ROCKLAND TRUST

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Dear Investors:

After a gorgeous summer, like the one we had this year, it's difficult to welcome the crisper air and shortened daylight. Fortunately in New England, fall greets us with some beautiful foliage.

Outside of the changing leaves, one of the most fascinating things about trees is the way they grow. Although they have the ability to grow quickly, they only survive when they take their time. Tall mother trees create shade for younger trees that helps control their growth. This protection enables the new trees to grow straighter, stronger, and sturdier.

Similarly, investors focused on short-term gains can experience tremendous growth in a relatively short amount of time. The danger is a heightened vulnerability in times of market volatility like the kind we've been experiencing over the last couple of weeks. But before I get to that, let's take a look at the third quarter:

U.S. Economy

Economic growth and earnings data remained robust through the first half of 2018. U.S. real gross domestic product (GDP) grew at a strong annual pace of +4.2% in the second quarter, largely driven by the best consumer spending in roughly four years according to the Commerce Department. This marks the highest growth rate since the third quarter of 2014. The Federal Reserve Bank of Atlanta's most recent GDPNow model is currently estimating a +4.2% GDP growth rate for the third quarter of 2018 as well. The unemployment rate now stands at 3.7%, the lowest level since 1969.

Corporate profitability continues to be aided by the Tax Cuts and Jobs Act, which has helped to offset margin pressures from higher wages and input costs. Consumers appear to have shrugged off concerns about trade wars and tariffs, as the Consumer Confidence Index hit an 18-year high in the month of September.

Traditional Asset Class Returns Q3:2018			
Asset Class	**Benchmark**	**Q3**	**YTD**
US Stocks	S&P 500	7.71%	10.56%
US Gov't Bonds	BbgBarc US Govt Intermediate	-0.11%	-0.78%
Cash	BbgBarc US Treasury Bill 1-3 Mon	0.48%	1.26%

U.S. Stocks

Domestic equity markets were positive across market capitalizations, styles, and sectors in the third quarter and continued to outpace their international counterparts. The S&P 500 rallied +7.71% in Q3, resulting in a year-to-date (YTD) return of +10.56%. All 11 sectors were positive in Q3, with Health Care (+14.53%), Industrials (+10.00%) and Communication Services (+9.94%) leading the way. Laggards for the quarter include the Real Estate (+0.86%), Energy (+0.61%), and Materials (+0.36%) sectors. Year-to-Date, cyclical sectors such as Consumer Discretionary (+20.64%) and Information Technology (+20.62%) continue to outpace more defensive sectors like Consumer Staples (-3.34%).

Growth stocks (+8.88% QTD, +16.99% YTD) continued to dominate value stocks (+5.39% QTD, +4.17% YTD) this quarter and have a significant lead year-to-date. From a market cap perspective, mega-cap companies (Russell Top 50: +9.30% QTD, +11.74% YTD) pulled ahead of small-cap companies in the quarter (Russell 2000: +3.58% QTD, +11.51% YTD).

U.S. Bonds

During the 3rd quarter of 2018, we witnessed a significant increase in interest rates across the yield curve. As the U.S. Economic outlook remains solid, the Federal Reserve raised rates in September for the 3rd time this year and another rate hike in December is widely expected. Strong economic data throughout the quarter, including a tightening labor market and record low unemployment, helped to alleviate investor concerns of trade wars and tariffs. There are also expectations that other global central banks will begin to tighten monetary policy as there has been positive signs of global economic growth.

The 10 year Treasury yield hit multi year highs in the quarter. It ended the period at 3.06% or 0.20% higher than where we started the quarter and 66 basis points (0.66%) higher than where we started the year at 2.40%. This marks the 5th consecutive quarter that the 10 year Treasury yield has risen, the longest stretch since 2013. The short end of the curve experienced an even greater move with the 2-year Treasury note increasing almost a full percent (0.94%) year-to-date.

Overall, the investment grade bond market was slightly positive for the quarter but remains year-to-date.

Diversifying Asset Classes

Diversification continued to be challenged in Q3 as the S&P 500 index continued to outpace other major diversifying equity asset classes. The divergence between U.S. and international equity market performance continued in Q3, with developed international (MSCI EAFE) and emerging market (MSCI EM) equities significantly underperforming domestic markets. MLPs (+6.57%) continued to regain momentum due to a rally in crude oil prices this year, while Commodities (-2.02%) were pressured by trade issue concerns.

Asset Class	Benchmark	Q3	YTD
Foreign Stocks	MSCI EAFE	1.35%	-1.43%
Emerging Markets Stocks	MSCI Emerging Markets	-1.09%	-7.68%
US Mid Cap Stocks	Russell Mid-Cap	5.00%	7.46%
US Small Cap Stocks	Russell 2000	3.58%	11.51%
REITs	MSCI US REIT	1.09%	2.30%
Commodities	Bloomberg Commodity	-2.02%	-2.03%

MLPs	Alerian MLP	6.57%	5.90%
Managed Futures	Morningstar US Managed Futures	1.59%	-2.39%
Foreign Bonds	FTSE WGBI Non-USD	-2.19%	-3.09%
Emerging Market Bonds	JPM EMBI Global	1.87%	-3.46%
US Inflation Protected Bonds	BbgBarc US Treasury TIPS	-0.82%	-0.84%
Floating Rate Loans	Credit Suisse Leveraged Loan	1.93%	4.36%
US High Yield Bonds	BbgBarc US Corp High Yield	2.40%	2.57%
Convertible Bonds	ICE BofAML Convertible Bonds	3.93%	10.43%

Conclusion

Despite a strong U.S. economy and high consumer confidence, the return of market volatility in the first two weeks of October tells us that investors do continue to have some concerns around the upcoming mid-term elections, the current level of interest rates, and the overall longevity of the longest bull market in U.S. history.

Although we cannot accurately predict what this winter will bring, we know that our disciplined approach to investing in high-quality stocks and downside protection has not wavered in the face of short-term gains. We are committed to continuing to build strong and sturdy portfolios that are designed to weather the storms.

Thank you for your continued confidence.

Sincerely

David B. Smith, CFA
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Investment Management Group