ROCKLAND TRUST

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Dear Investors:

Every year around the holidays, there is a highly-coveted toy that parents and grandparents across the country are desperately trying to track down. Whether it was a Cabbage Patch doll or a Tickle Me Elmo, we've all been there. The quest to find that particular toy before it sells out has been known to create retail frenzy. In December of 1983, Cabbage Patch dolls were selling for 10 times their retail price in what became a secondary market of sorts.

While virtually every S&P sector was a winner this year, there were certainly a few "must-have" stocks that contributed to a record setting market and heightened investor optimism. Let's take a closer look:

U.S. Economy

In its ninth year of expansion, the U.S. economy continues to chug along at a slow, albeit steady pace. The U.S. delivered GDP growth of 3% on a quarter-over-quarter basis annualized in the 2nd and 3rd quarters of 2017.

With President Trump signing the Tax Reform Bill into law at year end, there is an increased likelihood that fiscal policies could stimulate additional GDP growth. Corporate and personal income tax cuts, along with increased spending on defense and infrastructure, could help provide a boost to GDP growth as we head into 2018.

The U.S. Labor market continues to tighten and the unemployment rate remains extremely low at 4.1%. If we do see additional economic growth due to fiscal stimulus, this could result in additional hiring and drive the unemployment rate down further.

Inflation was pressured in 2017 and mostly remained below the Fed's 2% target, as oil prices declined due to heavy supply and intense competition in the telecommunications sector drove down prices.

Traditional Asset Class Returns Q4:2017			
Asset Class	**Benchmark**	**Q4**	**2017**
US Stocks	S&P 500	6.64%	21.83%
US Gov't Bonds	Bbg Barc US Intermediate Gov't	-0.40%	1.14%
Cash	3 Month T-Bill	0.26%	0.82%

U.S. Stocks

2017 will be remembered for a surging stock market, continued low bond yields, and historically low levels of volatility. The S&P 500 returned 21.8% on a total return basis, led by the Technology sector which returned 38.8%. The combined market value of Apple, Google, Microsoft, Amazon (consumer discretionary), and Facebook increased by 43% this past year.

Six out of the eleven S&P 500 sectors returned over 20% in 2017, led by the Tech, Materials, and Consumer Discretionary sectors. The laggards for the year were Energy (-1.01%) and Telecom (-1.25%), due to continued low energy prices and fierce competition within the wireless industry among the four major carriers.

Corporate earnings remained strong, with operating earnings for the companies in the S&P 500 expected to grow by 18% in 2017. The companies that make up the S&P 500 now trade at roughly 23 times their past 12 month earnings vs. a ten year average of 17 times earnings.

U.S. Bonds

The fourth quarter had yield increases in the short and intermediate part of the curve as we continue to see a modest yield curve flattening. As anticipated, the Federal Reserve raised rates in December for the third time in 2017, boosting rates on the shorter end of the curve. On December 31st, the ten year treasury yield was at 2.41%, finishing just below where we started the year at 2.44%. The bond market was mixed for the quarter (bond prices fall as yields rise and vice versa), with yields impacted by the passage of Tax Reform and the Fed increases. Overall, bonds had positive returns for the year.

The Fed will begin a new chapter in 2018 as Janet Yellen's term expires on February 3rd and Jerome Powell takes over as the new Fed Chairman. It is expected Mr. Powell will stay the course on current monetary policy as the economy continues its steady growth. The Fed is predicting an additional three rate hikes in 2018.

Diversifying Asset Classes

Asset Class	Benchmark	Q4	2017
Foreign Stocks	MSCI EAFE	4.23%	25.03%
Emerging Markets Stocks	MSCI Emerging Markets	7.44%	37.28%
US Mid Cap Stocks	Russell Mid-Cap	6.07%	18.52%
US Small Cap Stocks	Russell 2000	3.34%	14.65%
REITs	MSCI US REIT	1.41%	5.07%
Commodities	Bloomberg Commodity	4.71%	1.70%
MLPs	Alerian MLP	-0.95%	-6.52%
Managed Futures	Morningstar US Managed Futures	4.75%	3.03%
Foreign Bonds	Citigroup Non-USD WGBI	1.57%	10.33%
Emerging Market Bonds	JPM EMBI Global	0.54%	9.32%
US Inflation Protected Bonds	BbgBarc US Treasury TIPS	1.26%	3.01%
Floating Rate Loans	Credit Suisse Leveraged Loan	1.17%	4.25%
US High Yield Bonds	BbgBarc US Corp High Yield	0.47%	7.50%
Convertible Bonds	ICE BofAML All US Convertible	1.56%	13.70%

All of the diversifying asset classes, except Master Limited Partnerships (MLP's), produced positive total returns in 2017. However, only two in this category outperformed the S&P 500. International investments, both the equity (stock) and fixed income (bond), performed better than their US counterparts. This was driven by robust local market performance along with a currency benefit from a weaker US dollar in 2017. This combination propelled Non-US stocks from both developed and emerging economies to be the number 1 and 2 performers in 2017, respectively.

Conclusion

The hunt for the must-have holiday toy is largely driven by emotion. Despite all of the chaos, once the last holiday decoration has been put away, the toy becomes just another one on the shelf.

One of the biggest obstacles for individuals who use self-managed investment vehicles is separating their emotions from their investment process. The S&P 500 had a positive price return in 11 of the 12 months in 2017. When you include dividends, all 12 months produced a positive total return. This is the first time that has happened since 1970. With such a steady run, it's hard not to get swept up in the excitement.

Emotions aside, history tells us that we should not be overly optimistic about continued record setting performance in 2018. While we cannot time market corrections and cannot say that a correction is imminent, we can say with certainty that there will be another correction at some point in the future.

Our disciplined approach to investing in diversified, high quality investments keeps us focused on your long-term financial goals. And while short-term gains can provide excitement, our customized portfolios aim to provide you with something much more valuable- a sense of security.

Thank you for your continued confidence.

Sincerely,

David B. Smith, CFA
Chief Investment Officer
Investment Management Group