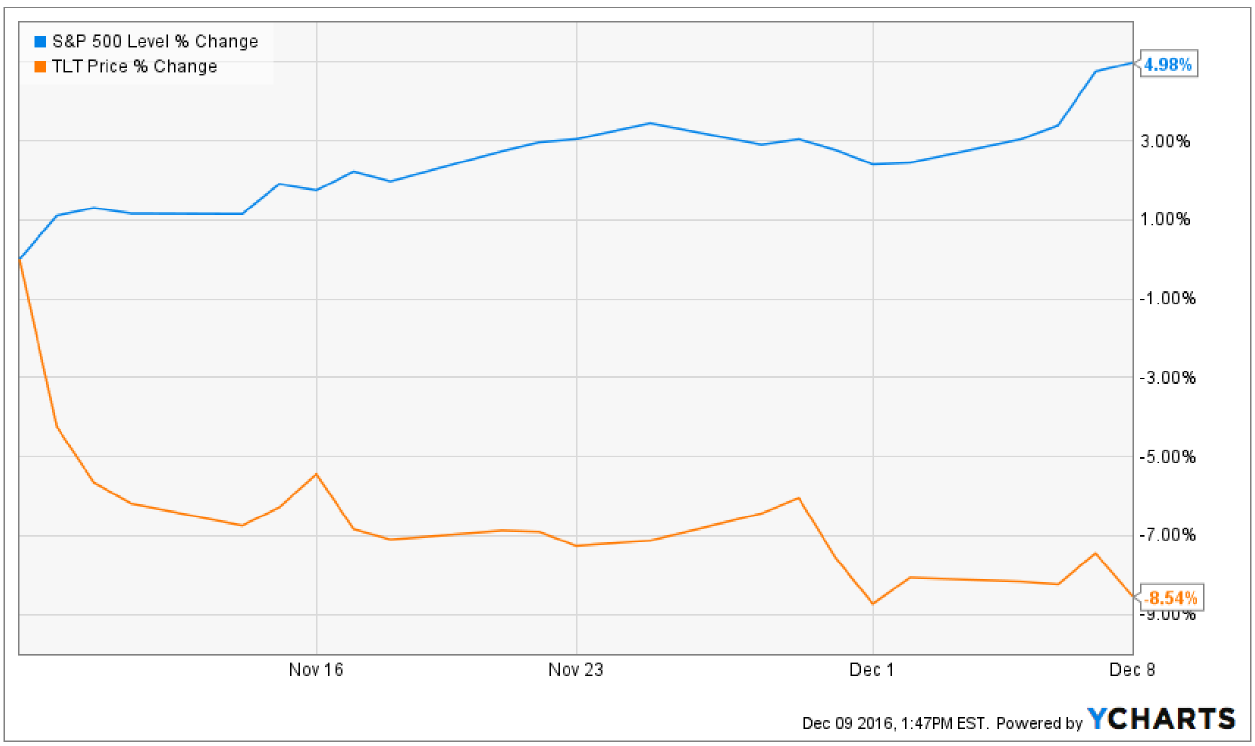
Market Update

December 9, 2016

Year End Rally in Equities, Bonds Sell Off

Since last month's Market Update, the equity markets have continued to gain ground and rally. Bond prices are still under pressure but have shown some signs of stabilizing, since the immediate sell off post-election. A copy of last month's Market Update can be found at www.prominencecapital.com by scrolling down to the Market Update section on the lower left of the home page. The chart below starts on November 8th and goes through the end of the trading day December 8th, exactly one month since the election. The S&P 500 (blue line) is up 4.98% in this time frame, while the price of TLT (orange line), a proxy for long term U.S. Treasury bonds, is down 8.54%.



Information in this chart above was taken from sources we believe to be reliable; however we do not guarantee its accuracy or completeness.

While the move up in equities has been drastic so has the move down in bonds. However, the move lower in bonds is likely to abate a bit, as the majority of the repricing of bond and interest rates seems to have already occurred. We anticipate a rising interest rate environment going forward. Bond prices move opposite of interest rates. Therefore, we will see further declines in bond prices in the future. However, the rate of change in bond prices should be less drastic as long as the Federal Reserve does not aggressively raise the Federal Funds rate. Other factors that affect bond prices and interest rates will take some time to manifest. This should provide some slowing of bond price declines moving forward. Our opinion is that equity markets in the US will likely continue moving up through the end of the year

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and throughout 2017. The combination of a Republican President, Republican Senate and Republican House make policy decisions and initiatives less susceptible to Washington gridlock. This fact allows for a better environment for which businesses can make decisions on investments and expansion.

Since the election, we have made several changes to portfolio's including increasing exposure to specific areas of the equities markets, as mention in last month's Market Update. In many cases we shifted from high duration and longer dated bonds to a lower duration and shorter maturity mix of bond holdings. This helps reduce the impact rising interest rates has on bond prices. It is important to remember that although bonds may be in a period where prices will continue to decline, they are typically lowly to negatively correlated to equities. Low correlation of assets is a foundation for managing the overall risk of a portfolio of investments. It is also our stance that US stocks are more attractive then International stocks, but having exposure globally is still important.

We will be looking to try and take losses in portfolios where possible in order to reduce the 2016 taxable earnings in portfolios. This does not mean that the portfolio has lost value over the past year. Rather, we will be looking to strategically take realized losses in some positions where appropriate, to offset realized gains where possible. This requires looking at ways to keep the current exposure to investments sectors, segments and classes without triggering unintended tax consequences.

If you have questions or would like to discuss this further with regard to your personal portfolio please contact me at 310-433-5378.

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