The Narwhal Letter
First Quarter 2017
April 18, 2017

Dear Reader,

In many respects, 2017 picked up where 2016 left off. President-elect Donald J. Trump dominated headlines early in the first quarter, interest rates were pivotal to most investing conversations and the U.S. stock market ran up. But subtleties really defined the first three months of the year.

Trump was sworn into office in a somewhat bizarre inauguration featuring a crowd of more than 10 people but fewer than 10 million people (I think we can all agree on that). And despite his constant receipt of credit for up days and blame for down days, it's hard to see any immediate investing impact from the policies he's initiated early on. The market "likes" Trump in that the market has liked stocks during his brief tenure in office, but we're reticent to embrace the "Trump Bump" terminology as anything more than a clever nursery rhyme that oversimplifies an expanding economy.

For just the third time since the financial crisis, the Federal Reserve raised interest rates in March. After years of crying wolf, the mid-March hike represented the second such movement in just three months. And the general consensus is that 1-3 more rate hikes could be coming in 2017.

Broadly speaking, the market is up again and we now find ourselves in the midst of a historically long bull market while still harkening back to the financial crisis as if it was just yesterday (Oops, we mentioned it in the previous paragraph!). A +6.07% move by the S&P 500 implies an annualized return of greater than 26.5% if the current pace is held, but more noteworthy (at least anecdotally) is that we now find ourselves in the middle of a ninth consecutive "up" stock market. We've only had one winning streak that long in your lifetime (a nine-year run from 1991-1999).

We harp on "value" in individual investment selection and discipline in asset allocation quite often. Those themes do not abandon our day-to-day operations and we try not to betray them either. But if I pressed to pick another theme for the first quarter of 2017, it was *conviction*.

Our expanded investment committee really began to hit its stride in the latter half of 2016, and the added voices, valuation methodologies and perspectives has raised the threshold for buying or selling securities. Given that improvement and the market rise, there were fewer "buy for everyone" prospects in the opening months of this year. We found value and found appropriate places for those opportunities, but many of the new names we added were selected sparingly based on risk tolerances and the majority of our stock additions were familiar names to client portfolios—like Anheuser-Busch (ticker BUD), Citigroup (ticker C), Cigna (ticker CI), General Motors (ticker GM) and Alphabet (ticker GOOG).

We added to positions in Cousins Properties (ticker CUZ) for many clients in the low-$8 range. We also picked up shares of CVS Health Corp. (ticker CVS) for many accounts. We believe CVS is undervalued by most metrics and we like that is has exposure to healthcare (through its pharmacy business) but also acts like a consumer staple.

On the sell-side, we exited GameStop (ticker GME) primarily due to a lack of confidence in management and the absence of a clear turnaround strategy. Frankly, the stock is cheap but seems likely to remain cheap (or cheaper) for the foreseeable future. We also exited positions in TEVA, primarily in the $35-$36 range. The stock has continued to sell off and was trading below $32 at the time of this publication.

The fixed income market rebounded slightly with promises of a rising-rate environment. The Bloomberg Barclay's Aggregate Muni Bond Index marked a gain of +1.58% for the first quarter, which was a welcomed site after a nearly-flat return of 0.24% for all of 2016. Our insistence on keeping duration short for the past few years paid off and most of our bond portfolios performed to expectation.

In the office, we've continued our analysis and educational outreach through Tusk Media. Since launching the podcast and video network last summer, we've racked up more than 270,000 views/listens through our various distribution partners (iTunes, Seeking Alpha, etc.). The easiest ways to follow along are to subscribe to the audio podcast through iTunes (just search Tusk Media) or check out the videos at YouTube.com/TuskMediaLLC. We're continuing to increase our "live" commentary through Twitter (Twitter.com/TuskMediaLLC) and Facebook (Facebook.com/TuskMediaLLC). Please follow along and share this content with your friends and family.

And as you're noticing right now, we recently completed a transition to a new portfolio tracking and reporting system. Garrett Palmer (Narwhal's Assistant Compliance Officer) and Ben Nye (Senior Equity Analyst) were instrumental in orchestrating this transition. This could not have happened without them and we are in a better place because of their efforts. As you will notice, the formatting on several items have changed.

A few notes in that regard:

1. First and foremost, your Quarterly Statement is separate from your Portfolio Update.
2. On the Quarterly Statement, you will see a break-down of Billable Assets at the end of the quarter as well as non-Billable Assets. Non-billable assets include items listed on your agreement with Narwhal as well as items that are billed separately (such as the Sailfish Fund) or investments that are simply monitored and not managed/billed by Narwhal.
3. Both the Quarterly Statement and the Performance Report list a "Portfolio Inception Date." These dates were brought in from our old tracking system and they are not uniformly correct. Further, they have no direct bearing on the data being presented. Translation: You can basically ignore those dates.
4. On the Portfolio Update, all data is as of the end of the quarter.
5. Portfolio Activity provides a nice summary of how the account's value changed during the quarter. Note that if your Accounting Fees paid to Narwhal were lumped in with fees for asset management, the "Management Fee" line includes those fees as well.
6. The second page of the Portfolio Update shows performance by asset class. As you will see, the S&P 500 is listed as a benchmark. This is the benchmark we use for Equity performance. Please also note the following benchmarks below for comparison:

Asset Class	**Benchmark**	**Benchmark Performance Q1 2017**
Fixed Income	Bloomberg Barclays Muni Bond Index	+1.58 %
Commodities / Precious Metals	Gold	+8.43%
Real Estate	FTSE All Equity REIT TR Index	+2.55%
Cash	JP Morgan Cash Index	+0.20%

If you have any questions on the reporting, please let us know. Though this is a bit of a change, we are confident in the underlying data and we think this is a step towards increasing transparency in reporting. Further, from an internal perspective – we are now able to analyze data with much greater fluidity and ease. We think this will greatly help our efforts to practice the level of conviction that we are preaching.

Finally, per annual tradition we have included a portion of our ADV filing—the Summary of Material Changes. Given recent correspondence with clients, none of this will come as a surprise, but we are required to provide this supplement annually so it is attached/enclosed here as well.

We greatly appreciate the opportunity to work alongside you and your family. If we can be of further service, do not hesitate to reach out.

Sincerely,

Matthew D. Burton	**Andrew D. Hall**	**Benjamin J. Nye**	**Matthew T. Krebsbach**	**Samuel T. Frost**
Founder, President	Vice President	Sr. Equity Analyst	Portfolio Analyst	Jr. Investment Analyst