

Happy New Year to our clients and friends!

Comments on our new quarterly reporting format

So that we may continue to improve service to you, we have implemented a new analysis and reporting system called Black Diamond to replace our legacy Advent system. You will notice that this quarterly report looks different than the ones you have received in the past. We tried to retain all of the information that we have previously provided to you, while enhancing the usability of the reports. Black Diamond is a top of the line system giving us powerful analytical tools as well as flexible reporting. If you have any questions or suggestions, we would welcome the conversation.

Some features of the new quarterly report that we would like to highlight:

- 1 Immediately after this letter, the page called "Portfolio Overview" provides a snapshot of all of your Lucas accounts combined. On one page it shows account value and return while also having pie-charts for asset allocations.
- 2 Following this page are a list of securities that you own on a combined basis (all accounts together)
- 3 The Page called "Summary of Portfolio Accounts" shows account level value and returns as well as realized gains/losses for the year.
- 4 The pages that follow "Summary of Portfolio Accounts" provide more detail on an account level basis
- 5 The final pages include the quarterly billing statement

We are very happy with the capabilities of our new software and are certain that it will allow us to do an even better job helping you with your wealth management and financial planning needs.

Market Commentary

While we leave behind a tumultuous 2016, we approach 2017 with optimism for our economy and equity markets. The unexpected surge in the US stock markets over the past two months was a welcome finish to 2016 where we saw the Dow down 6.19% on January 11, 2016 setting a record for the worst first week of trading ever (1). The unexpected year end gains resulted from the removal of uncertainty after the presidential election and some material improvements in economic data. Third quarter GDP came in at 3.5%, the best rate since 2014 (2). The Employment situation remains reasonably strong with December non-farm payrolls increasing by 156,000 (3).

The Conference Board reported that its Consumer Confidence Index rose to 113.7 this month from an upwardly revised 109.4 in November, the highest in 15 years.(4)

It certainly appears that our economy is heading in a positive direction which should be good for equity prices over the coming year. But this is not without worries. Markets tend to price in future activities far ahead of when they actually happen. There is some enthusiasm about President Trump's business friendly policies and lower tax rates. The blueprint for tax reform laid out by Paul Ryan will be economically stimulative in the short to medium term, but worries persist about the longer term impact on government deficits and debt. We are also concerned about the protectionist rhetoric that is a foundation of populist movements around the world. Protecting jobs by limiting lower cost imports is a very short term solution, but these policies can have unexpected consequences of higher inflation and lower growth rates.

The stronger economy has driven up interest rates with the 10-year Treasury rate up to 2.5% at year end from 1.5% in August. (4) Though not so good for borrowers, this is great news for investors because we are now able to find reasonably good quality Corporate Bonds yielding 4 – 5% for the fixed Income portion of our portfolios. We also see better values in income producing securities like Royalties, MLPs and Bank Preferred shares.

We are generally positive for the year ahead but as always, we think that you should maintain a balanced approach to investing with a portfolio suited for your personal situation and stage of life.

We would appreciate a chance to chat with you about your financial objectives, portfolio, or talk about our thoughts on the economy or markets.

Your friends at LCM

Ralf, Rob, Bruce, and Brett

Sources:

1. <https://www.usmoneyreserve.com/blog/stocks-close-out-week-with-worst-start-to-year-ever/>
2. <https://www.bea.gov/newsreleases/national/gdp/gdpnewsrelease.htm>
3. <https://www.bls.gov/news.release/pdf/empisit.pdf>
4. http://www.nytimes.com/2016/12/27/business/trump-consumer-confidence-index-real-estate-home-prices-on-the-rise.html?_r=0

5. US Dept of Treasury <https://www.treasury.gov/resource-center/data-chart-center/interest-rates/Pages/TextView.aspx?data=yieldYear&year=2016>

Notes:

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.

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