



Second Quarter 2017 Review

Dear Clients:

It is time for another quarterly update.

Year-to-date, US stocks have increased 8.5%, world stocks are up 11.5%, and US bonds have risen 2.3%, as represented by the S&P 500 Index, the All Country World Index, and the Barclays Aggregate Bond Index. The goal in building diversified portfolios is to capture the best risk-adjusted returns. We don't have much data yet, but a preliminary review suggests that we are providing returns that are superior to the blended benchmark with lower volatility. Stay tuned!

Chief Allocation Strategist Steve Bobo made an interesting suggestion recently. With year-to-date stock returns around 10%, he recommended that we consider ways to lock in these healthy gains in the event that the markets fall back. We identified a simple option trade that would cost about 1% of the value of a portfolio, and would allow us to recoup losses if a portfolio declined between 10% and 20% in value. We decided that we would not recommend the "insurance" for most clients, but rather continue to do what we always do: review accounts at least monthly, invest cash in whatever assets are cheapest, and wait for those assets to recover and give us even greater gains. Please let us know if your situation or temperament warrants a conversation.

What do we see ahead? Notwithstanding several hawkish comments from central bankers last week, we think interest rates will remain stubbornly low due to weak global demand. When yields go down, returns on bonds go up, and our clients made good money on their Treasury bonds in 2015 and 2016. Yields on 10 year Treasury bonds rose after the presidential election, but have since slid back to their pre-Trump levels. We think our clients will likely make more money in Treasuries, and we like that this would offset losses in stocks. So far, shrinking unemployment rates do not seem to be stoking inflation, possibly due to technology; if we are wrong and inflation actually materializes along with more robust global growth, our portfolios will likely benefit from stock gains and offset any losses from our bonds. Diversification!

Please refer to the following statements for the performance of your assets and their quarter-end balances, and please contact us if you have any thoughts or concerns about your accounts. Our money continues to be invested right alongside yours.

Sincerely,

John H. Biebel, J.D., CFP®

Chief Client Advisor

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