Building Wealth and Earning Trust

Happy 2017!

It was quite a bumpy ride in the market this past year.

As the calendar turned to 2016, the Federal Reserve had just raised the fed funds rate by 25 basis points for the first time in nearly a decade. Conventional wisdom held that the Federal Reserve would raise rates several times during 2016 to combat inflation as the economy continued its recovery. The equity markets fell precipitously into February before moving higher. Many investors repositioned their portfolios to benefit from rising rates. However, the yield on the 10-year treasury dropped from 2.4% to below 1.6% by mid-summer, and the Fed raised rates only once, at its December meeting.

In June, the next jolt came from the unexpected vote in Britain in favor of exiting the European Union. The markets sold off sharply in the following days as investors feared the uncertainty surrounding Britain's exit, but after a brief plunge the markets rallied to what, at the time, was a new high for the Dow Jones Industrial Average.

Finally, in the days approaching the presidential election many pundits believed Hillary Clinton would win; however if Donald Trump won, they believed the markets would tumble. Following Trump's election overnight S&P futures fell dramatically triggering trading curbs; but before the close of trading on the following day, the "Trump Bump" had taken hold and markets rallied sharply.

Consistently, market participants seem to be caught off guard by these events and the market's reactions. It is difficult to predict the market's course or its duration based on current events. Repositioning can be warranted from time to time, but rarely does reacting to short-term issues prove successful.

We believe it is important to stay focused on the fundamentals of our investments and that responding to short term sentiment can prove to be costly. We have been successfully guiding our clients' investments for more than 150 years. During that time there have been plenty of events that have tested our confidence, but ultimately staying invested in companies we understand and remaining disciplined in what we are willing to pay has proven to be successful.

continued

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We also recognize that this success is dependent on the many professionals at Davenport who help navigate these markets and are committed to helping create wealth for our clients. In 2016 we added a number of professionals to our team and unfortunately said goodbye to a few. We are pleased to see our firm grow and will continue to benefit from the lessons we have learned from those who have been here before us.

To support the firm's growth, we made investments in our systems and improved our infrastructure during 2016. Many of these enhancements happened in the background and for most will be unknown. During the year we took additional measures to help prevent the ever-increasing cyber threats and made improvements in system redundancies to ensure we can continue to serve you regardless of what may be occurring around us. As our business and the way that we interact with our clients becomes more dependent on technologies, we know how important it is for you to maintain the ability to have access to your Advisor and their guidance. We understand that the confidence you place in us goes well beyond providing good investment advice and we recognize the importance of making investments behind the scenes to ensure we do not betray that confidence.

Other improvements have been made that we hope you have noticed. At the start of last year, we launched a new website with a refreshed look and new content that is easier to navigate. Later in the year we hope you noticed some changes to the client account access site. And, by the time you are reading this letter we will have introduced the Davenport Mobile App which will bring market and account information to your smart phone or tablet. We hope to bring more improvements in 2017, so please stay tuned as we continue to improve your access to market information and your accounts. If you haven't, we hope you will explore these tools and look for additional improvements in the future.

Thank you for allowing Davenport to work for you. We appreciate the many choices of financial institutions you have to help meet your financial objectives and we are glad you have chosen us. We understand we must earn your trust and confidence and we hope to continue to do that for years to come.

I. Lee Chapman, IV, CFA
President & Chief Executive Officer

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The Dow Jones Industrial Average is an index of 30 "blue chip" stocks of U.S. "industrial" companies. The S&P 500 Index is comprised of 500 U.S. stocks and is an indicator of the performance of the overall U.S. stock market. An index is not available for direct investments; therefore its performance does not reflect the expenses, fees and taxes generally paid with the active management of an actual portfolio.