Genesis Wealth Advisors

A Wealth of Possibilities

Quarterly Update

May 2017

Key Takeaways

- ***Risk aversion and implied volatility measures are at all-time lows – what does this mean?***
- ***Equity and bond valuations appear rich with little evidence to further support multiple expansion***
- ***Economic growth remains sub-par and a lack of productivity gains suggest the current path will not change anytime soon***

Overview

- For most equity markets, retail investors continued to pour money into passive index ETFs, driving prices higher during April. At the same time, implied volatility (VIX) and risk aversion recently hit an all-time low.
- Bond prices moved sideways in April 2017 with very little movement in bond yields and low rates of credit default.
- Commodity prices moved lower on sharply lower oil prices due to excess supply and weak demand issues.

Areas of Opportunity & Concern

- We believe equity markets, especially in the U.S., continue to trade at levels well above their implied fair market value. Search for return continues to favor equities relative to bonds in a low interest rate environment.
- More confounding is the record low level of market volatility and risk aversion despite unfavorable investment fundamentals and elevated political uncertainty. Some of this phenomena may be explained by current levels of excessive call writing, possibly seeking income return.
- Low levels of volatility and risk aversion are typically followed by periods of elevated volatility, hence lower market returns.
- We continue to focus on prudent diversification away from market-weighted portfolio exposures in favor of active factor allocations, along with non-correlated investment strategies and direct equity hedge strategies.

Key Market & Economic Indicators

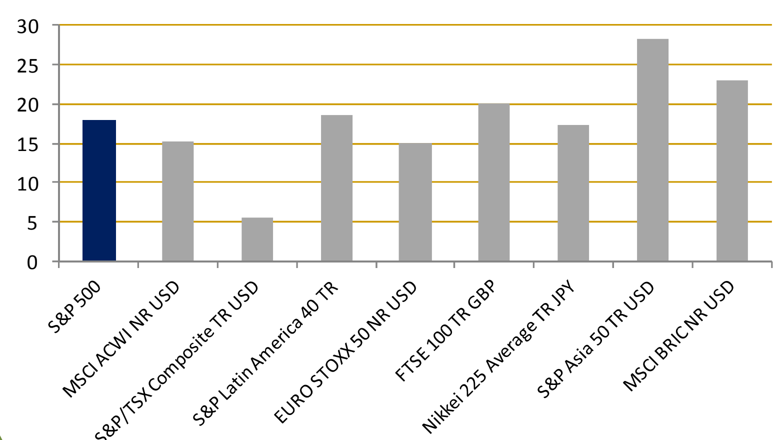
Bullish | Favorable | Neutral | Cautious | Bearish

Equities	April 2017	Trailing 3 Months	Trailing 1 Year	Current View
U.S. Large & Mid Cap	1.03%	5.16%	17.92%	Neutral
U.S. Small Cap	1.10%	3.18%	25.63%	Cautious
International	2.54%	6.87%	11.29%	Cautious
Emerging Markets	2.19%	7.98%	19.13%	Cautious
Fixed Income				
U.S. Aggregate	0.77%	1.40%	0.83%	Neutral
U.S. Government	0.68%	1.13%	-0.57%	Cautious
U.S. Corporate	1.00%	1.97%	2.74%	Favorable
U.S. High Yield	1.15%	2.40%	13.30%	Neutral
Non-U.S. Developed	1.61%	1.86%	-4.64%	Cautious
Emg Market Debt	1.16%	5.11%	4.11%	Bearish
Alternatives				
REITs	0.12%	1.17%	6.22%	Neutral
Commodities	-2.11%	-5.72%	-3.61%	Bearish
Managed Futures	-1.24%	-2.38%	-6.42%	Cautious
Hedge Fund	0.42%	1.58%	6.20%	Favorable

Source: Morningstar *Data as of 04/30/2017*

Regional Index Returns (%)

1 Year Trailing (As of 04/30/2017)



Source: Morningstar

Important Disclosures

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It is important to remember that there are risks inherent in any investment and that there is no assurance that any investment, asset class, style or index will provide positive performance over time. Diversification and strategic asset allocation do not guarantee a profit or protect against a loss in a declining markets. Past performance is not a guarantee of future results. All investments are subject to risk, including the loss of principal. Portfolio positions referenced are subject to change at any time, your portfolio may not reflect the information referenced.

Genesis and Palladiem have discretion to change allocations to styles and vehicles at any time.

Index definitions:

“U.S. Large Cap” represented by the S&P 500 Index.
“U.S. Small Cap” represented by the Russell 2000 Index.
“International” represented by the MSCI Europe, Australasia, Far East (EAFE) Net Return Index.
“Emerging” represented by the MSCI Emerging Markets Net Return Index.
“U.S. Aggregate” represented by the Barclays U.S. Aggregate Bond Index.
“U.S. Government” represented by the Barclays U.S. Government Bond Index.
“U.S. Corporate” represented by the Barclays U.S. Credit Bond Index.
“U.S. High Yield” represented by the Barclays U.S. Corporate High Yield Index.
“Non-U.S. Developed” represented by the S&P International Treasury ex U.S. Index.
“Emg Market Debt” represented by the JP Morgan GBI-EM Global Core Index
“REITs” represented by the FTSE North American Real Estate Investment Trust (REIT) Equity REITs Index.
“Commodities” represented by the S&P Goldman Sachs Commodities Index (GSCI).
“Managed Futures” represented by the Credit Suisse Managed Futures Index.
“Global Macro” represented by the Credit Suisse Global Macro Index

Direct investment in an index is not possible.

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