RIVERVIEW QUARTERLY INSIGHTS

RIVERVIEW
trust company

LOOKING BACK AND LOOKING FORWARD

On April 1, I celebrated two years at the helm of Riverview Trust Company. Thanks to you, our loyal clients, as well as our dedicated team members, it's been an amazing couple of years.

My move to Riverview came at a time marked by turmoil in the wealth management industry, large institutions marred by scandal, attempts by regulators to protect the public's best interest by increasing standards for financial advice, and general distrust of financial advisors.

I was incredibly pleased to discover our team's passion and excitement for the work we do. Because our clients' trust in our work and advice has been the key to our success for nearly 20 years, we've invested in our people and processes to better serve you in the following ways:

- We've expanded our financial planning capabilities both by hiring additional qualified and experienced personnel and investing in new technology;
- We continue to test and refine our investment theory, consistent with our long-standing fiduciary duty to you, ensuring that you are getting our best advice and guidance;
- We've begun restructuring some of our internal processes and procedures in order to increase the efficiency and quality of service you receive from us;
- We worked with a branding consultant to refresh our look and feel, including all new marketing material, a newly designed website and newsletter, and even updating our firm name to Riverview Trust Company; and
- Thanks to our success and increased demand from clients for our high quality investment and trust services, we were able to expand our operations into Oregon in April 2017, and added 8 more people to our team, growing to a total of 20.

At the heart of this change is an amazing team of people, who've done a lot in a very short time. This team has worked hard, maintaining the same excellent level of service to our clients, and passing with excellent marks the examinations from our internal and external regulators.

So what do the next two years hold? Continued focus on the basics of our business, on the solid and loyal service that all of you have come to expect, and continued investment in our planning and investment advice offerings.

As always, we focus our efforts and investment in our business on the areas we think you need. So, please reach out and let us know how we are meeting and exceeding your expectations (so we can do more of it), and how we might be coming up short (so we can improve). Please feel free to contact me directly at chriscline@riverviewbank.com or call at 360.759.2478.

After all, the main reason you work with a local boutique firm like ours, instead of a national shop, is because of our relationship, and the fact that your voice will be heard. I look forward to hearing from you!!

GAINING PERSPECTIVE

As I write this on Monday, March 26, the Dow is up over 600 points (although the market hasn't closed yet). This follows the worst weekly returns for the Dow and the S&P 500 since January of 2016. The market is up because fear of a U.S./China trade war has eased; last week it was heightened. In other words, the stock market is doing what it's supposed to do, but which it hasn't done for a couple years: bounce around.

This bouncing reflects investor fears, which are momentary and capricious. For example, the CBOE Volatility Index, or "VIX," is a measure of expected volatility. It tries to predict changes in the S&P 500 over the coming 30 days by measuring the options on it. If investors are doing a lot of short-selling (that is, anticipating that the S&P 500 will go down and trying to profit on the decline), then the VIX goes up, anticipating more volatility. For this reason, the VIX is commonly known as the "fear gauge," because it goes sharply higher when investors are nervous.

The VIX is not only a gauge of investor emotions, it's also the basis for financial products. There are now exchange-traded products (ETPs, which are similar to ETFs) that allow investors not only to bet on volatility, but to bet against it as well by investing in ETPs that bet against the VIX going up. According to an article in the February 10th edition of The Economist, ETPs that shorted the VIX (betting on continued market calm) grew to a record $3.7 billion. These funds collapsed "spectacularly" when markets turned bearish in early February. A Credit Suisse ETP that shorted the VIX lost over 92% of its value on February 6th, resulting in the closure of the fund. Moves in the value of these VIX ETPs, and the subsequent trading to compensate for losses, have added significantly to market volatility.

In other words, some investors are making temporary, emotional bets on temporary, emotional market moves, compounding emotion upon emotion in a spiraling feedback loop.

Investing in hedge funds provides another example of grasping for higher returns. Last year, while the S&P 500 returned 21.8% and a 60/40 split of stocks and bonds returned 14.8%, hedge funds returned just 6.5% on average, according to Hedge Fund Research. And that was their best year since 2013. These types of returns suggest that hedge fund managers on average aren't generating enough return to justify their (high) fees. This inadequate return led CALPERS, the California public pension fund, to pull out of hedge funds in 2014. Yet many pension funds still funnel billions of dollars into hedge funds, desperately hoping to make up their funding deficits.

A third example, investing in cryptocurrencies like Bitcoin, speaks for itself. With wildly fluctuating values, and little if any ability to use these currencies as currencies, buying cryptocurrencies isn't investing, it's gambling.

The point is that there are no such things as investments or investors that outperform the market over the long term. Rather than allowing fear or greed to drive investments in obscure venues, a glance at long-term data tells a more productive (if boring) story. A working paper published last December by five economists from around the world (cited in the January 6th edition of The Economist) examined return data for sixteen economies over a period of 145 years. This study showed, for example, that stocks and real estate (the two best-performing asset classes) both yielded about 7% over very long periods, but that stocks were much more volatile. Note that half of the real estate returns consisted of rental income, so this isn't an invitation to sell your stocks to buy a bigger house. Unspectacular, boring and steady returns.

It also showed that, although bond performance since the 1980's has been solid, the real return on bonds and short-term bills over longer periods is low, and often negative. This data reinforces the fact that bonds are a great tool for balancing out a portfolio and avoiding short-term dips in portfolio value, but not for generating real value by themselves over time.

These findings are important, especially in light of the research of the French economist Thomas Piketty, who suggested five years ago that rates of return on capital are typically higher than economic or wage growth increases. This means, among other things, that the more reliable your base of capital, the better able you are to avoid losing pace to inflation. This is particularly true for stocks, which show historical real (if volatile) returns over long periods.

To conclude, there are really only four risks in investing: overconcentration (putting all your wealth in a single asset); fraud (Madoff investing); volatility and inflation. The first two are easily avoided: diversify, and remember that if it sounds too good to be true, it is. So this narrows the risk field down to two. Volatility is a short-term risk that is mitigated over time. Inflation is a long term risk that is barely noticeable over the course of a year or two. Because of its short-term nature, volatility gets all the press. Hedge fund returns, cryptocurrencies, the VIX, they all reflect the short-term noise of volatility. And they will all be nonissues five years from now. Inflation, on the other hand, is a silent killer of capital, quietly eroding an investor's buying power while he or she is distracted by volatility.

So pick your time horizon (with modern medicine, it's almost always longer than you think), diversify and be patient.

REVIEW YOUR TAX WITHHOLDING

The IRS has released a new version of Form W-4 and a revised Withholding Calculator on irs.gov (IR-2018-36). These updated tools can help you check your 2018 tax withholding to determine if it's still appropriate following passage of the Tax Cuts and Jobs Act in December 2017. The IRS urges taxpayers to use these tools to make sure they have the right amount of tax withheld from their paychecks, taking into account significant changes to the tax law for 2018.

Getting It Right

If you have too much tax withheld, you will receive a refund when you file your tax return, but it might make more sense to reduce your withholding and receive more in your paycheck. If you have too little tax withheld, you will owe tax when you file your tax return, and you might owe a penalty. You can use a number of worksheets for the Form W-4 or the IRS Withholding Calculator to help you plan your tax withholding strategy.

The IRS notes that the following groups, in particular, should make an extra effort to check their withholding:

- Two-income families
- People with more than one job at the same time
- People who work only for part of the year
- People with children who claim credits, such as the child tax credit
- People who itemized deductions in 2017
- People with high incomes and more complex returns

The revised Form W-4 and Withholding Calculator can be used to update your withholding in response to the new tax law provisions, or if you start a new job or have other changes in your personal circumstances.

Form W-4

If changes reduce the number of allowances you are allowed to claim, or your marital status changes from married to single, you must give your employer a new Form W-4 within 10 days. You can generally submit a new Form W-4 whenever you wish to change your withholding allowances for any other reason. See IRS Publication 505, Tax Withholding and Estimated Tax (a new version is expected to be available in early spring).

Your employer will withhold tax from your paycheck based on the information you provide on Form W-4 and the IRS withholding tables. On the W-4, you provide your withholding tax filing status, the number of withholding allowances you're claiming, any additional tax you want withheld from each paycheck, and whether you claim exemption from withholding.

There are three withholding tax filing statuses: single, married, or married with tax withheld at single rate. If your regular tax filing status is married filing separately, you must use married with tax withheld at single rate as your withholding tax filing status.

In general, you can claim various withholding allowances based on your tax filing status and the tax credits, itemized deductions (or any additional standard deduction for age or blindness), and adjustments to income that you expect to claim. You might increase the tax withheld or claim fewer allowances if you have a large amount of nonwage income. (If you have a significant amount of nonwage income, you might also consider making estimated tax payments using IRS Form 1040-ES.) The amount withheld can also be adjusted to reflect that you have more than one job at a time and whether you and your spouse both work.

You can claim exemption from withholding for the current year if: (1) for the prior year, you were entitled to a refund of all federal income tax withheld because you had no tax liability; and (2) for the current year, you expect a refund of all federal income tax withheld because you expect to have no tax liability.

After your Form W-4 takes effect, you can also use the IRS Withholding Calculator to check how the amount of tax being withheld compares to your projected tax.

ECONOMIC SNAPSHOT

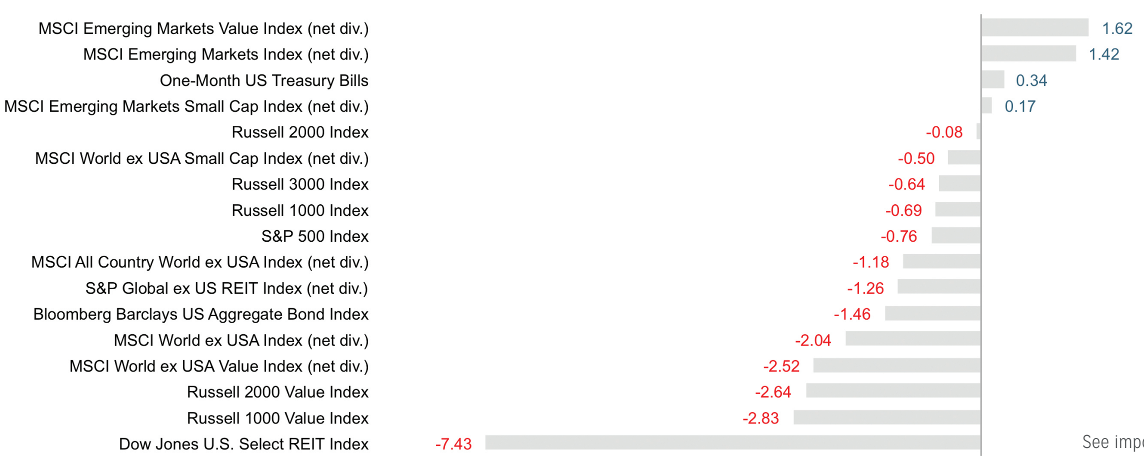
MARKET SUMMARY – FIRST QUARTER 2018 INDEX RETURNS

Despite a strong January, 2018 has seen a return of volatility. Most markets ended the quarter in slightly negative territory, with global real estate ending down 5.79%. Emerging market equities and global bonds (ex US) managed to produce a slight positive return.

	US Stock Market	International Developed Stocks	Emerging Markets Stocks	Global Real Estate	US Bond Market	Global Bond Market ex US
Q1 2018	**STOCKS**				**BONDS**	
	-0.64%	-2.04%	1.42%	-5.79%	-1.46%	0.94%
Since Jan. 2001						
Avg. Quarterly Return	1.9%	1.5%	3.2%	2.5%	1.1%	1.1%
Best Quarter	16.8%	25.9%	34.7%	32.3%	4.6%	4.6%
	Q2 2009	Q2 2009	Q2 2009	Q3 2009	Q3 2001	Q4 2008
Worst Quarter	-22.8%	-21.2%	-27.6%	-36.1%	-3.0%	-2.7%
	Q4 2008	Q4 2008	Q4 2008	Q4 2008	Q4 2016	Q2 2015

WORLD ASSET CLASSES – FIRST QUARTER 2018 INDEX RETURNS (%)

Looking at broad market indices, emerging markets outperformed developed markets, including the US, in the first quarter. The value effect was positive in emerging markets but negative in developed markets, including the US. Small caps outperformed large caps in developed markets, including the US, but underperformed in emerging markets.



See important disclosure information

WORLD STOCK MARKET PERFORMANCE

MSCI ALL COUNTRY WORLD INDEX WITH SELECTED HEADLINES FROM PAST 12 MONTHS

These headlines are not offered to explain market returns. Instead, they serve as a reminder that investors should view daily events from a long-term perspective and avoid making investment decisions based solely on the news.

Graph Source: MSCI ACWI Index [net div.]. MSCI data © MSCI 2018, all rights reserved.
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BOOK REVIEW

MAKE YOUR BED
Admiral William H. McRaven

Ever buy a book for your kids, knowing that they really need it to improve their lives, only to discover that you needed it more than they did? It's embarrassing, let me tell you. Because that's exactly what happened with *Make Your Bed: Little Things that Can Change Your Life . . . and Maybe the World*, by retired Admiral William H. McRaven. Admiral McRaven, a 37-year Navy SEAL who served as Commander of all U.S. Special Operations Forces, wrote this book as an elaboration of a 2017 commencement address he delivered at the University of Texas at Austin. The original speech went viral, getting 10 million views.

Make Your Bed is a short book of 104 pages. It is divided into ten chapters, each covering a different lesson that the Admiral learned through his SEAL training. It begins with "Start Your Day with a Task Completed" (hence the title of the book).

He describes the rigorous standards the SEALs have to apply to all of their tasks, including making their beds in the morning. The Admiral came to realize that

> sometimes there is little you can do to affect the outcome of your day. In battle soldiers die, families grieve, your days are long and filled with anxious moments. . . . Nothing can replace the strength and comfort of one's faith, but sometimes the simple act of making your bed can give you the lift you need to start your day and provide you the satisfaction to end it right.

So, he recommends, if you want to change your life and maybe the world, start off by making your bed. (I actually did start making my bed after reading this book, and I can tell you that it does feel pretty good. And my wife is a lot happier.)

The other lessons are equally simple and powerful: You can't go it alone; only the size of your heart matters; life's not fair – drive on; failure can make you stronger; you must dare greatly; stand up to bullies; rise to the occasion; give people hope. Each chapter sounds like a cliché, but is made fresh by the author's writing, examples and experiences.

Perhaps the most powerful chapter is the last one, entitled "Never, Ever Quit!" Admiral McRaven describes how, on the first day of SEAL training, the instructor told the recruits he was going to harass them unmercifully, embarrass them in front of each other, push them beyond their limits, and impose "pain. Lots and lots of pain."

He then grabbed the brass bell he was standing by and told them that, if they didn't like the pain or the harassment, all they had to do was ring the bell three times, indicating their withdrawal from the program. But, he said, "if you quit, you will regret it for the rest of your life. Quitting never makes anything easier." Admiral McRaven sums it up this way:

> Life is full of difficult times. But someone out there always has it worse than you do. If you fill your days with pity, sorrowful for the way you have been treated, bemoaning your lot in life, blaming your circumstances on someone or something else, then life will be long and hard. If, on the other hand, you refuse to give up on your dreams, stand tall and strong against the odds – then life will be what you make of it – and you can make it great. Never, ever, ring the bell!

This paragraph moved me, even though I'd heard similar sentiments expressed hundreds of times. I now find myself saying, "never, ever ring the bell," even though I've not been through the experiences Admiral McRaven has.

This is one of the few "inspirational" books that has really inspired me. Buy it for your kids, your spouse, your best friend, and mostly for yourself.

IMPORTANT DISCLOSURE INFORMATION

INVESTMENT AND INSURANCE PRODUCTS ARE: NOT FDIC Insured | NOT Bank Guaranteed | MAY Lose Value.

Past performance is not a guarantee of future results. Asset allocation does not guarantee better performance and cannot eliminate the risk of investment losses. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio.

Market segment (index representation) as follows: US Stock Market (Russell 3000 Index), International Developed Stocks (MSCI World ex USA Index [net div.]), Emerging Markets (MSCI Emerging Markets Index [net div.]), Global Real Estate (S&P Global REIT Index [net div.]), US Bond Market (Bloomberg Barclays US Aggregate Bond Index), and Global Bond ex US Market (Citi WGBI ex USA 1-30 Years [Hedged to USD]).

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RIVERVIEW
trust company™

WASHINGTON
900 Washington Street, Suite 900
Vancouver, Washington 98660
360.693.7442 | riverviewtrust.com

OREGON
5400 Meadows Road, Suite 325
Lake Oswego, Oregon 97035
503.558.6454