STRAIGHT TALK

1st Quarter 2017

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Market Returns

Domestic Large
S&P 500
6.07%

Domestic Small
Russell 2000
2.47%

Intl Developed
MSCI EAFE
7.25%

Emerging Markets
MSCI EM
11.45%

Fixed Income
BBgBarc US Aggregate Bond
0.82%

**Market data is from Morningstar and is through 03/31/17. All returns are with dividends reinvested.*

The year is off to a good start with markets carrying over the momentum that we saw in the post-election period. Other than a few areas, we have seen positive returns across sectors, market caps, regions, and asset classes. Naturally, when we witness a move in stocks as seen in the previous two quarters, the "overpriced" comments start to pop up. We concur with most legitimate economists that a small pullback (3-5%) is always a possibility. The enthusiasm over the current administration's aggressive plans has waned in recent weeks and geopolitical risks abroad have started to get some attention. Despite these risks however, there are reasons to be optimistic as economic data has generally been positive since the middle of last year, reinforcing the view that global activity will continue to trend higher.

Coming into the year, we maintained a favorable view towards technology stocks, and this has paid off as technology companies continue to lead the way. We have also had a positive view towards the energy sector, but as with the nature of the stock market, the advancements have been delayed. For a variety of reasons, energy stocks have lagged to start the year. Energy usage and inventories have added to the delay, but these factors should reverse in the coming weeks, as the summer driving season pushes oil demand higher and inventories decline. We favor the financial industry as they will benefit from rising rates and the likelihood of deregulation. The political focus has shifted temporarily from healthcare to tax and regulation reform which would be a positive for the economy and markets. We expect to see a somewhat watered down version of tax reform as a final proposal for passage. That said, even a small reduction in tax rates should lead to a pickup in activity and improved earnings. Logically, we then are negative on interest rate sensitive sectors such as utilities, real estate, and telecoms.

Looking globally, from 2010 through the end of 2016 the S&P 500 returned 132.85%, outpacing international stocks, which were only up 22.43% (MSCI ACWI ex. USA). Those who regularly read our commentary know that we've been calling for a rebound in international markets for some time, and it now finally looks like it might be taking place. Emerging market equities were nearly on par with the S&P 500 last year (11.19% vs. 11.96%) and nearly double the S&P's returns in the first quarter.

Similarly, developed international markets outperformed the US in Q1, though not by the same margin. We have seen periods of better returns by foreign stocks in recent years, only for those returns to erode due to various factors. Nevertheless, things feel different this time around, as there has been a real uptick in earnings from these companies and economic data is pointing to better growth in many of these regions. While geopolitical risks exist, whether it's the growing tensions with North Korea and Syria or the upcoming national elections in the U.K., France and Germany, markets are poised to break through the pessimistic emotion that has held them back. It's too early to say definitively, but given the current positive numbers and staggering underperformance over the last seven years, it is more than likely that international investing will be a strong contributor to performance.

As you know, we have rebalanced the accounts to reflect our current macroeconomic philosophies and to reduce risk by taking some profits. This is a great time to reiterate our research goal that has been developed and refined over the last 15 years – to manage your portfolio to strive to obtain the highest return with the minimum amount of risk. As discussed with you personally, controlling risk in down cycles (limiting losses) is much more important than over performing in up cycles. Our goal is to continually protect your assets while achieving market returns. Your trust in us is the reason we are here. We work very hard, every day, to continually earn that trust. Thank you and please call if you have any questions.

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