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JEFF'S PERCEPTION

Quarterly Commentary & Portfolio Review **January 2017**

"Mistakes are the usual bridge between inexperience and wisdom." - ***Phyllis Theroux***

The Year in Review and What Might be Ahead

The year 2016 has come and gone. It started out in a very rocky fashion, with comparisons to 2008 that were too numerous to count.

Let's be clear. As I have emphasized in past "perceptions", markets seldom trade in a quiet and orderly fashion. Volatility has been and always will be part of the investment landscape. It's how we react, manage, and mitigate risk that is critical. (See past perceptions/commentaries about being a "committed Investor").

Two events strongly influenced U.S. and foreign financial markets in the 4th quarter – one unexpected by most (yours truly included), the other widely anticipated. Neither of them seem to upset investors. Donald Trump's win in the presidential election led to a rally on Wall Street, and the Federal Reserve's December interest rate hike was taken in stride, even as our central bank's monetary policy stood out globally for its hawkishness. The S&P 500 was up 3.25% in the 4th quarter. The United Kingdom scheduled its Brexit, and OPEC elected to trim oil output for the first time in 8 years. Oil rallied, so did the dollar, precious metals retreated. The housing sector showed signs of strength even as mortgage interest rates increased. On the whole, the most-watched U.S. economic indicators were encouraging.

Looking Ahead

We have just entered 2017 and markets are calm and near highs. This is the time of year we put our economic and market outlook together. Many of you have heard me use the term "cautiously optimistic" over the years, but I heard a new term recently, "skeptically optimistic" and I believe that best describes my current feelings entering 2017. This "skeptically optimistic" outlook will also be reflected in the "tweaks" we will make in our Core Allocation Strategies, over the next several weeks.

Summary of "Skeptically Optimistic"

Investors are turning more optimistic about growth because of the recent U.S. elections. This is being reflected in rising stock prices, rising interest rates and increasing inflationary expectations. As always, there are risks to the outlook. Difficulty in passing tax reform or infrastructure spending bills, an escalation in trade protectionism or a significant snag in dealing with the ACA could derail the positive outlook the markets are enjoying. We will have a much better idea about these risks during the first 100 days of the Trump Presidency. During this time, political risks will be elevated until the markets gain comfort that the pro-growth agenda will largely be implemented.

I believe the current pro-growth developments likely to take place at the first of the year combined with our current position in the business cycle could materially change the outlook for asset class performance going forward. Interest rates have experienced a 35-year decline from 15.68% on a 10-year Treasury bond in 1981 to the paltry lows of 1.38% on July 8th of this year. Investors have increasingly been forced to hunt for yield in uncommon places to have enough income. This has led a large portion of the investment community to reach for yield in higher-yielding equity investments, longer dated bonds or lower quality investments. I believe the recent lows in interest rates probably represent the bottom of this interest rate cycle. The steep rise in rates since then to 2.4% on a 10-year Treasury bond and our expectations of higher rates may increasingly cause a reversal in the flows that were a result of the prior reach for yield. This is likely to have broad ramifications to how your portfolio should be positioned going forward.

In closing, I take responsibility for making these changes to my client's portfolios and welcome others that would like for us to review theirs. Staying educated on the economy and markets requires a constant monitoring of things as conditions change. It's a never-ending process, but also a never-boring one! I will continue to monitor developments and be in touch with important news.

I hope you have found this review to be educational.

Let me emphasize again that it is my job to assist you! If you have any questions or would like to discuss any matters, please feel free to give me or my team a call.

As always, I'm honored and humbled that you have given me the opportunity to serve as your wealth advisor.

A handwritten signature in black ink, appearing to read 'JB' followed by a stylized flourish.

Jeff Bingham, President
B&H Wealth Strategies