FLAGSTONE
FINANCIAL ADVISORS, INC.

MARKET REVIEW
THIRD QUARTER 2017

What Happened:
The first nine months of 2017 have been terrific for investors. Stocks gained 4%-5% during the third quarter and are up more than 10% for the year. International stocks also fared well, up about 5% for the quarter, benefitting from improved economies abroad and a weaker dollar. Bond returns, nearly 1% for the quarter, were held back by rising interest rates.

This market has been fueled by robust corporate earnings, with expectations of more growth for the remainder of 2017. What's more, the economy continues to show strength, inflation remains subdued, wages are increasing and housing prices are improving in most areas.

We all delight in seeing our wealth grow from this great bull run—the second longest in history—but it will end at some point. How we react to that eventuality will define how we fare in the long-run.

Our long-standing clients know that we take a very unemotional approach to investing. You may have heard us recommend to "stay the course." Trying to time the market is a fool's folly. It is impossible to do successfully and it is counterproductive to our long-term objective of growing wealth. Consider that in the mid-1980s, the Dow Jones Industrial Average was about 1500. Today, it is over 22,000. During that 30-year span, we endured the financial crisis of 2007-2008, the Internet bubble, several recessions, the housing collapse, multiple terrorist attacks, two wars, the Savings and Loan crisis, and double-digit interest rates. Through it all, the market forged upward. In the midst of bleak and scary headlines, those who panicked by selling at depressed prices locked in permanent losses. Those who stayed the course built wealth in the subsequent recoveries.

YTD Performance Through 9/30/2017:

S&P 500 Index (large stocks)	14.24%
Russell 2000 Index (small stocks)	10.94%
MSCI EAFE Index (international stocks)	19.96%
Barclays U.S. Aggregate Bond Index (bonds)	3.14%

Prognosis:
As we move into the final quarter of 2017, we are encouraged by the prospect of future economic growth. However, we also understand that pullbacks and corrections are an inevitable part of the investment landscape. We do not know when a market decline will occur or what will trigger it, but when it comes, we do not expect it to be a significant drop. A bear market, defined as a drop of 20% or more, seems unlikely as they are almost always brought about by recession, which is nowhere in sight.

Also, keep in mind that our diversified approach to investing will help mute the impact of any market declines. In other words, we suggest staying calm if the market gets choppy or uncomfortable, and remember our mantra, "stay the course." Building wealth depends on it.

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