.

On the other hand…the global trade scenario may not be quite as dire as many believe. For one thing, Trump is known for initial big headlines that shake things up, soon to be tempered. His steel and aluminum import penalties were talked up at the beginning of March, but after all the exemptions, they cover far fewer steel imports. Also, it appears as though the Chinese may be willing to respond with reconciliatory rather than escalatory objectives. They responded to Trump's $60 billion in tariffs with only a $3 billion tariff retaliation so far. In any event, the $60 billion targeted is less than 3 percent of China's global exports.

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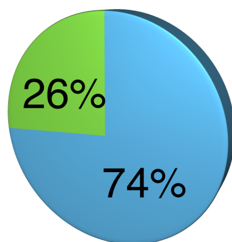
Bulls say calm down. Global economies are on a firm growth path as gross domestic product (GDP) is positive and growing around the world. Tax reform stands to benefit companies and individuals. A deregulatory economic environment lowers corporate expenses. Economies aren't overheating and inflation is increasing at a manageable pace. U.S. corporate profits continue to beat analyst estimates and are forecasted to put up strong growth in 2018. Unemployment claims are historically low, households carry reasonable debt loads, and consumer confidence is high.

The even more persuasive indicator that the bull market remains healthy and that fundamentals are strong, is the robust top-line revenue growth in many sectors. The energy sector led the way with the highest revenue and earnings growth in 2017. Every other sector except for Telecom Services enjoyed positive revenue and earnings growth.

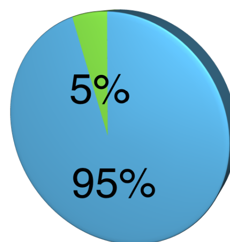
We say both the bulls and the bears deserve our attention. It's clear we're in the midst of changes and uncertain outcomes that should be closely watched. But while we may be in for some continued near-term turbulence, we fully expect a smoother ride for the longer term. For the time being we are investing cautiously, keeping bond allocations high quality and short in duration and slightly raising our cash percentages. But we remain confident in our quality stock exposures believing they will continue making positive returns over the long-term.

Staying Invested Has Resulted in a Greater Chance of Positive Returns

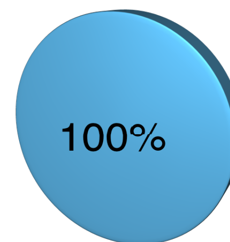
Equity returns in calendar-year periods, 1927-2017



1 -Year Holding Periods
Stocks have been positive 74% of the time.



10-Year Holding Periods
Stocks have been positive 95% of the time.



20-Year Holding Periods
Stocks have been positive 100% of the time.

Source: Morningstar

Wishing everyone a joyous Easter and Passover!

Sincerely,

Ellen P. Le, CFA
President

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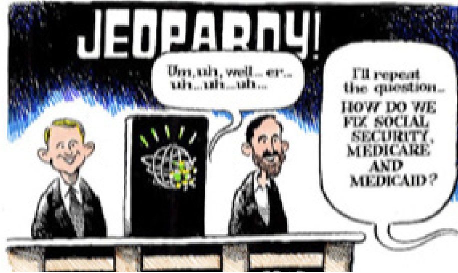

You're *Entitled* to a Brief Social Security Review

The future of Social Security?

The 2017 annual report from the Social Security Trustees projects that the Social Security Trust Fund has enough resources to cover all promised retirement benefits until 2035 without changing the current system. Over the longer term, changes such as later benefit dates or means testing (a reduction in benefits based on your other income sources) may be considered.

Take it sooner or later?

There's no "correct" age to take your benefit. Everyone's circumstance is unique. But the facts are that your full benefit is permanently reduced if you take it earlier than your full retirement age; and it is credited if you delay and take it sometime between your full retirement age and age 70. Government likes to complicate things so the reduction isn't a simple round number. If you choose to start taking your benefit up to 36 months before your full retirement age, your benefit is permanently reduced by fiveninths of 1% for each month. If you start taking it more than 36 months before your full retirement age, the benefit is further reduced by five-twelfths of 1% per month for the rest of retirement. So, for example, if your full retirement age is 66 and you decide to start benefits at age 62, the reduced benefit calculation is based on 48 months. Overall, your benefits would be permanently reduced by 25%. On the other hand, if you started your benefits at age 70, you would receive an 8% credit per year and your benefit would permanently be 32% higher.

When is break-even?

Taking your benefit early reduces your benefit amount but you'll also receive checks for a longer time. On the other hand, taking your benefit later means fewer checks but each check will be larger. So, at what age do you need to live until in order to break-even and then be ahead if you had delayed taking your benefit? It depends on your date of birth and your earnings record. But, as an example, for people born between 1943 and 1954, the break-even age (BEA) for taking your benefit at age 62 versus age 66 is age 77 or 78. If you take your benefit before age 66, for every day you live longer than 77 or 78, your total benefits are less than they could have been. The BEA for taking your benefit at age 70 versus age 66 is age 82 or 83. That means if you take your benefit at age 70, you need to live until at least age 82 or 83 to win that bet. For many healthy active retirees who have enough savings and investments to enable them to delay taking their Social Security benefit until age 70, living beyond age 82 seems reasonable. For many other retirees, it's perfectly reasonable to not delay taking their benefit. Reasons include health and longevity concerns, needing the Social Security benefit to live on, or simply just feeling more comfortable taking their benefit earlier rather than later (a bird in the hand), and not caring about the end game total dollar win or loss.

Social Security Online Accounts and Identity Theft

You would think that if you dutifully set up your online Social Security account that you might be immune to identity theft. The rate of Social Security benefits theft is extremely low, less than 2% of annual online payment transactions were misdirected in recent years. But, there are incidents where thieves have not only directed payments to a different bank account, but they have also claimed benefits on someone else's earnings record who hasn't even begun to claim his or her benefit. The best advice to safeguard against this type of fraud, is to check your online Social Security account often.