Identifying Opportunity.
Navigating Risk.

Newsletter – October 2017

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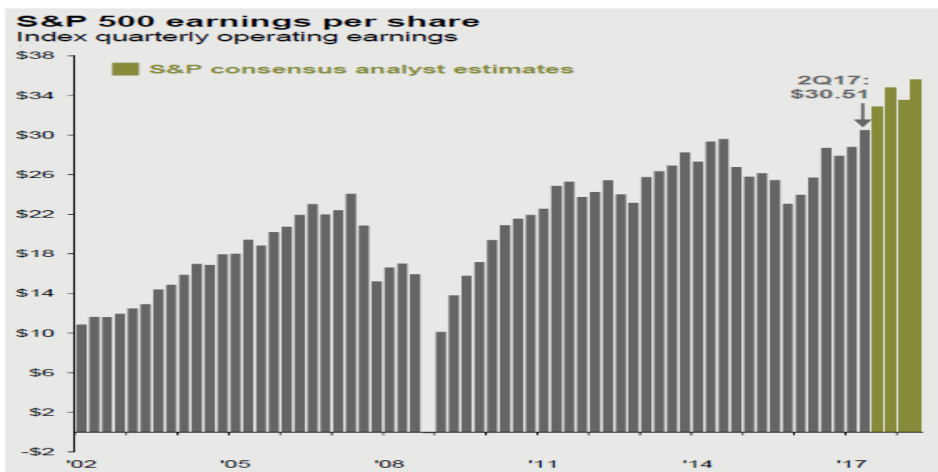
MARKET TRENDS 9/30/2017

US Stock Markets	Q3	YTD
S&P 500 Index	4.48%	14.24%
S&P MidCap 400 Index	3.22%	9.40%
Russell 2000 Index	5.67%	10.94%
Int'l Stock Markets		
EAFE Index	5.40%	19.96%
Emerging Mkts Index	7.89%	27.78%
Fixed Income		
Barclays Intermediate Gov't/Credit Bond Index	0.60%	2.34%
Barclays Capital Muni Bond 3 Year Index	0.53%	2.35%
Commodities		
SPDR Gold Shares (NAV)	3.19%	10.37%
Goldman Sachs Commodities	7.22%	-3.76%
Real Estate		
Dow Jones US REIT Index	1.13%	7.09%
Yields	**9/30/2017**	**12/31/2016**
6 Mo. US T-Bill	1.20%	0.61%
10 Yr UST	2.33%	2.45%

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

Equity Bull Market and Economy Continues to Chug Along!

So far in 2017, the markets have had to price in the economic damage and risks of two major hurricanes in the U.S., North Korean missile tests, the Federal Reserve raising interest rates and the dysfunction in Washington. However, the U.S. equity market has been extremely resilient as it routinely makes all-time highs. The S&P 500 Index is up roughly 15% year to date with historically low volatility (more on that later). This has been the second longest bull market in terms of duration in almost 100 years and the last correction (a decline of 10% or more from the high) in the S&P 500 Index was early 2016, which now seems like a distant memory.



What are some of the factors fueling higher equity markets? Corporate earnings have been very strong and have exceeded analysts' expectations. The domestic economy has continued to grow with the last two quarters' GDP reaching the elusive 3% target. Inflation remains low, and while interest rates are rising, they are still well below historical levels. The tight job market – strong job growth and low unemployment – is resulting in increases in wages which bodes well for consumers. Consumer sentiment is generally positive, net worths have recovered, consumer debt loads are down, and house prices are appreciating. The consumer is also benefiting from low oil and gasoline prices. In addition, companies have returned a significant amount of cash to shareholders through stock buybacks and dividends. We are in the early stages of a synchronized global economic expansion. While the U.S. economic expansion is the second longest in our history, the rest of the world economies are in the early stages of recovery. This has propelled international equities (developed and emerging markets) to over 20% returns after years of lagging domestic markets.

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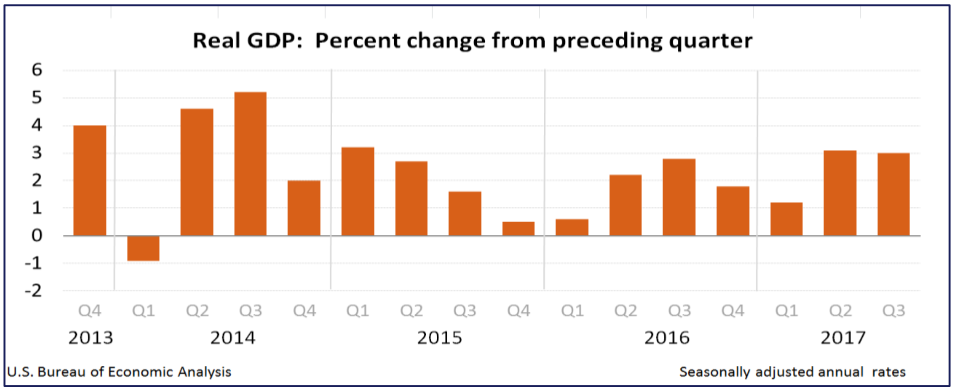
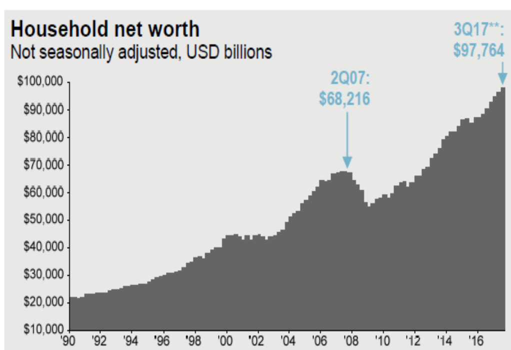
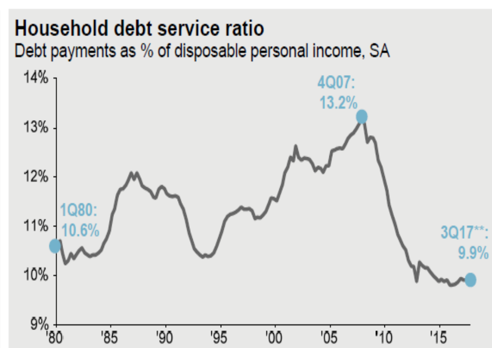


We are receiving an increasing number of inquiries from concerned and nervous clients about high equity prices and whether this is a good time to raise cash. We believe that the positive factors discussed above provide support for higher stock prices and valuations – at least selectively. While we understand clients' concerns, we have taken action over the last couple of years to reduce stock weightings by 5-7% in client accounts and are moving to a neutral allocation based on your investment objective and risk tolerance. We are also holding slightly more cash, an extra 1-3%, than we have historically.





However, we are not making any drastic moves for one simple reason: short of having a crystal ball, it is impossible to know where the stock market is headed on any given day, month or year. In fact, the stock market has an uncanny ability to do the exact opposite of what the masses believe it should, and inevitably will do. We believe that being patient and remaining committed to a long-term disciplined investment approach is the best strategy to grow wealth and to reach your financial goals. As always, we are available to discuss your concerns and answer your questions.

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In '*A Wealth of Common Sense*', author Ben Carlson, CFA, examines what would have happened if an investor only invested in the market at ***market peaks*** over the past 50 years - equal amounts at each peak. There have been four major crashes over that time period:

Equity Market Peak and Investment Date	Market Decline From Peak/Investment Date
January 1973	-48%
August 1987	-34%
December 1999	-55%
October 2007	-57%
December 31, 2015	**+9% average annual return**

If the hypothetical investor in Mr. Carlson's story committed investment capital to the market right before each of these market declines but had ***STAYED INVESTED*** as the market bottomed and recovered, the investor would actually have done quite well over time. This hypothetical investor enjoyed an average annual rate of return of roughly 9% through the end of 2015 which would be even higher today. If you were the worst market timer of the past 50 years but stayed disciplined and invested in the market, you still made a lot of money and a competitive annual return on your capital. This example magnifies the power of remaining invested in the market and the power of compounding returns. When it comes to investing, discipline and time are your friends.

Looking Forward

We continue to advocate a diversified portfolio of quality, reasonably valued assets based on your investment objectives and risk tolerance. We believe that this has and will prove to be a successful investment strategy over the long-term. That being said, we will continue to make changes as prudent. We have taken profits on outsized positions that have grown during this bull market run to fund more attractive, cheaper looking opportunities. The equity allocation has been reduced – taking some chips off the table – and we have moved to a more neutral, conventional stance in our portfolios. We will continue to take advantage of stock volatility to harvest losses in companies experiencing near-term challenges but that we believe have the potential for attractive long term returns. The tax losses we take now will help offset your 2017 capital gains and/or shelter future gains. Our aggressive use of tax loss harvesting is part of our tax management process that adds significant financial benefit to our clients.

Our longer term commitment to international equities and bonds has paid off in 2017 as they have produced strong returns and significantly outpaced domestic returns. We think international securities will continue to benefit from a combination of a strong economic recovery and cheap valuations. On the home front, the debate on U.S. tax reform is still in the early stages and it's unclear who the winners or losers will be. However, we expect if tax reform is enacted, it will apply starting in 2018. Any reduction in corporate tax rates should benefit small cap and other stocks that get a significant amount of their revenues domestically.

"…international securities… benefit from a combination of a strong economic recovery and cheap valuations."

Although the S&P 500 Index is trading above its 20 year price/earnings average, with low interest rates and inflation, we don't think it is significantly overvalued. However, domestic equity markets are long overdue for at least a 5-10% correction - we would see this as a buying opportunity.

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We continue to diversify our bond exposure outside of U.S. Treasuries to mitigate interest rate risk in this rising rate environment. Overall, Shorepoint expects to stay the course, seeking to take advantage of opportunities as they arise and generating attractive long-term returns to help our clients reach their financial goals.

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