THE TRUST COMPANY

INVESTMENT & WEALTH MANAGEMENT UPDATE

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THIRD QUARTER IN REVIEW

Overview– as of market close September 29, 2017

Equities held their own in August, despite hurricanes that devastated several southern states and Puerto Rico, causing extraordinary economic loss. Conflicts both at home and abroad certainly influenced investor sentiment. A late-month rally in August pushed equities ahead of their July values. The Russell 2000 decreased from its July closing value as energy stocks plunged. The Dow and S&P 500 posted marginal gains, while the Nasdaq led the month ticking up 1.27%. Long-term bond prices rose, with the yield on 10-year Treasuries falling to 2.12%, or 17 basis points below July's end-of-month yield.

Investors regained some of their confidence in September, pushing stocks ahead of their August closing values. Each of the indexes listed here posted notable gains, led by the small-cap Russell 2000, which surged 6.09%, followed by the Global Dow, the Dow, and the S&P 500, each of which closed the month up about 2.0%. The tech-heavy Nasdaq gained a modest 1.05%, yet that index still leads the way for the year, up almost 21.0% over its final 2016 value.

Ultimately, investors saw the benchmark indexes make impressive gains by the end of the third quarter. The Nasdaq and the Russell 2000 posted gains in excess of 5.0%, followed closely by the Global Dow and the Dow. The S&P 500 trailed the other indexes listed here, yet still managed to increase by almost 4.0% over its second-quarter close.

ECONOMIC NEWS

Employment

August saw 156,000 new jobs added, which is a little below the monthly average of 176,000 per month for 2017. The unemployment rate increased slightly to 4.4%, and has been either 4.3% or 4.4% since April. There were about 7.1 million unemployed persons in August. According to the Bureau of Labor Statistics, Hurricane Harvey had no discernable effect on the employment and unemployment data for August.

Notable job gains occurred in

manufacturing, construction, professional and technical services, health care, and mining. The labor participation rate was unchanged at 62.9%.

FOMC/Interest Rates

The Federal Open Market Committee met in September following its last meeting in July. Noting moderate economic activity, stagnant inflation, and the temporary effects of two damaging hurricanes, the FOMC left the target federal funds rate range at 1.00%-1.25%. Nevertheless, the Committee indicated that it will remain on schedule to raise interest rates at least once more this year.

International Markets

Inflation may be rising in Europe as eurozone wages increased at the fastest rate in more than two years. Despite Brexit, the eurozone economy has grown stronger than expected, which could reduce the need for continued government stimulus. For the year, benchmark stock indexes remain ahead in most foreign countries.

Eye on the Month Ahead

The summer saw the economy slow a bit, as inflation remained relatively stagnant, wages advanced only slightly, rhetoric between North Korea and the United States became testy, and Mother Nature blasted the southern states with two very powerful hurricanes.

Through it all, the stock market continued to enjoy monthly gains, with several of the benchmark indexes reaching all-time highs. The start of the year's last quarter may see the economy pick up as some economic indicators are projecting. While the Federal Open Market Committee didn't raise interest rates in September, it most likely will do so during the fourth quarter. Employment is expected to remain steady as it has averaged roughly 176,000 new jobs per month.

Market/Index	2016 Close	As of September 29	Month Change	Quarter Change	YTD Change
S&P 500	2238.83	2519.36	1.93%	3.96%	12.53%
NASDAQ	5383.12	6495.96	1.05%	5.79%	20.67%
DJIA	19762.60	22405.09	2.08%	4.94%	13.37%
Russell 2000	1357.13	1490.86	6.09%	5.33%	9.85%
Global Dow	2528.21	2907.67	2.13%	4.99%	15.01%
Fed. Funds	0.50%-0.75%	1.00%-1.25%	0 bps	0 bps	50 bps
10-year Treasuries	2.44%	2.33%	21 bps	3 bps	-11 bps

MICHAL EMORY, CFA, CHIEF INVESTMENT OFFICER

WHY WE ARE NOT IN THE SECOND LONGEST BULL MARKET EVER (AND WHY IT DOESN'T MATTER)

One question that I get quite often is some variation of, "Should I be nervous about the stock market since we are in the second longest bull market ever?" It is also something that is talked about habitually on business channels, print media, and online media. But I will show why A) this bull market is not as old as portrayed and B) why it should not be driving your investment decisions.

First, the common accepted term for a bull or bear market is an advance (decline) of greater than 20%. Have you ever stopped to ask why 20%? Why not 18%? Or 22%? Other than being a round number with a "0", why is 20% special? Why use the closing price? Stocks trade throughout the day and the closing price is almost never a price that we can sell a stock for since the market fluctuates throughout the day and the opening price is often not the same as the closing price.

Second, I believe that we have had not one, but two bear markets since the S&P 500 bottomed in March 2009. The first came in 2011. From April 29, 2011 to October 3, 2011, on a closing basis the S&P 500 was down 19.4%. Does that 0.6% really make you feel that much better? With a starting amount of $100,000, that is only a $600 difference.

But if we look at the S&P 500 from an intraday basis, then it was down 21.6% from its high. The S&P 500 Equal Weight Index (this index removes the large cap bias of the S&P 500) was down 23.2% (and even more on an intraday basis) on a closing basis from May 10, 2011 to October 3, 2011. The Russell 2000 Index (small cap stocks) was down 29.6% on a closing basis from April 29, 2011 to October 3, 2011.

In October 2011, we had almost 1100 more stocks making new Lows as we did stocks making new Highs. To give some perspective with that, in October 2008 we had more than 1800 more stocks making new Lows than stocks making new Highs. And at the worst point of the 2000-2002 recession we had 900 more new Lows than new Highs. Looking at this, it is clear to see that we had a bear market in 2011.

The second bear market was from mid-2015 to February 2016. While the S&P 500 was down just 14.2% during this time, the S&P 500 Equal Weight Index was down 18% and the median stock was down 25%. The Russell 2000 was down 26.4% over this time. There were also 1259 more new Lows than new Highs in January 2016.

Add into that the drop in the Dow Jones Transportation Average, the plummet in Emerging Market stocks, and the collapse in oil, and it's clear that this period had all the markings of a bear market save that "magical" 20% number for the S&P 500.

Now that we have answered the question of whether we are in the second longest bull market, let us talk about why it should not be driving investment decisions. With the stock market, there are copious predictions of impending doom. The legendary investor Jim Rogers has been claiming since 2011 that a crash is imminent.

He will certainly be right at some point (assuming he keeps making his annual prediction) but in the meantime the S&P 500 is up over 130% counting dividends. I am not trying to pick on him, but these extreme predictions are not helpful and, in many cases, can be quite harmful. The important thing is to focus on your goals and what you can control in reaching those goals. And what you and I can control is our saving rate and sticking to our financial plan.

Bull markets come and go. Some are gone in a flash and some seem like they go on forever. I do not claim to know when this current bull market will end. It could be next week or it could be in 10 years. But I do know that by being diligent with your asset allocation and security selections, we can create a portfolio that will help enable you to reach your financial goals.

> "The right investment strategy for you is the strategy that you can keep in good times and bad and that helps you reach your financial goals."

Your portfolio is designed to be effective in a variety of market conditions, and nimble enough to make changes as the need arises. This does not mean that it will "work" 100% of the time but that over the full market cycle, it will help you achieve your financial goals. The right investment strategy for you is the strategy that you can keep in good times and bad and that helps you reach your financial goals. This leads to a blog post I will have later this month about how successful investing is more of a behavioral exercise than an analytical one.

Till then, thank you once again for entrusting us to help you reach your financial goals.

COMPANY NEWS

Eli Sallman, CIMA®, CFP®, AVP & Investment Officer - Portfolio Manager, Earns Coveted Certification

Eli Sallman recently obtained the Certified Investment Management Analyst® certification from the Investment Management Consultants Association® (IMCA®). Fewer than 2 percent of financial services professionals hold CIMA® certification, which requires extensive experience, coursework and a qualification exam through one of three top-20 U.S. business schools, continuing education, and adherence to IMCA's Code of Professional Responsibility.

Congratulations, Eli!

TTC's 25th Anniversary

Pictured above are Ellen, Mark and Ann Knackendoffel, enjoying the perfect weather and grand celebration of The Trust Company's 25th anniversary. We were absolutely thrilled with the turnout for the hog roast and party at our home office in Manhattan on September 29, 2017. We were joined by representatives from all of our branch offices, plus too many clients, friends, and associates to count.

Special thanks go to Jason Walker, Trust Officer & Relationship Manager from our Lawrence office! Jason came over a day early to help prepare the hogs (earning his apprentice badge) and also did much of the "heavy lifting" on other preparations. The photo above (right) captures Mark and Jason doing some of the literal heavy lifting of putting a hog back on the fire.

We are thankful for all the support that we've been shown over the years, and look forward to many more mutually prosperous years to come. By the way, if you didn't have a chance to sign the guest book, feel free to stop by and do so!

Trust School Graduates

Several TTC employees recently completed The Schools of Banking's biennial, week-long courses in trust administration. The schools are sponsored by the Kansas and Nebraska Bankers Associations, and are respected industry-wide as an authority in trust services.

Chris Lohman, Kurt Weber and Kathy Weyer earned certificates from the School of Trust and Financial Services, while Alison Champlin, Todd Chyba, Lori Coleman, Cheryl Haskett, Chelsy Parsons and Donna Rose completed the Advanced School of Trust and Financial Services. Congratulations to all of the graduates!

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