

At the end of each year, we like to look back on the year that was and consider what we got right with our *Investment Playbook*, what we got wrong, and what we might have learned in the process. We then turn our attention to the year to come, hoping that by putting our thoughts in writing, we'll gain greater clarity on the factors that might drive our investment returns in the future.

We share these thoughts with you, our clients and friends, in the hope that you gain a better understanding of the influences that may drive our investment decisions in the coming year. As always, these decisions are fluid and may change with the circumstances, but are also made with a longer term perspective and intent to drive superior investment returns over time. We appreciate your continued confidence in our approach and interest in our work.

Looking Back

For our *2017 Investment Playbook*, we made three general observations on the economy, the financial markets, and politics in general. What follows is a brief summary of each, along with our conclusions.

- Economically speaking, we expected lower for longer growth and that generally proved to be the case with GDP growth hovering between 2.5-3%. In spite of continued gains in employment, inflation remained a non-concern, also as expected.
- From a financial markets perspective, we believed our economic outlook would lead to a strong rebound year for growth stocks following a disappointing underperformance in 2016, and modest returns for the markets as a whole. The cyclical forces that drove the market's value oriented returns in 2016 were not powerful enough to continue that trend in 2017 and growth stocks did indeed outperform. We didn't expect the 21.5% returns for the S&P 500, but were happy to accept that and then some!
- Politically speaking, 2017 was not a return to normalcy as just about anyone could have predicted. We remained skeptical that Washington would make any progress on the fiscal front, but were pleasantly surprised when the December tax cuts were passed into law. While coming late in the cycle, the tax cuts will benefit the markets in the near term and American jobs over the longer run. We're hoping that this is the first of many positive surprises from Washington DC!

Nothing contained in this document including any reference to the purchase or sale of a security, or a strategy, is intended to constitute personalized investment advice. Personalized investment advice is always dependent on individual factors, involves risk and is not a guarantee that any investment will produce favorable results.

Looking Forward

In the interest of consistency and brevity, we'll follow a similar format in discussing our 2018 Investment Playbook. What are our overarching themes for the economy, the financial markets, and politics as we move into 2018?

- The Economy. The tax cuts will be beneficial to GDP growth in 2018 and beyond. Will it be the kind of stimulus that reignites the animal spirits and excesses common to the 80's and 90's? We're not so sure, but at the very least, it will help. Many expect a lift of .3-.5% in GDP growth because of the changes, and we would tend to agree with that assessment. The Fed will likely raise rates 2-3 more times, but as a whole, interest rates will remain low and GDP in the 3-3.5% range.
- The Markets. We believe investors may once again be pleasantly surprised by the market's returns in 2018. While some are already making comparisons of today to prior bubbles, we think we're early in the process, likely more 1996 than 1999. A correction of some sort in 2018 is certainly possible and perhaps even likely, but the higher free cash flow generation prospects associated with lower taxes represents support to market valuations and a clear buy signal should any correction occur. Put simply, corporate America has more options, and that is of value.
- Politics. In spite of the victory on the tax front, we're under no delusion that the political environment will see a return to normal. It won't. The rise of Facebook and social media has democratized the news and journalism industry, giving everyone both a voice and a megaphone. But as with all major innovations, new freedoms and progress have their downsides. Our brains will either become increasingly numb to the dopamine-induced rushes of fake and "un" newsworthy news, or we'll succumb like addicts, needing ever escalating levels of half truths and absurdity to get through the day. Mark Zuckerberg and his crew at Facebook recently came to the realization that the healthiest form of communication is two way in nature, manifested by true, meaningful and deep conversation. We can hope that our politicians and citizens at large follow suit.

We close this year's Playbook as we did last year.

"This business is never easy, but it's always an intellectual challenge worth pursuing. May God bless you abundantly in the coming year, even if it comes in ways you don't expect!"

Kindest Regards,

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