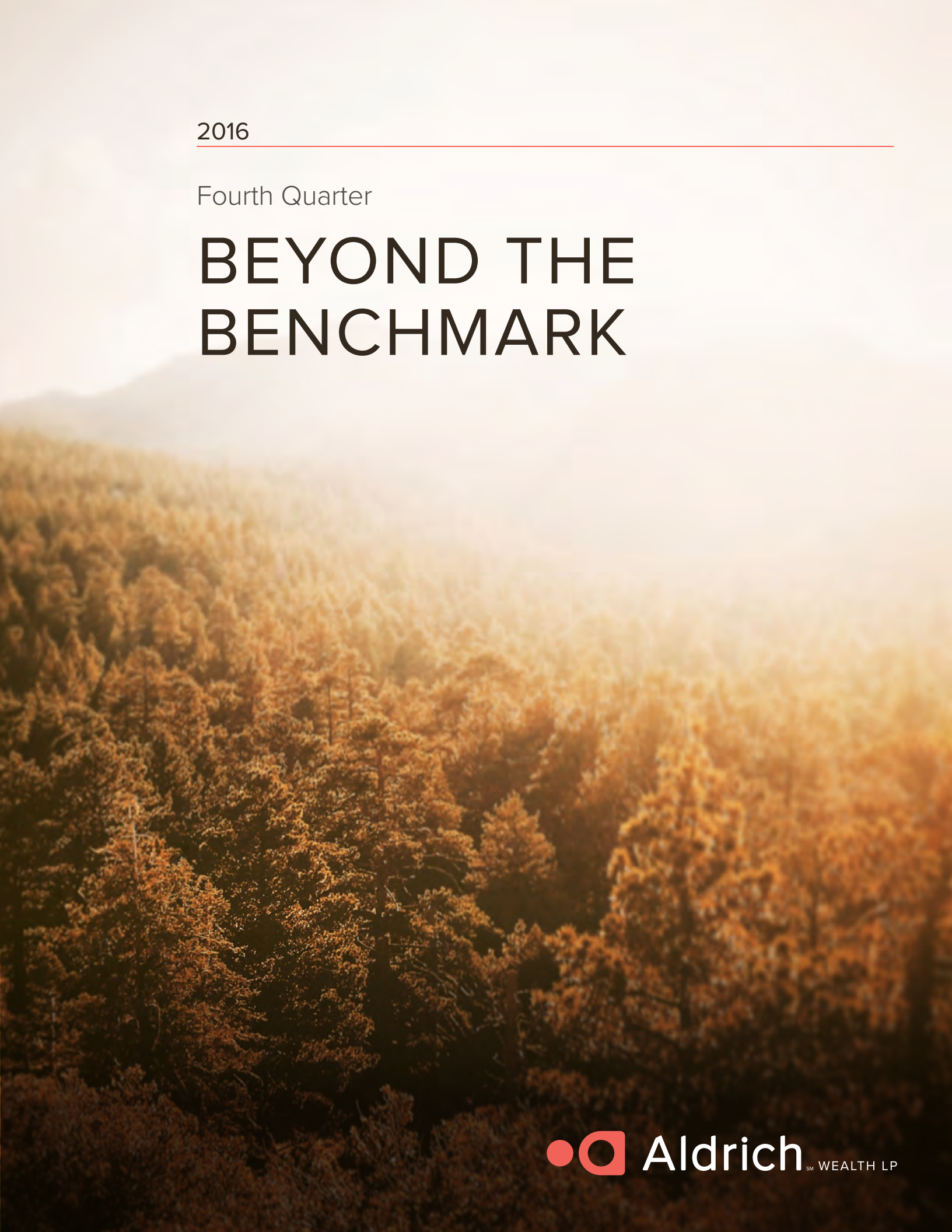
2016

Fourth Quarter

BEYOND THE BENCHMARK



Aldrich℠ WEALTH LP

Executive Summary

There were plenty of headlines during the quarter, including U.S. elections, a Federal Reserve rate hike, and an oil production cut led by the Organization of the Petroleum Exporting Countries. Although the U.S. equity futures market briefly plummeted following the election results, the market quickly turned around and rallied through the end of the year. Investors seem to believe that the new administration will be pro-business and spend heavily on infrastructure, cut taxes, and reduce regulations. Interest rates rose, as the bond market priced in higher expectations for inflation and growth. U.S. growth data showed its largest increase in two years while consumer confidence soared to a thirteen-year high. Small cap stocks again outpaced large cap stocks and value bested growth for the quarter and year. Non-U.S. developed equity, as measured by the MSCI EAFE Index, fell 0.7%, as a weaker Yen (¥) and Euro (€) stifled investor returns. Weighed down by deflationary economic data, including a decline in consumer prices and a rise in unemployment, the Yen fell over 15.5% against the U.S. dollar. Given the backdrop of a rate hike in December by the Fed and expectations of three more hikes in 2017, bonds experienced a significant sell-off in November. The 10-year U.S. Treasury yield jumped 0.84% during the quarter and ended the year near 2.5%.

QUARTERLY MARKET SNAPSHOT

	Value	Core	Growth
Large	6.68%	3.82%	1.01%
Medium	5.52%	3.21%	0.46%
Small	14.07%	8.83%	3.57%

This matrix illustrates U.S. equity benchmarks provided by Russell with the exception of Large Core, which is the S&P 500 Index.

	Value	Core	Growth
Global	4.76%	1.19%	-2.34%
Non US	4.17%	-0.17%	-5.53%
EM	-1.10%	-4.16%	-7.12%

This matrix illustrates international equity benchmarks provided by MSCI.

	Short	Inter	Long
Gov	-0.45%	-3.72%	-11.50%
Corp	-0.18%	-2.83%	-5.02%
Hi-Yield	2.43%	1.88%	0.18%

This matrix illustrates the fixed income benchmarks provided by Barclays and B of A Merrill Lynch.

Equities

The S&P 500 Index, a broad measure of the U.S. equity market, advanced for the 15th time in the last 16 quarters. Small cap stocks outperformed large companies as investors believed U.S. economic growth was poised to strengthen and small cap stocks are less impacted by a rising U.S. dollar given their small reliance on exports. Eight out of the eleven underlying sectors within the S&P 500 Index posted gains for the quarter with value oriented segments besting growth primarily due to strong returns in Financials. Real Estate and Healthcare stocks performed poorly as rising interest rates and the prospects for a changing regulatory environment produced headwinds. Conversely, the prospects for a more subdued regulatory environment and rising interest rates led to strong tailwinds for Financials which was the best performer, up 21.1% during the quarter. Earnings in the 3rd quarter exceeded analyst expectations and expanded by 3.1%, logging the first increase in the last five quarters. According to FactSet, 4th quarter earnings are expected to expand by 3.0% with double-digit acceleration expected in 2017 as the energy related drag turns into a relative tailwind.

Non-U.S. developed market equities, as measured by the MSCI EAFE Index, declined 0.7% in the 4th quarter, its third quarterly decline for the calendar year. European equity markets were the strongest performers with major indices in France and Germany producing 2.9% and 1.4% returns, respectively, during the quarter. The Euro dropped over 6% versus the U.S. dollar in the quarter after gaining ground in the first 9 months of the year. The sizeable appreciation of the U.S. dollar contributed to the poor performance of international equities. In addition, the prospect of new trading agreements and the potential for trade tariffs discussed by President Trump during the campaign acted to dampen enthusiasm for international stocks.

Emerging market returns, as measured by the MSCI Emerging Markets Index, dropped 4.2% during the quarter. Fortunately, returns were strong in the first 9 months of the year as commodity prices rose and the Index posted an annual return in excess of 11.0%. The developing market rally faltered during the quarter against the backdrop of a strong U.S. dollar, a rate hike by the Fed, and an altered political climate. As was the case much of the year, performance for the quarter was led by Russia and Brazil as the rebound in commodities and improved political conditions proved beneficial. Key economic data in China generally held steady throughout 2016, but returns were flat for the year after a poor final quarter of 2016.

Fixed Income

Citing general economic stability, the Fed raised rates by 0.25% during the quarter. The Barclays U.S. Universal Bond Index, a broad measure of U.S. fixed income markets, reported its worst quarterly decline in over 20 years, down 2.6%. This came as the yield on the 10-year Treasury moved notably higher during the quarter from 1.61% to 2.45%. High yield bonds produced the best returns with a 1.9% advance during the quarter. Better economic data coupled with relative stability across the energy complex helped boost returns in the high yield bond segment. Strong demand for corporate bonds has helped push credit spreads (incremental yield above Treasuries) lower across all sectors and average spreads have fallen below their long-term averages.

Interest rates have not risen as quickly outside of the U.S. After reaching unprecedented negative yields, long-term interest rates in Europe and Asia have climbed back into positive territory. The yield on the 10-year German bond bottomed out at a negative 0.19% in July and has since risen to 0.27% and the yield on Japan's 10-year bond bottomed out at negative 0.29% and increased to 0.06%. Rates are projected to remain low for an extended period as growth and inflation remain below average and stimulus efforts are expected to continue into 2018.

Economy

The U.S. economy expanded 3.5% in the 3rd quarter driven by positive contributions from consumer spending and business investment. The unemployment rate in the U.S. increased slightly to 4.7% in December following a strong 4.6% report in November. The number of Americans filing for unemployment benefits fell by 30,000 to 235,000 in the final week of 2016. This marked the 96th consecutive week of initial claims below 300,000, the longest streak since 1970. Consumer confidence reached a 13-year high in December as consumers expected a favorable economic impact following Mr. Trump's victory. The Institute for Supply Management said its services index jumped to the highest level since October 2015.

The Eurozone continued its slow recovery, with GDP growth of 0.3% in the 3rd quarter. The bloc's recovery has been led by its largest member, Germany, which has benefited from both reduced financing costs and the lower Euro. Among the member states, Germany has the lowest unemployment rate at 4.1%. High unemployment and debt levels remain challenging headwinds for the region, but targeted monetary policies have begun to move the needle in the right direction. The seasonally-adjusted unemployment rate in the Eurozone came in at 9.8% in November, the lowest reading since July 2009. The unemployment rate in the region has averaged 9.8% the last 20 years, reaching an all-time high of 12.1% in April of 2013 and a record low of 7.2% in March of 2008. Eurozone inflation hit 1.1% in December, marking the highest annual rate in more than three years. The U.K. unemployment rate dipped to 4.8% in October, markedly lower than the 5.2% rate from a year earlier and the lowest level since September 2005. The Chinese economy advanced 6.7% year-on-year, the same pace as in the previous two quarters and matching consensus.

Market Outlook

U.S. equities indices are trading above their long-term valuation averages, but interest rates remain well below-average, which is supportive of above-average equity valuation levels. After five consecutive quarters of negative earnings growth for the S&P 500 Index, earnings turned positive in the third quarter and are expected to achieve double-digit growth in 2017. An earnings recovery in the Energy sector is projected now that oil prices have stabilized near $50. In addition, the negative impact of the U.S. dollar's rapid appreciation in 2015 has abated and large multinational earnings are expected to benefit from a less volatile currency market. Any potential benefit from a change in leadership in the U.S. has yet to show up in earnings projections. However, there are likely to be some clear winners if President-elect Trump and a Republican-led Congress are able to enact some of the campaign promises. The more growth-oriented cyclical sectors should be the primary benefactors. Therefore, we see opportunities in specific sectors, primarily cyclically oriented, including Financials and Technology. We have adjusted portfolios to have a bias toward the cyclical sectors and an underweight to the defensive sectors, including Utilities, REITs, and Consumer Staples.

The global economy is growing modestly, driven primarily by low interest rates rather than strong global consumption. However, we are seeing economic growth improving globally as the benefits of a loose monetary policy are boosting loan demand, inflation, and consumption. 2017 is set to become a crucial year with several key elections (France, Germany and the Netherlands) that could represent a show-down between the political establishment and competing parties riding a wave of popular discontent. However, it appears that many of the risks have been priced into the markets and valuation levels internationally are attractive relative to the U.S.

International stocks have underperformed U.S. stocks in 7 of the last 9 years. However, the recent hike in interest rates by the Fed and the expectation of three additional hikes in 2017 has created a positive backdrop for international equities. Historically, when the U.S. entered into a rate hike campaign this has been a trigger for outperformance by international stocks relative to U.S. stocks. Although we believe international stocks could be poised for an extended period of strong relative performance we have yet to overweight the asset class given the potential for political upheaval and uncertainty in the coming year.

The U.S. yield curve shifted upward during the quarter with a notable increase in interest rates for the first time in several quarters. Longer term interest rates jumped as inflation expectations increased. While yields may retrace some of the increase over the past six months, the Fed's more hawkish stance should push yields moderately higher in the year ahead. Therefore, we are cautious with respect to bonds and have reduced overall exposure and also modified fixed income allocations to include floating rate bank loans, which historically perform well when interest rates rise.

We continue to work diligently to help you achieve your investment goals. Please call us if you have any questions.

Aldrich Wealth LP Investment Committee

Strategic Charitable Giving Creates a Lasting Legacy

WRITTEN BY

ABBEY ROLLINS, CFP ®

Since 2002, Abbey has provided financial guidance to high-net worth families and business owners.

Many individuals and families consider charitable giving to be an integral part of their legacy. Not only does giving enable you to support charitable causes that you're passionate about, but it may also provide you with valuable tax benefits. These include realizing current deductions and avoiding capital gains taxes, as well as reducing or eliminating estate taxes for your heirs. There are many different tools you can utilize as part of your charitable giving strategic plan.

Outright Gifts. This is the easiest way to give to charities. You simply donate cash, securities or other tangible assets to charitable organizations you support. As long as the charity qualifies as a 501(c)(3) organization, you will be eligible for a tax deduction during the year when the gift is made.

One strategy to consider is giving appreciated securities. This allows you to avoid capital gains tax that would otherwise be realized if you sold the securities. Qualified charities are not subject to capital gains tax, which means the charity can sell the securities and use all of the proceeds.

Bequests at Death. You can also give to charities by directing assets to be transferred to them after you die. This is accomplished by specifying in your Will or Trust which charities should receive specific assets. Another option is to list specific charities as beneficiaries of your retirement accounts or life insurance policies.

Charitable Trusts. These are useful tools for giving assets to charities while also preserving a portion of the gift for yourself or your heirs. These trusts are irrevocable, so careful planning must be done prior to utilizing these strategies.

- **Charitable Remainder Trust (CRT)** — As the grantor, you or a designated beneficiary contribute assets (such as cash, securities or real estate) to the CRT and receive income from the trust for a period of time. Any assets remaining in the trust after this time would be transferred to the designated charity. Assets that have already appreciated and have large unrealized capital gains are well suited for trust.
- **Charitable Lead Trust (CLT)** — This trust is the opposite of a CRT. Your chosen charity receives an income stream from the trust for a designated number of years. After the income period, any remaining assets are transferred to your heirs tax-free, in most instances. Assets that have significant growth potential are best suited for this type of trust.

Donor Advised Fund (DAF). A DAF is inexpensive and easy to establish. Once your account is created, assets are donated to the DAF and an immediate tax deduction is available. The DAF can sell assets without being subject to capital gains tax, so this is another strategy for gifting appreciated securities. The DAF is then the legal owner of the proceeds, but you, as the donor, can make grant requests for qualified charities you wish to benefit. This allows you to give grants to many different charities over a long time period while receiving the tax benefit all up front.

(Charitable Giving, continued from page 5)

Community Foundations. Similar to a Donor Advised Fund, a community foundation accepts donations of securities and allows you to suggest grants to local charities. You receive the up-front tax deduction and your assets are gifted out to charities over time. This is a great tool for families with a desire to benefit their local community.

Private Family Foundations. This tool is most appropriate for wealthy families that make very large charitable contributions. The foundation makes grants to qualified public charities chosen by you and other family members who are involved in your philanthropic efforts. Your family maintains complete control of how, when and to whom grants are given to. Private foundations are complex entities and require ongoing administration. However, it can be a powerful way for a family to create a lasting legacy.

We have professionals who can help you evaluate these different strategies and determine the best plan for you and your family. Please contact your advisor if you would like to discuss incorporating charitable giving into your plan.

Why I am becoming a Certified Financial Planner

BY AMY BARNES

After 18 years in financial services, I am finally pursuing the Certified Financial Planner designation. When I first started in the business, "financial planning" was not a phrase readily heard on the lips of financial advisors. The industry emphasized and sold investment returns, with little regard for clients' goals or wishes. Although returns are important, financial planning helps identify risks and appropriate return objectives that align with client goals. I believe having a financial plan allows clients and the advisor to make better investment decisions and remain focused on what is really important...achieving client goals.

At my first job in financial services, my best friend used to prank call me just to laugh about the trading floor noise in the background: shouting matches, smashed

phones, and lewd jokes. I was a liberal arts major, VW-bug owning hippie kid working at a brokerage firm in the heart of Manhattan to make a little extra money. I owned one pair of heels. I didn't see the job lasting very long.

But curiosity got the better of me. I started learning about the markets, and eagerly read company research reports, listened to CNBC and Bloomberg, and enjoyed the high energy of the broker teams around me. I passed my Series 7 and 63 exams that first year and was ready to embark on this unexpected career path.

This was 1999. The tech bubble burst and I watched the world around me deflate and turn dark. I watched my mom cry over the money her broker lost in the market, pennies to those around me but the only money my mom had after my father passed away. I saw some around me have a banner year in commission sales, trading heavily while their clients lost money. I watched others silently collect the trailer fees from mutual funds while rarely answering a client's call. I questioned. I studied more. I shielded myself from the less scrupulous brokers and sought mentorship from sounder-minded veterans of the business.

Then on September 11, 2001, I stood speechless with my team as we watched the planes crash into the World Trade Center live on TV, just before we were rushed to evacuate our own building. The financial world turned dark again, markets closed, then reopened deep in the red. Markets eventually recovered, clients recovered, but I turned away. I was tired of trying to out-surf the waves of market turbulence. I was frustrated with sales and revenue being rewarded no matter the clients' costs or losses.

After a brief period of soul-searching, I pursued the institutional side of the business, focusing on research and sales with large asset managers, and ultimately landing a position at an interesting up and coming business called iShares in San Francisco. We were entrepreneurs and pioneers, paving the way for what is now the $2.3 trillion exchange-traded fund business. I got curious again. I found not only faith but inspiration, working with peers revolutionizing the mutual fund industry by trying to make investing a better experience for retail clients. In 2008 and 2009, I actually received thank you calls and notes from my clients, financial advisors, who were grateful for ETFs. ETFs are far from perfect, but we believed there was a benefit from their increased transparency and tax-efficiency. Most importantly for me, I witnessed a different kind of investing experience that thoughtful, unbiased advisors were providing their clients as independent Registered Investment Advisors (RIAs).

And so a few years ago I chose to return to my first path in the business and began working with individuals and families directly again. This was even more meaningful after the birth of my daughter that year. I joined TIAA, a large not-for-profit asset manager. I felt good about my work - providing financial planning and investment advice to teachers, professors, cancer researchers, and rocket scientists (literally) who had worked and saved hard to become unexpected millionaires.

Then one day I received a call from a recruiter about a firm in Oregon looking to open a Seattle-area office. The entrepreneurial nature of the position was exciting, and as I got to know the team and the company, it seemed too good to be true: an opportunity to help develop a new market with a well-respected RIA? Provide holistic financial planning and thoughtful investment management? Deep tax planning expertise woven throughout the services? Run by really nice people?

I am proud to be sitting here in the Bellevue office of Aldrich Wealth. When I'm not meeting with clients, it can be a little quiet. No brokers barking trade orders. No industry shake-ups. Just a team of experts helping one client at a time achieve their goals.

Amy joined the firm in 2016 with nearly two decades of experience specializing in investment consulting, financial planning, business development, and capital markets. She graduated with a Bachelor of Arts from Wesleyan University and holds the Series 7, 63, and 65 securities licenses, and earned her Certified Investment Management Analyst (CIMA®) designation from The Wharton School of Business of University of Pennsylvania.

RECOGNIZED AS FINANCIAL TIMES TOP 300 FINANCIAL ADVISORS

The 2015 Financial Times Top 300 Registered Investment Advisors is an independent listing produced by the Financial Times (June, 2015). The FT 300 is based on data gathered from RIA firms, regulatory disclosures, and the FT's research. Applications were solicited from more than 2,000 independent RIA firms that had $300 million or more in assets. The 630 RIA firms that applied were then graded on six criteria: AUM; AUM growth rate; years in existence; advanced industry credentials; online accessibility; and compliance records. To make sure the list was relevant to Financial Times readers, the paper required that no more than 75% of a practice's assets be institutional. Only those who completed an application were considered. Neither the RIA firms nor their employees pay a fee to The Financial Times in exchange for inclusion in the FT 300. This is the second annual FT 300 list, produced independently by the FT in collaboration with Ignites Research, a subsidiary of the FT that provides business intelligence on the investment management industry.

RECOGNIZED FIVE STAR PROFESSIONAL'S "FIVE STAR WEALTH MANAGERS"

Five Star Professional, as a third-party research firm, identified pre-qualified award candidates based on industry data and contacted all identified broker dealers, Registered Investment Advisor firms and FINRA-registered representatives in the Portland area to gather wealth manager nominations. Award candidates were then evaluated against 10 objective eligibility and evaluation criteria: 1) Credentialed as an investment advisory representative (IAR), a FINRA-registered representative, a CPA or a licensed attorney; 2) Actively employed as a credentialed professional in the financial services industry for a minimum of five years; 3) Favorable regulatory and complaint history review; 4) Fulfilled their firm review based on internal firm standards; 5) Accepting new clients; 6) One year client retention rate; 7) Five-year client retention rate; 8) Non-institutionalized discretionary and/or nondiscretionary client assets administered; 9) Number of client households served; 10) Educational and professional designations. 1,107 wealth managers in the Portland area were considered for the award. 224 were named 2015 Five Star Wealth Managers which represents approximately 21 percent of the total award candidates of the area. Wealth managers do not pay a fee to be considered or placed on the final list of 2015 Five Star Wealth Managers. The Five Star award is not indicative of the wealth manager's future performance. For more information on the Five Star Wealth Manager program and the research/selection methodology, go to www.fivestarprofessional.com/wmsummaryandresearch.pdf. To view AKT Wealth Advisors, LP award document, go to http://www.pageturnpro.com/Five-Star-Professional/64888-PORWM15-Heather-Wonderly/puredefault.html.

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