Independence Asset Advisors, LLC

February 2018: "A Healthy Reset"

Wednesday, February 7th, 2018

Dear Clients and Friends,

We wanted to take this opportunity to address the recent spike in global equity market volatility. Since the 2008 financial crisis, investors have enjoyed a period of near uninterrupted growth, supported by low rates and stimulating macroeconomic data. More recently, accommodative monetary policies enacted in Europe and Asia have combined with the prospect of higher U.S. corporate earnings growth, and the result has been an enjoyable period of synchronized global acceleration.

So why then, with such a supportive backdrop, did markets behave so erratically over the past few days? No one really knows for sure, but we can speculate that the seesawing of global equity market indexes in early February was attributable to the lingering fear of inflation and investor concern that the Federal Reserve may unfavorably accelerate its tightening measure based on four recent occurrences: 1) higher U.S. wage inflation – a direct result of the recently released U.S. jobs report; 2) the 10-Year U.S. Treasury yield -- rapidly rose from 2.41% to 2.71% in January; 3) past periods of ultra-low bond yields -- lower bond yields support higher equity valuations; and 4) rapid depreciation of the U.S. dollar-- the exchange rate and domestic inflation tend to move in opposite directions.

Other contributing factors to accelerate the decline may have included the creation of leveraged ETPs (exchanged traded products) to speculate against the VIX (measure of volatility) index and higher levels of program or automated trading in the market.

Whatever the reason, in our view the recent near-correction was inevitable at this late stage in the market cycle. Further, the resulting re-pricing of the equity and credit markets is actually healthy. Investors have reacted favorably thus far to the Fed's more gradual return to normalcy, so our sense is that the recent stock market plunge was not a sign of a looming recession, but rather a knee-jerk reaction to investor over-concern about the pace of Fed tightening.

We have spent considerable time speaking with our institutional investment partners about the current market environment, and based on those conversations, we see very little evidence to support a deviation from the consensus forecast for continued global growth. Furthermore, as evidenced by the chart on the next page, even years with up-markets have down periods. This chart shows intra-year declines of the S&P 500 Index, identified by the red dots and negative values, in comparison to the actual calendar year returns that are presented as grey bars. Note these are price returns, which do not include dividends.

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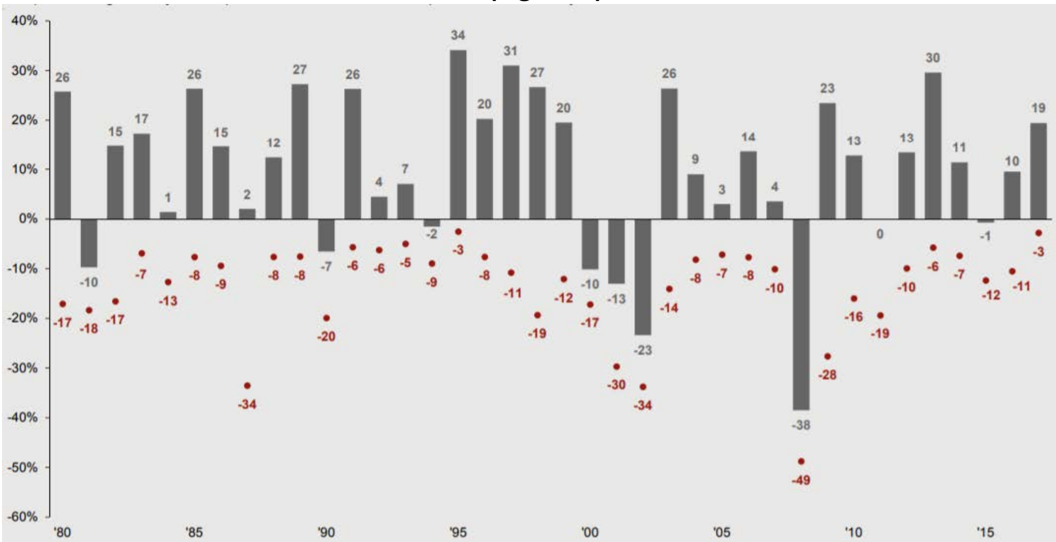
Annual Returns and Intra-Year Declines (Figure 1)



Source: Factset, Standard & Poor's, J.P. Morgan Asset Management

We hope the quick recovery from the recent market low serves as a reminder to investors to remain disciplined. As always, we advocate diligent rebalancing and a dedication to staying the course. We remain committed to working with you to reach your investment goals.

Please contact us with any questions.

Sincerely,

Scott, Katie, Tom & Rebecca

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