BRIDGES | INVESTMENT MANAGEMENT

Think Forward

Market Comments
February 6, 2017

S&P 500	2,293
10 Year Treasury	2.41%

The following points summarize our investment outlook for 2017-18:

1. We continue to be constructive on U.S. equities, but we expect heightened levels of volatility over the next year or two. We estimate fair value for the S&P 500 at year-end 2017 to approximate 2400 (18x estimated earnings of $130-135 per share). Our year-end 2018 fair value estimate is 2500-2550 (18x estimated 2018 earnings of $138-145). Our fair value estimates imply total returns for stocks from current levels of 5-8% per year over the 2017-2018 time frame.

2. Our expectation of increased stock price volatility is predicated on uncertainty surrounding the Trump administration's ability to achieve its stated policy goals of health care reform, tax reform, and infrastructure build-out. The S&P 500 is up 7% since the election; investors have clearly discounted some success for Trump against his policy agenda. If Trump is unable to make meaningful progress in 2017 on his policy initiatives, stocks might be at risk to give back some of their recent gains. Alternatively, significant progress on corporate tax reform could result in materially higher earnings over the next several years, which would likely be reflected in stock prices. We could easily envision a trading range of 1800-2600 for the S&P 500 over the next two years, as the range of possible outcomes is wider than normal, in our view.

3. We believe small and midcap stocks are marginally more attractive than large capitalization stocks, given 1) higher earnings growth rates, and 2) less exposure to a strong dollar. International stocks are cheaper than U.S. stocks (although earnings growth prospects are lower), and we expect to continue to increase our exposure to international equities.

4. We favor the consumer discretion, technology, financials, and health care sectors, and we are less sanguine about consumer staples and utilities, given their high current valuations, and exposure to higher interest rates. Our stock selection work continues to emphasize companies with 1) superior, durable business franchises, 2) strong revenue, earnings, dividend, and free cash flow growth prospects, and 3) attractive valuation metrics.

5. Bonds remain unattractive in our view, both absolutely, and relative to stocks. We continue to underweight bonds relative to targets, and we remain defensively postured in bond portfolios, because interest rates are both low, and likely to rise over time. We will increase our exposure to bonds at such time as higher interest rates create more favorable implied returns for bonds.

Ted Bridges, CFA
President

The Fund's investment objectives, risks, charges, and expenses must be considered carefully before investing. The statutory and summary prospectus contains this and other important information about the investment company; any may be obtained by calling 1.866.934.4700 or by visiting www.bridgesfund.com. Read it carefully before investing.

Mutual fund investing involves risk. Principal loss is possible. Small and medium capitalization companies tend to have limited liquidity and greater price volatility than large-capitalization companies. Investments in debt securities typically decrease in value when interest rates rise. This risk is usually greater for longer-term debt securities. The Fund invests in foreign securities which involve political, economic and currency risks, greater volatility and differences in accounting methods.

Earnings growth is not a measure of the Fund's future performance.

The Bridges Investment Fund is distributed by Quasar Distributors, LLC.

The S&P 500 Index is a broad based unmanaged index of 500 stocks, which is widely recognized as representative of the equity market in general.

Free Cash Flow is earnings before depreciation, amortization, and non-cash charges minus maintenance capital expenditures.

Opinions expressed herein are those of Ted Bridges and are subject to change. They are not guarantees and should not be considered investment advice.

It is not possible to invest in an index.

Investing in value stocks presents the risk that value stocks may fall out of favor with investors and underperform other asset types during a given periods. Equities, bonds, and other asset classes have different risk profiles, which should be considered when investing. All investments contain risk and may lose value.