

Newsletter – April 2017

This “Old” Bull Market

Despite growing negative investor sentiment and fear, this “old” equity bull market chugged along to start 2017, notching higher across the board. Market volatility, as measured by the VIX Index, awoke a bit from its recent torpor, but still remains well below historical averages. This leaves skeptics wondering whether “easy” money or short memories are more responsible for investor complacency.

Optimists argue that the equity market surge is well deserved, based on the potential for:

1. Tax cuts at the personal and corporate level,
2. Repatriation of corporate cash, which has heretofore been hoarded overseas,
3. A more business friendly tone in government allowing deregulation to occur which should encourage business activity and overall economic progress,
4. An expectation that our government will do some badly needed infrastructure investment which would be quite stimulative in the short and intermediate term.

In fact, consumer optimism polled higher recently, creating a divergence between investor and consumer sentiment. Time will tell if consumers or investors have a better feel for the pulse of the economy.

MARKET TRENDS 3/31/2017

<u>US Stock Markets</u>	<u>Q1</u>	<u>12 Mos.</u>
S&P 500 Index	6.07%	17.17%
S&P MidCap 400 Index	3.94%	20.92%
Russell 2000 Index	2.47%	26.22%

Int'l Stock Markets

EAFE Index	7.25%	11.67%
Emerging Mkts Index	11.44%	17.22%

Fixed Income

Barclays Intermediate Gov't/Credit Bond Index	0.78%	0.42%
Barclays Capital Muni Bond 3 Year Index	1.27%	0.58%

Commodities

SPDR Gold Shares (NAV)	7.29%	0.24%
Goldman Sachs Commodities	-5.05%	8.45%

Real Estate

Dow Jones US REIT Index	3.22%	5.58%
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Yields

	<u>3/31/2017</u>	<u>12/31/2016</u>
6 Mo. US T-Bill	0.90%	0.61%
10 Yr UST	2.39%	2.45%

Sources: Total Returns from WSJ Market Data Group, Standard & Poor's, Barclays

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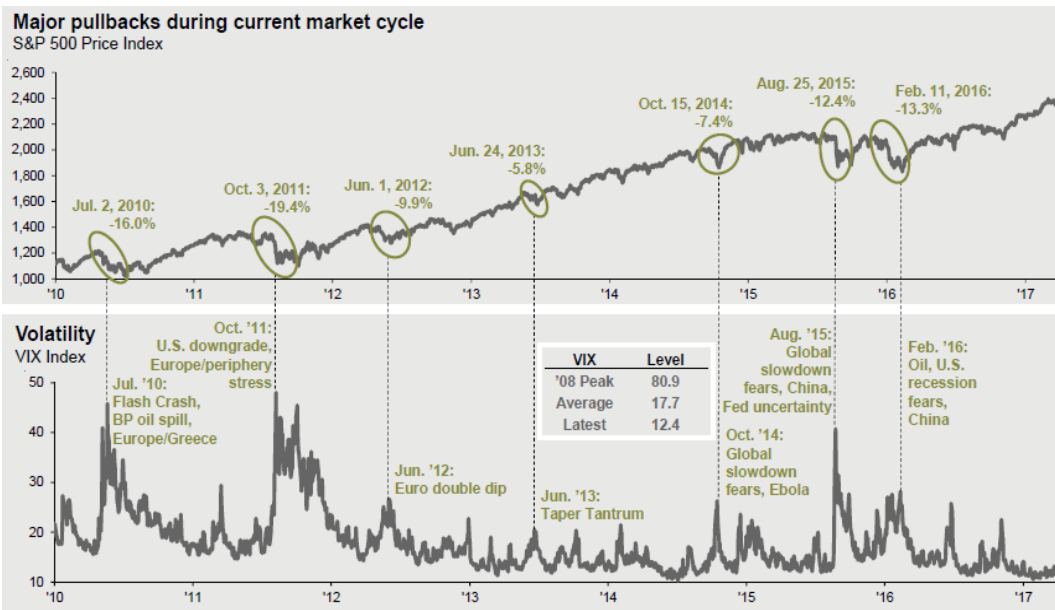
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Source: FactSet, Standard & Poor's, J.P. Morgan Asset Management; (Bottom) CBOE. Drawdowns are calculated as the prior peak to the lowest point. Guide to the Markets – U.S. Data are as of March 31, 2017.

“The U.S. equity markets have remained resilient over the last year.”

“...markets tend to correct almost annually by an average of 14%....”

“...stocks are not cheap. But, they are not in bubble territory either!”

“...we are still finding attractively valued domestic and international stocks.”

The U.S. equity markets have remained resilient over the last year. We haven't experienced a correction of greater than 10% since January and February of 2016. It would be very normal for the equity markets to decrease sharply in the upcoming quarters of 2017. Statistically, markets tend to correct almost annually by an average of 14% over the last 37 years. As you may be tired of hearing us say, we at Shorepoint do not try to time the markets. We think it is a fool's errand to do so. However, we are not complacent. And we are active on our clients' behalf - using valuation and sentiment as best we can to make investment decisions.

With the S&P 500 Index trading at 18x forward earnings estimates, stocks are not cheap. But, they are not in bubble territory either! Robust corporate earnings growth has been supportive of higher equity prices with a 7.5% increase for the fourth quarter and a strong start to the first quarter. Overall, we are still finding attractively valued domestic and international stocks. In addition, the federal funds rate is only 0.75% which still makes many other traditional fixed income investments less attractive. We need only glance at our current bank savings account statements to see the paltry returns provided, which are still a fraction of historical savings rates. However, this will likely change a bit with the Federal Reserve (“Fed”) indicating that three more 0.25% rate increases in 2017 on top of the most recent increase in March. The Fed, which has a poor record of this, needs to raise interest rates gradually and to not overestimate the strength of the U.S. economy.

Governing in (Broken) Prose A Different Flavor of Government Dysfunction

During the Obama years, we dealt with a recalcitrant Republican Party unwilling to work with Democrats due to severe divisions in beliefs and perspective evidenced best by the healthcare Congressional battle royal. The resultant dysfunction of government was frustrating to citizens but not the market, which marched ever higher.

At the beginning of this new Republican led administration and Congress, we are witnessing a new type of dysfunction, where the party in power was unable to foment healthcare change in Q1 and continues to deal with divisions within its own party. At Shorepoint, we felt that the rosy market view might be too pat. So, as you know, we decreased stock exposure slightly in our models back to the long term neutral weighting listed in each of our client account Investment Guidelines. As always, we considered your personal circumstances and factored in: capital gain taxes, expected contributions/distributions, etc. before taking action. We will continue to evaluate your Investment Guidelines during our regular reviews, but are always available to discuss your portfolio objectives at any time.

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High Level Economic Overview, Back to Basics, and the Implications for All of Us

“...returns are likely to be muted. Interest rates remain relatively low.”

“...reduced...equity exposure by 3% – 5%, after maintaining a larger than normal or an overweight position in stocks for over seven years.”

“..reallocated the cash into real estate (for income) and fixed income as part of our belief in diversification.”

We live in a modest growth world where we are living longer. Employers struggle with hiring qualified workers at all levels of our society. Aided by technology and globalization, those with skills are in high demand, leaving behind those who don't have the skills, training and/or education required.

Investment returns are likely to be muted. Interest rates remain relatively low. Taxes are modest historically but there is a populist outcry for still lower rates that will likely occur at some point. However, the downside of such tax policy will probably be a continuously growing, pernicious national debt that is dwarfed by the weaker balance sheets and growth prospects of countries like Italy, Spain, Greece, Portugal, Ireland, England, and many others.

So we, like this “old” bull market, chug onward. Save more. Invest more. Invest in ourselves - for good health, for flexible AND stable careers and strong family relationships. It won't be easy, but a good process for planning and investing with awareness, thought, and communication with your advisors will surely stand you in good stead. And that's why we are here doing what we do!

Conclusion and Looking Forward

As we communicated to you this past February, we reduced your account equity exposure by 3% – 5%, after maintaining a larger than normal or an overweight position in stocks for over seven years. This was not because we were or are bearish on equities. It was and is a recognition of the following two factors that still persist:

1. the uncertainty on the timing of certain government pro-business policies that the market has been assuming would happen in 2017, and
2. the recent selective run up in certain stock prices in areas such as industrials and finance sectors

We temporarily invested the stock sale proceeds in cash in your accounts. More recently, we have reallocated the cash into real estate (for income) and fixed income as part of our belief in diversification. We will be assiduously monitoring market, economic and political conditions in addition to the valuation in both the stock and bond markets.

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“As for bonds, we have invested in sectors that we think are positioned to withstand higher interest rates....”

“We will focus on a long term, disciplined approach and will not overreact to the current political landscape and/or short-term financial market events.”

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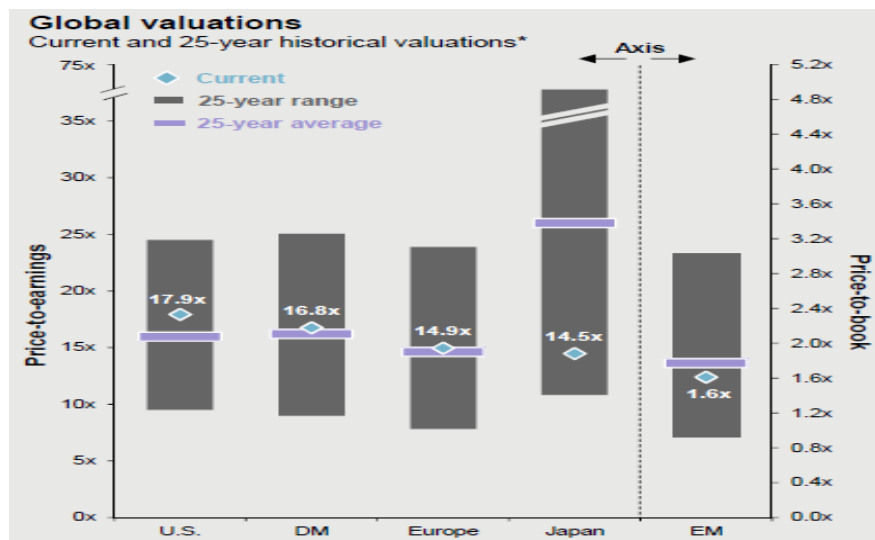
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Source: FactSet, MSCI, Standard & Poor's, J.P. Morgan Asset Management.

Even as some domestic equity markets surpass all-time highs, we are still finding pockets of undervalued stocks, especially in the healthcare and technology sector. In addition, domestic mid and small cap stocks will benefit from lower corporate tax rates and international equities in developed and emerging markets seem attractive. However, a stock market correction is not out of the question; we will use it to upgrade portfolios into higher quality companies that are attractively valued. As for bonds, we have invested in sectors that we think are positioned to withstand higher interest rates such as: municipals, leveraged loan funds, preferred stocks, emerging markets and short-term corporates.

As always, there are several risks that we monitor and will make adjustments if prudent for the long term. More recently, our clients' have expressed concerns about the elevated equity markets, political dysfunction and global tensions (i.e. North Korea, Syria). We have previously discussed our market view. As for global tensions, they seem to always be with us, and they are difficult to plan for except to have a diversified portfolio and a disciplined, long-term investment strategy. As for political concerns, we will restate our previous newsletter statement, "...major policy changes still require a coordination between the Administration and Congress....there is usually little to do as investors because there are too many variables to consider and frankly the long term timeframe we follow tends to wash away the significance of short term politics..."

We will focus on a long term, disciplined approach and will not overreact to the current political landscape and/or short-term financial market events. Our firm tagline is Identifying Opportunity, Navigating Risk. Our focus is on both, but at this time we are placing risk management at the top of our priority list on behalf of our clients.