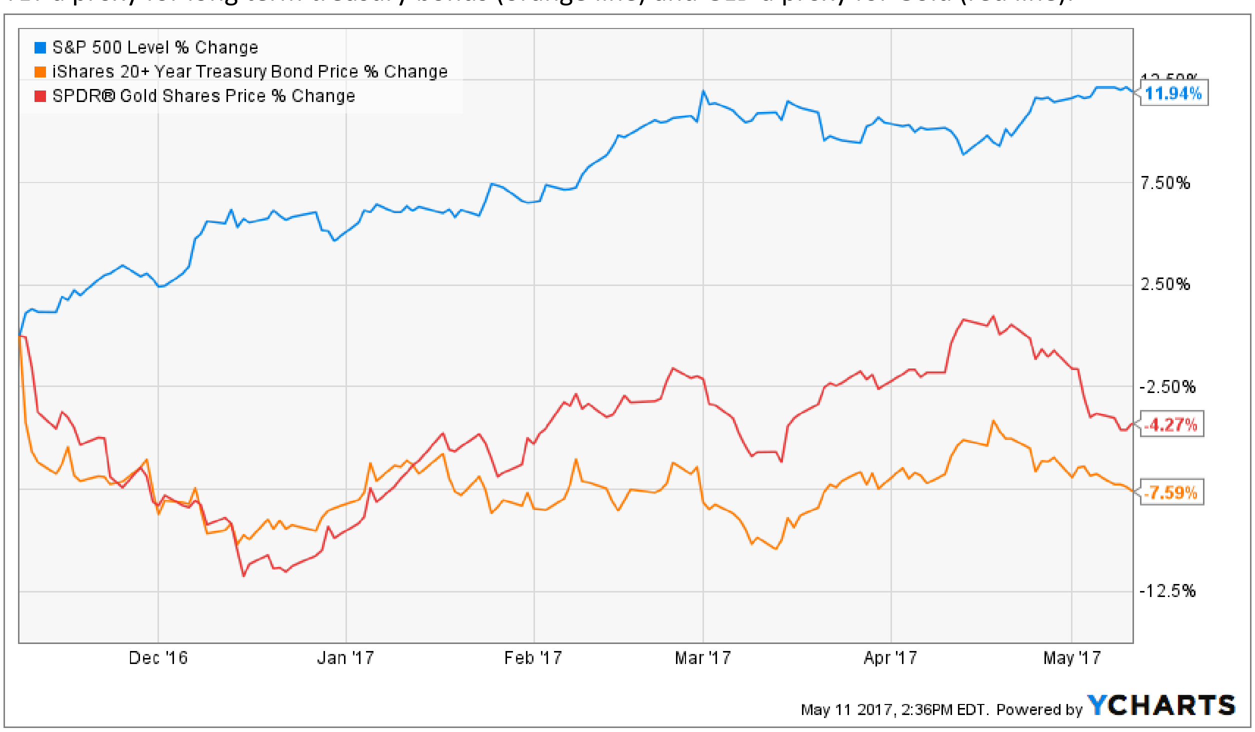
Market Update

May 11, 2017

Distraction and Shifting Rationale

April's political distractions were centered around the pressing issues of what to do in Syria, the Middle East, North Korea and Russia. We are now focused on the firing of FBI Director James Comey as both political parties conveniently forget their past praises and criticisms of the man. Both sides seem interested in using the current Comey event to generate leverage politically to push forward their agenda. What happened to the threat of North Korea? What happened to the humanitarian crisis in Syria and the Middle East? These issues are still in the background but they are certainly not front and center in the circus that we have going on in U.S. politics. It seems that anything linked to Russia, whether factual, circumstantial, or speculated, seems to be what politicians and the media are focusing on these days. So, what about the real issues that affect most Americans, such as Health Care, Tax Reform, Job Creation and Regulatory Reform? The Trump administration did narrowly pass a repeal and replace bill through the House by two votes. It is my hope that politicians can focus on this issue and others but the current environment in Washington does not engender confidence.

While political distractions play out, the rationale for higher stock market prices has started an inevitable shift. As the optimism over the Trump agenda of lowering taxes, repeal and replace and regulatory reform has run its course, new reasons have taken center stage. Earnings season is winding down and overall companies have delivered. Equities markets have come back to and in some cases eclipsed all-time highs. The chart below shows the percentage rate of return since the November election through May 11, 2017 for the S&P 500 (blue line), TLT a proxy for long term treasury bonds (orange line) and GLD a proxy for Gold (red line).



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

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The chart above shows the direction of Gold and Treasury's has reversed course since last month indicating that the geopolitical issues and fear of military action have taken a back seat to earnings, potential of a new health care program and other issues. It is noteworthy to point out that the markets have reacted very little to the firing of the FBI Director and the narratives surrounding this coming out of Washington.

Unemployment numbers for the beginning of May came in positive with headline unemployment down to 4.4% from 4.5% the previous month. The labor force participation rate ticked down to 62.9% from 63.0%. Overall the economy added 211,000 jobs according to the nonfarm payroll employment numbers. Equity markets have achieved a positive Q1 earnings season and we are seeing continued health in the labor markets. These are two important positive forces needed going forward for providing a foundation for continued market strength. As I mentioned in last month's market update, some remaining catalyst for a continuation of the markets positive returns would be further progress in regulatory reform, getting a new healthcare bill finalized and tax reform. It is equally important that the Federal Reserve raises rates slowly and prudently.

Our current view on the markets has not changed much since last month. We are watching geo-politics and are ready to look for opportunities to reduce equity risk (beta and standard deviation) through some small changes to the equity holdings inside client's allocations. We still prefer domestic equities over international equites, however, the prospects for better international markets is showing positive signals. Most all of our portfolios hold a percentage of their assets in international investments which should benefit from improved economic indications globally. We will continuously monitor the U.S. and Global economic environment for signs that indicate a reason to be more favorable toward International Equities. We continue to look at ways to lower the risk of a rising interest rate environment and have recently made some changes to further reduce duration risk in our fixed income holdings. Maintaining a low duration/shorter maturity outlook for bonds and fixed income is our view for the foreseeable future. Based on the current environment, we feel it is prudent to maintain the lowest duration and shortest maturities possible specific to investors individual needs.

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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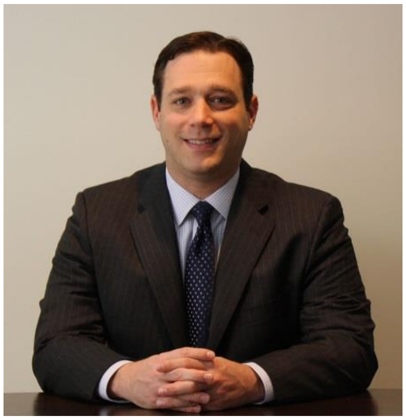

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