INTRUST ADVISORS

1st Quarter 2018 Client Letter

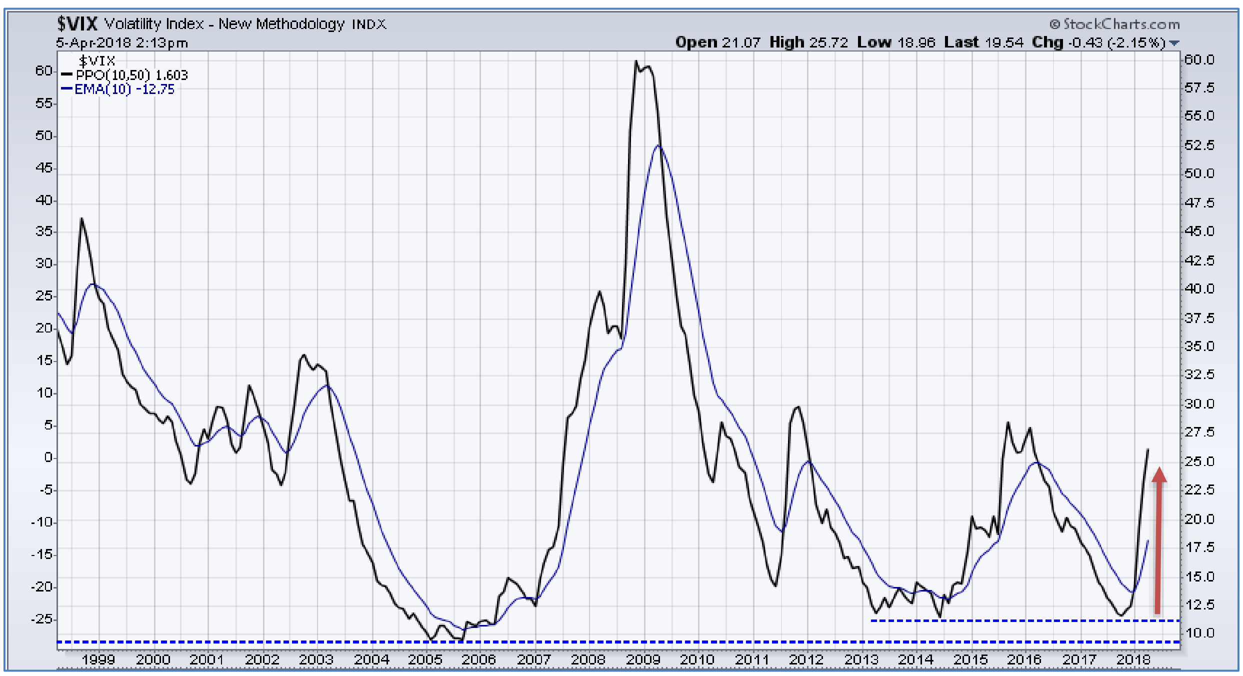
April 13, 2018

To Our Valued Clients:

I want to thank you for your continued faith in us. It was a very volatile quarter, first to the upside and then to the downside. As I said in the monthly commentary posted to our investment site, I sure liked 2017 a lot better!

However, we must deal with the environment that we have been given and unfortunately this economic cycle is extended by historical measures, which makes investors nervous and markets volatile.

You can see this volatility spike in the chart, below, with the moving average of the $VIX or volatility index is plotted with the Percentage Price Oscillator or PPO.



These spikes in volatility tend to correspond with market corrections and/or bear markets. You see the largest spike in the 2007-2009 period corresponded with the Great Recession. You can also see that volatility moved up during the Bear Market of 2000-2003.

What this means in all likelihood, is that you need to be prepared for more, not less market ups and downs.

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If this is unsettling to you, we may need to discuss ways to lower the volatility in your portfolio(s) which usually will also has a negative effect on your long-term return expectations.

Many have asked me if this new-found market volatility means we are at the end of this market and economic cycle?

Quite honestly no one knows for sure. However, we will delve deeper into this a little bit and see if we can at least handicap the odds of this cycle ending.

Numbers Don't Lie

There is a saying that numbers do not lie. They are the cold-hard facts.

What do those numbers tell us?

For one, this expansion is now in month 110. That officially makes it the second longest in history and history is a few hundred years.

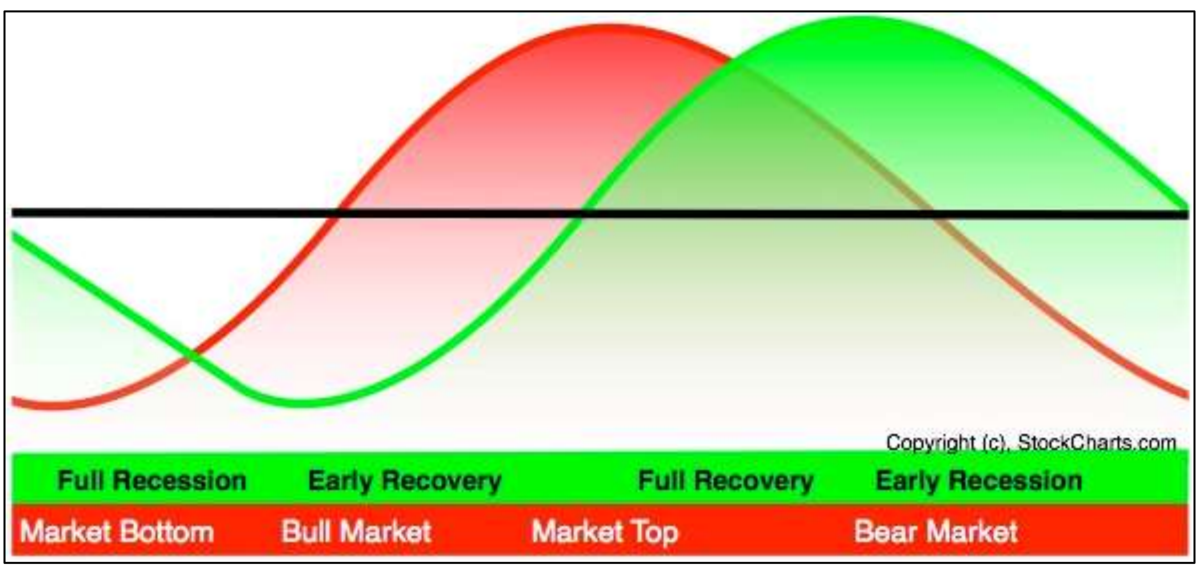
The longest expansion was 120 months from March 1991 to March 2001.

From this statistic alone, I would boldly guess that we are much closer to the end of this expansion, than the beginning.

The Market Leads the Economic Cycle

The markets are forward looking. This means they try to anticipate what economic and corporate growth will be in the future and how it will impact corporate earnings.

As this chart shows, the markets cycle (in red) tends to lead the economic cycle (in green). History has shown the market cycle turns about six months ahead of the economic cycle.



As mentioned previously, the economic cycle is now the second longest on record so statistically one would believe that its continued upside may be limited.

Notice how tops are formed in the graphs above. The rate of ascent slows, eventually flattens out some and then the descent begins.

Wouldn't it be nice if it was this simple to see what was happening in the markets and the economy? It certainly would, but the key point here the rate of change slows for the markets.

There is a market adage "that market tops are a process and bottoms are an event." What this means is that usually the tops in a bull market do not happen overnight. It is a process!

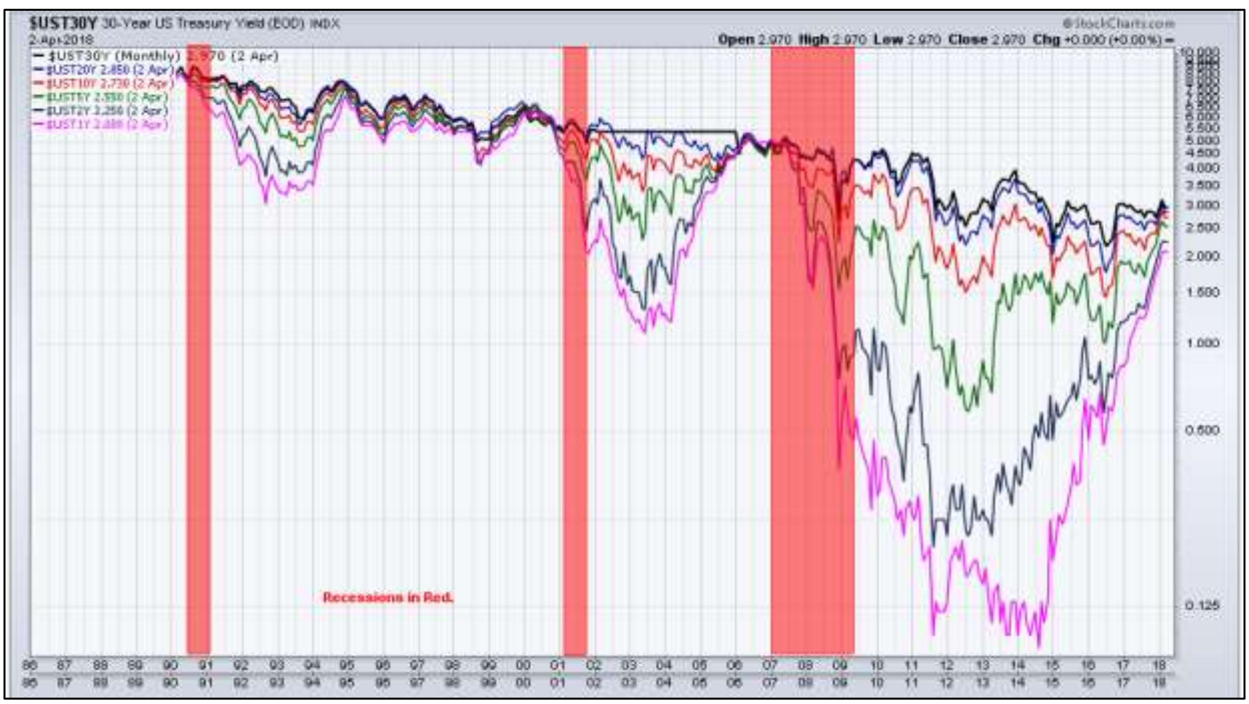
Sir John Templeton used to say "Bull markets are born on pessimism, grow on skepticism, mature on optimism and die on euphoria."

This process of topping process also usually sees lots of excess euphoria. We saw some euphoria in January and I believe we could see more of before a final top is set.

The State of the Economy

It is hard to forecast this one as it is a key to how much further the markets move upward, but there are a few things to watch.

First, is the continued flattening of the interest yield curve.



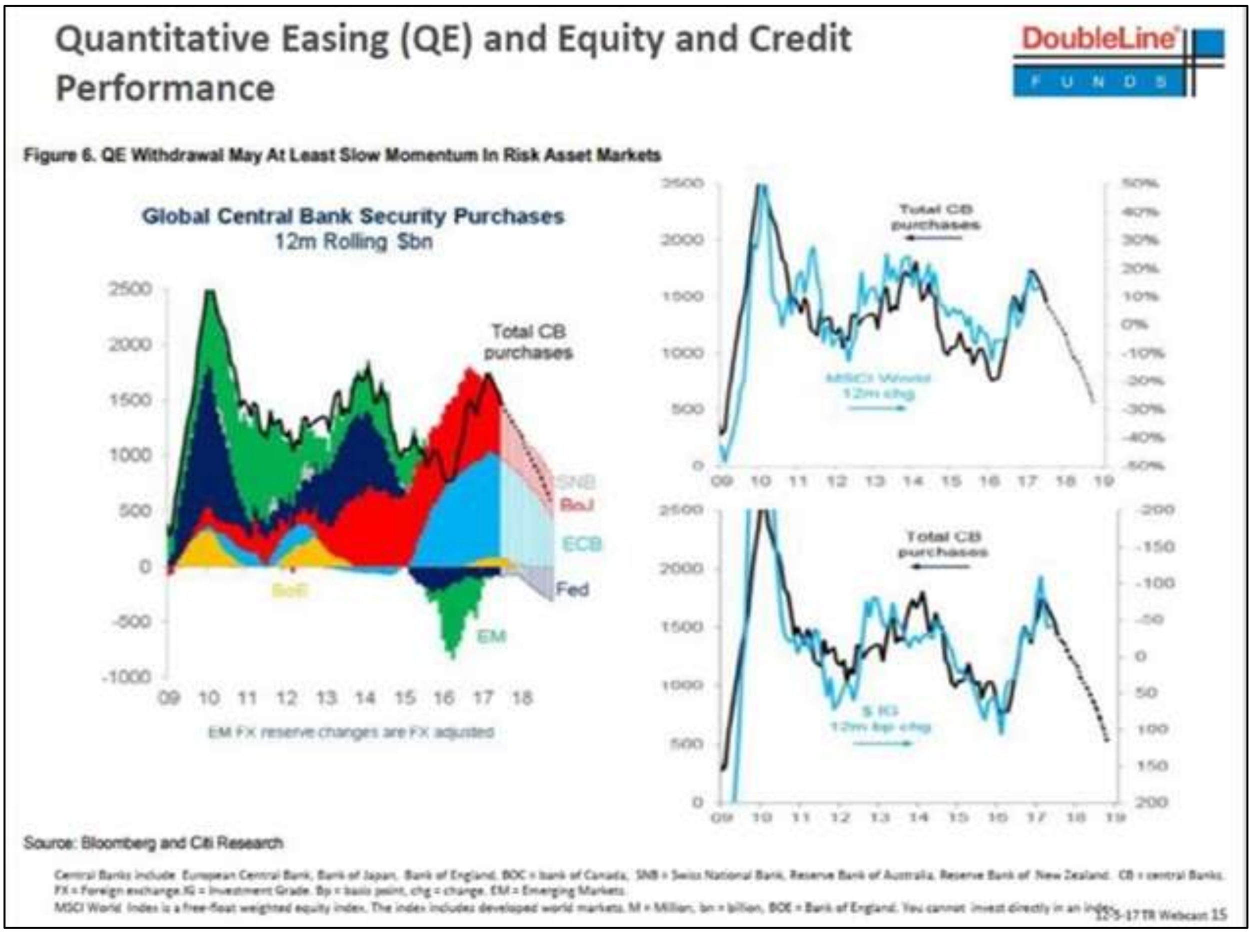
What you see above are the yields (i.e. interest rates) on the 1-year to 30-year U.S. Treasury bonds and notes. When the yields converge, as they are now, this is called a "flattening" of the curve.

A flattening of the yield curve generally means the market sees little or no extra growth in the future relative to the current environment therefore longer maturity treasuries end up paying no more than shorter maturities.

From an economic standpoint, when the curve flattens or even inverts (short dated maturities have higher yields than longer maturities), it is an almost certain sign of impending recession in the economy. You can see the last three recessions in the previous chart, highlighted in red. During each past recession, there was a flattening or inversion of the yield curve either before or during the red highlighted recessions.

As you can see, the yields for 1 to 30-year treasuries are once again converging. This is something to watch given the fact that the Federal Reserve (the "Fed") has already indicated they will be raising short-term rates three more times in 2018!

Next, let's look at one of the main drivers of this expansion and that has been stimulus from the Global Central Banks.



With global Quantitative Easing (QE) set to fall to zero in Q4 2018, and further rate rises from the Fed and probably the Bank of England and Bank of Canada, policy will be gradually tightened. Looking back at the mid '00s, the Fed was gradually tightening then, and still made a policy error that resulted in the Great Recession in 2007-2009. Could this happen again this cycle?

The chart, above, also shows the rolling 12-month sum of global QE on the left, and how this relates to the year-on-year performance of global equities and investment grade credit shown in the two charts on the right. The inference of the chart is that the performance of equities and credit markets will deteriorate as QE is reduced.

One final shocking fact is that despite all the liquidity pumped into the financial system over the past decade, we still have no Velocity of Money. Velocity of money is the frequency at which the average unit of currency is used to purchase new domestically produced goods and services within a given time period.

A healthy economy has positive or rising velocity of money. Look at the velocity of our M1 money supply:

M1 is a metric for the money supply of a country and includes physical money — both paper and coin — as well as checking accounts, demand deposits and negotiable order of withdrawal (NOW) accounts.

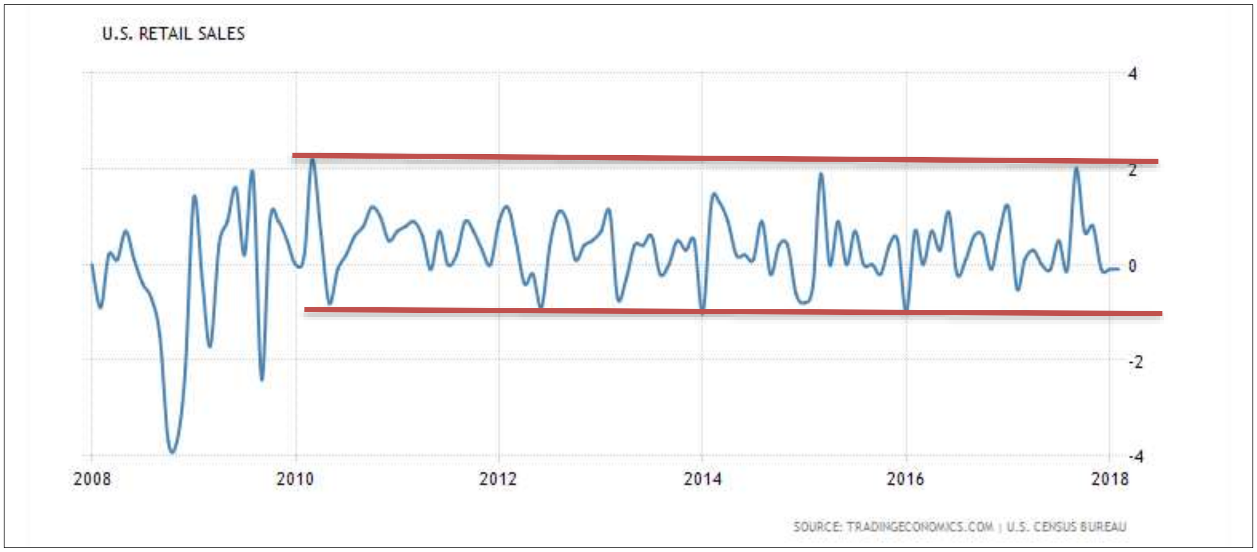
The charts look the same for M2 – M4 velocity of money and this is a deflationary sign.

The million-dollar question becomes why has this flood of money over the past ten years not changed hands for the purchase of goods and services? We will see soon that it was not used to reduce consumer debt as a percentage of GDP.

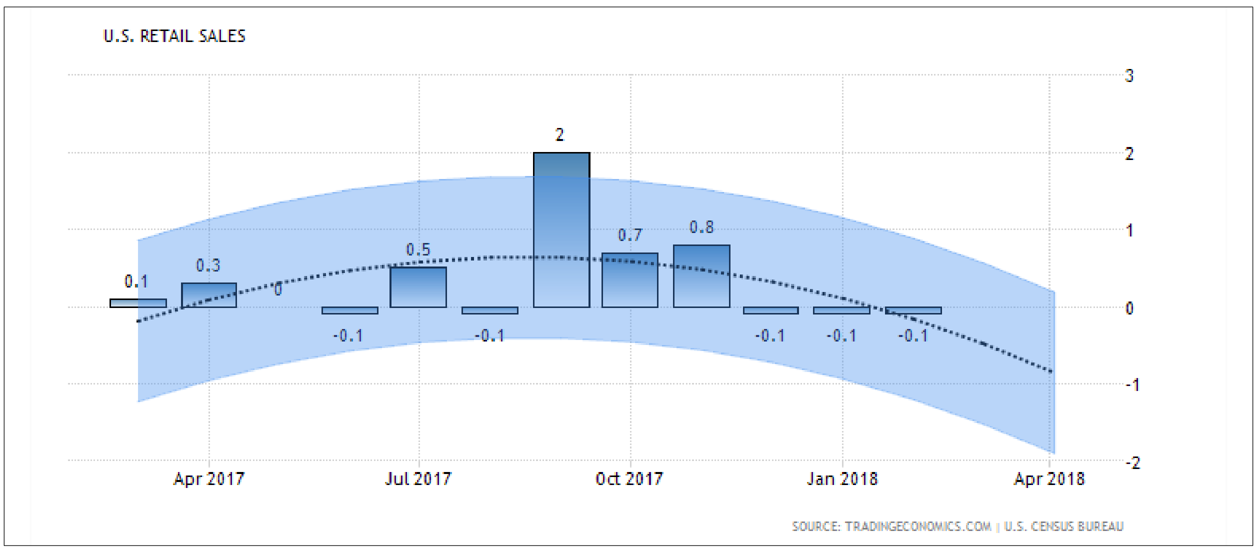
If we have had generally anemic GDP growth annually and no velocity of money, what happens when Central Banks turn off the spigots to their easy money?

Finally, let's look at the condition of the consumer. 70% of our GDP is consumer spending.

I have four graphs for you. First, retailers are where consumers buy their things. You can see in the chart below that retail sales are at the bottom end of their ten-year trend and have essentially moved in a range for the past seven years.



Now look where retail sales are forecast to trend for the next few months.



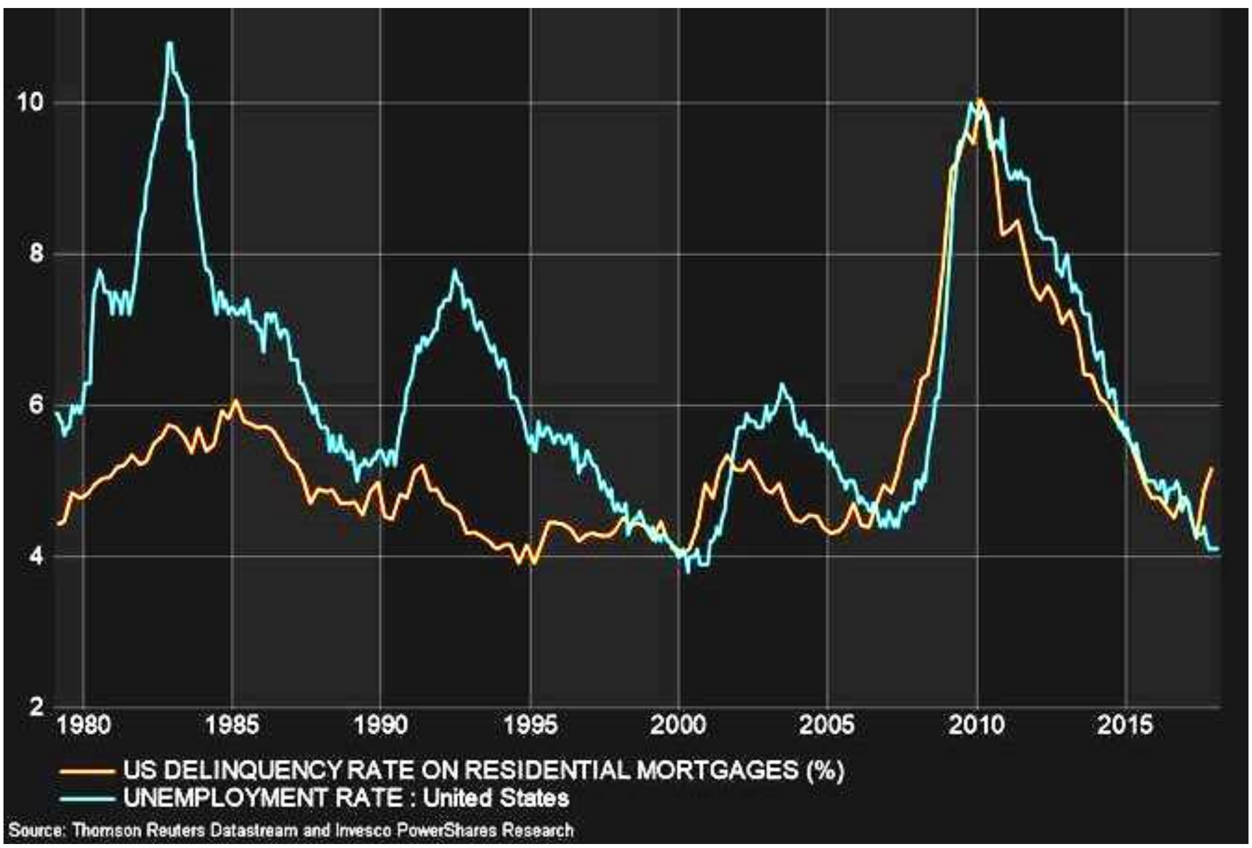
This is just a short-term forecast and you can couch it any way you would like, but it probably means retail sales are at least heading to the bottom of the range in the first retail sales chart.

Sales forecasts are one thing, but what is the consumers ability to make such purchases?

This next chart, courtesy of RMG Investment Management, shows outstanding consumer credit as a percentage of GDP.

With a growing U.S. population, you would expect some increase, but these debt to GDP level are clearly unsustainable! Just look at the increases in debt to GDP since 1995-1999! Wow!

Our feeling is that the U.S. consumer is tapped out and this is reflected in the fact that delinquencies on mortgages usually turn before the unemployment rate (and the economy), and as can be seen in the chart, below. The delinquency rate has recently popped higher. The question here is whether this is just a blip or the beginning of something worse?



Now that I have led you down a path to nowhere here, let me try and find a conclusion. If I had to sum all this up it would be that markets and economy's run-in cycles and this cycle is already longer than most on average historically. The Fed and other Central Banks are raising their interest rates and tightening money supplies. This constricts risk taking, raises the cost of capital and generally makes it tougher to sustain economic growth. The consumer is tapped out and we are at a point in past cycles where delinquency rates start to rise.

The only natural conclusion then is we are probably nearing the end of this cycle. Whether that is 3 months, 6 months or 18 months, I have no idea.

I do believe, we are in a topping process where we could see one more move higher, with even more euphoria. Alternatively, we could stay range bound and volatile as the markets slowly set up to move lower.

In either case, we are here to watch over your assets and help you get the most you can from this current cycle, while protecting downside when the music stops and there are not enough chairs for everyone to sit down.

Quarterly Market Recap

For the quarter ended March 31, 2018, the benchmark S&P 500 price index lost -1.00%. The NASDAQ Index improved +2.98% and EAFE index lost -1.18% for the quarter. Fixed income securities as measured by the Barclay's Aggregate Bond index finished down -1.46% during a very up and down quarter for bonds.

The average InTrust Advisors strategy return was off approximately -1.14% for the quarter vs. an average benchmark return of -1.27%.

Our best performing solutions in order of quarterly return were IA Equity Growth and IA Trend Tracker. These strategies returned +.57% and -.18%, respectively.

Our biggest under performers were IA Equity Value and Balanced. These solutions suffered at the hand of the market's flight from yield as rising rates negatively affected the dividend and fixed income holdings in these strategies. These two strategies lost -3.42% and -2.15%, respectively.

Operational Changes

We had no significant operational changes during the quarter.

As always, we continue to embrace new technology to provide better service, faster and more securely and on your terms. The latest example of this are our recent switch from Dropbox to ShareFile by Citrix for data storage. The latter solution is more secure and offers superior tools for managing data sharing securely and effectively. It allows us to provide you sensitive data on an encrypted basis that is simple for you to retrieve. No blood tests or pinky swearing necessary!

We also added digital signatory capabilities to speed up processing, executing and storage of documents. This software is likewise very simple to use and you can sign from your PC, mobile phone or tablet device using your finger or keyboard.

Final Comments

As always, thank you for the continued opportunity to assist you in meeting your financial and investment goals. Please feel free to call me directly if you have any questions.

Sincerely,

Jeff Diercks
Managing Director
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Disclaimers

The composite performance information is reflected net of all fees and expenses. All performance includes the reinvestment of dividends, interest and capital gains, if applicable.

Composite returns are based on those accounts that are solely running the indicated strategy or solution and include no other holdings for which performance is being tracked.

No representation, warranty, or undertaking, express or implied, is given as to the accuracy or completeness of the information contained in this material by any person; no reliance may be placed for any purpose on such information; and no liability is accepted by any person for the accuracy and completeness of any such information.

Past performance is not an indication of future performance and there can be no assurance that the strategy will achieve results in line with those presented in this performance summary.

The S&P 500 is a capitalization weighted index of the 500 leading companies from leading industries of the U.S. economy. It represents a broad cross section of the U.S. equity market, including stocks traded on the NYSE, Amex and NASDAQ.

The NASDAQ Composite is a market capitalization weighted index of all the NASDAQ-listed stocks that are not derivative, preferred shares, funds, exchange traded funds (ETFs) or debenture securities.

The MSCI EAFE Index is a benchmark of international equity performance. It represents 21 MSCI country indexes, representing the developed markets outside of North America: Europe, Australasia and the Far East.

The Barclays aggregate Bond Index is a benchmark is an intermediate term, market weighted index composed of U.S. investment grade bonds such as treasury securities, government agency bonds, mortgage-backed bonds, corporate bonds, and a small amount of foreign bonds traded in the U.S.