

This quarter we have several sections in addition to our market commentary. We are proud of the team that serves you, as well as the improvements to our technology and the lower costs that we are able to provide. We hope you find our comments helpful.

At Lucas Capital our clients always come first

We are an independent advisor recommending investments to you based on what best fits your situation with absolutely no conflicts. We work for you and always act in your best interest. The Department of Labor's (DOL) Fiduciary Advice rule has been in the news for the past few months. The proposed rule strengthens the standards that investment advisors need to follow when managing retirement accounts and IRAs. The rule requires that advisors always act "In the Best Interest of the Client". Conflicts often exist between a client's best interest and an advisor who is paid a commission to sell certain investments. We are not paid commissions on any investments that we put in your portfolio. Lucas Capital is fully supportive of the DOL Fiduciary Rule and believes it is a good step forward for the industry. Your interests are always our first priority.

Please let us know...

We are embarking on a new project to update our website and communications materials. Please let us know if a family member or friend could benefit from our services. Your referrals are very important to us. We value your continued trust in Lucas Capital and welcome the opportunity to discuss any of your financial questions or concerns in total confidence.

Market Outlook

Equity markets started 2017 strong with optimism on the economy and President Trump's plans for lower taxes, infrastructure spending, and less corporate regulation. We are thrilled with a great start to the year seeing the S&P 500 up 6.3% (1). Riding the market up, we want to keep a careful eye on our asset allocation to ensure that it remains fit for your stage in life and family goals. A strong stock market means that we may need to trim some equity to get back in balance.

Economic indicators are looking stronger in 2017, continuing the growth trend from prior years. But the recovery that started in 2009 has been the slowest recovery since WWII (2). As we have written in the past, a slow-steady recovery is still a recovery. We often cite economic data in our reports because the economy is what underpins stock performance. Economic activity drives company earnings and company earnings drive stock prices. As the economy grows, so do

companies and their stock price; a trend that has proven itself over many decades. The Employment situation is an indicator of our economy because GDP is dominated by consumer spending (70% of GDP). Better employment leads to more consumer spending. Employment has gained ground, but at a slower pace - March non-farm payrolls grew 98,000 jobs, following big increases in January and February. This continued the 2016 trend of 187,000 jobs added per month(3). Unemployment has ticked lower to 4.5%(4). Consumer confidence has increased sharply in March to its highest level since December 2000. (6) The FED is responding to stronger economic signals including inflation with a 2.7% year-over-year increase (5). In March the FED made its 3rd rate increase in 3 years - like our economy, a slow and steady pace. We are confident that the FED under Janet Yellen's leadership will continue to act in a prudent, measured pace that will not disrupt equity markets.

The FED manages short term interest rates while longer term rates, which are more meaningful to us as investors, are influenced by economic strength. Though stable recently, the big upward move of the 10 year rate last year from 1.6% to 2.4% allowed the fixed income portion of our portfolios to earn more reasonable returns.

Though the equity markets are off to a roaring start to the year we have some concerns on the continuation of highest ever stock prices. Clearly we believe stronger economic growth will underpin stock market gains but potential pitfalls exist, especially after the strong increases we have seen over the past 5 months. Political distractions from Washington, further stress on the EU or military action in one of the world's trouble spots could cause market turbulence. We want to remain cautious and ensure that our investment portfolios are properly balanced. We always welcome a conversation to discuss your current asset allocation and if we should adjust it based on any recent or expected life events.

Update on IRA Beneficiaries

Many of our clients have IRAs or 401(k)s which represent a material portion of their wealth. Naming beneficiaries on your accounts establish how these assets will be distributed when you pass away. Verifying that we have the correct beneficiaries will give you peace of mind that these funds will be distributed according to your plans. We can help you verify or make changes to your named beneficiaries as well as be involved in discussions with your family regarding the passing down of assets to the next generation so that the process works more smoothly. Please let us know if you would like us to send you the current beneficiaries on your accounts or if we could be helpful in a discussion with your beneficiaries.

Our new Reporting System

We have had good feedback from our clients on our new performance reporting system. You will see some of your suggestions included in this quarter's report. We also have the ability to email you quarterly reports if it would be more convenient than receiving a paper report in the mail. Please let us know if you would like to make the change to paperless reporting.

Lower Trading Cost from Fidelity

Fidelity has lowered stock trading costs for Lucas Capital clients to \$4.95 from \$7.95. You will receive this lower rate if your combined accounts with us are over \$1 million or if you receive your Fidelity statements by email. Please give us a call with your preferences regarding Fidelity statements.

Please let us know how we can be of further service to you.

Ralf, Rob, Brett, and Bruce

Sources:

1. Reuters
2. <https://www.minneapolisfed.org/publications/special-studies/rip/recession-in-perspective>
3. Non-farm payroll employment from <https://data.bls.gov/pdq/SurveyOutputServlet>
4. <https://www.bls.gov/news.release/empsit.nr0.htm>
5. https://data.bls.gov/timeseries/CUUR0000SA0?output_view=pct_12mths
6. <https://www.conference-board.org/data/consumerconfidence.cfm>

Be sure to let us know if your family circumstances have changed in a way that could alter your investment profile and objectives. We welcome your questions or comments, or would be happy to review your financial situation or portfolio at your convenience.

A copy of Lucas Capital Management, LLC's ADV is always available upon request.

NOTE: This report has been prepared for the discretionary account clients of Lucas Capital Management LLC (LCM) only and is not intended for the general public. The intention of this material is to provide the basis for investment decisions made by LCM on your behalf. The opinions expressed in this report are those of Lucas Capital Management. Information contained herein is based on sources we believe to be reliable, but is not necessarily complete and its accuracy cannot be guaranteed. Any opinions are subject to change without notice. This report is for informational purposes only and is not intended as an offer to sell or a solicitation to buy securities. This report may not be reproduced or distributed without our permission and is a service provided exclusively for our clients. Lucas Capital Management and its affiliated companies and/or associated persons may, from time to time, have positions in, or options on the securities discussed herein and may make purchases/sales while this report is in circulation. More information is available upon request.

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