FIRST QUARTER 2018
REVIEW AND COMMENTARY

Market Review: The Standard and Poor's 500 Index declined 0.8% in the first quarter, though the big story was the sharp change in tenor during the quarter. The Index pushed 7.5% higher through January 26th, leading to the best January performance in 21 years, before quickly dropping 10% over the next several weeks. Over the subsequent two months, the market has churned within that range with no clear direction taking hold. We have put the tranquil environment of unusually low volatility in the rear-view mirror. In all of 2017, there were only eight days during which the S&P 500 moved 1% in either direction. In the first quarter, there were 23 such occurrences, with frequent sharp reversals within trading days. For the quarter, the Russell 2000 Small Cap Index dropped 0.1%, the MSCI All-Country ex-US International index fell 1.2% and the Barclays's Aggregate Bond Index declined 1.5%. Gold rose 1.2%.

Stocks: The global economy remains on solid footing and domestic earnings, boosted by lower corporate tax rates, are growing nicely. These factors, in combination with the correction from the January highs, are providing some relief on market valuation. The forward price earnings of the S&P 500 has dropped from a challenging 18.6 P/E ratio at the January highs to 16.3 at quarter end. For perspective, the tech bubble record in 1999 was 25.7 and the post-Lehman meltdown P/E was 9.3. More pertinent to our process, there has been return dispersion across sectors and a large number of individual stocks are significantly below their highs. We are focused on individual companies as the opportunity set is larger than it has been in a while. Some names where we see value today include CVS Health, Qualcomm, Johnson Controls, Chevron and Schlumberger in the energy sector, Alphabet (Google), and JP Morgan. Additional companies are showing up on our value and quality screens.

Interest Rates: There are many factors triggering the market volatility such as tariff concerns at a time when global trade is at an all-time peak, and the political climate as we near mid-term elections. However, no macro factor will likely have as much impact as the bond market and interest rates. Based on signals from the Federal Reserve, market participants are pricing in as many as three more rate increases in 2018, and there are other factors at work. The Fed is rolling back its bond buying program as the U.S. heads toward $1 trillion annual budget deficits. There will be ever increasing amounts of Treasury bonds to be auctioned, and it is difficult to conceive that higher rates will not be required to attract buyers. Rising rates could act as a headwind for the stock market and the tried and true adage "Don't Fight the Fed" becomes increasingly relevant as rates normalize. On a positive "asset allocation" note, the two-year Treasury note, at 2.4%, offers the highest yield since 2008. Short-term high quality bonds finally offer a return above the inflation rate, and we will continue to focus our fixed income investing there.

Be Prepared for More Volatility: As an active manager, Staley Capital views market volatility as an opportunity to fine-tune portfolios and establish long-term positions at good entry points. This does not involve predicting market direction or engaging in knee-jerk reactions to news or events. We invest based upon long-term value and if value is not evident, we may hold cash or similar investments. Most importantly, all portfolio strategies are filtered through your specific profile: time horizon, liquidity needs, and comfort level with changes in portfolio value.

Key Addition to the Investment Team: We are quite pleased to announce Dean Kartsonas, CFA has joined Staley Capital Advisers. Dean worked with us previously at Federated Investors, where he managed both debt and equity funds. He subsequently co-founded Shorebridge Wealth Management where he was Chief Investment Officer. Dean has a B.S. from Cornell University and an MBA from the Katz Graduate School of Business.

Our form ADV Part 2 has been updated. It is available in the U.S. Securities and Exchange Commission website or by calling us at 412-394-1292. As always, we thank you for your continued trust and encourage you to contact us with any questions on the enclosed reports.

THE STALEY CAPITAL INVESTMENT TEAM