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Q1, 2017 remained a strong quarter for investments, especially equities. 4 of our 5 asset classes were up. Commodities were down and broad Non-US equities were the strongest. But, this performance does not diminish our view that after such long run in the stock markets, a correction may be more imminent – if only for psychological reasons.

We are not, however, about to start playing hunches or concerns. The evidence points to riding out the market movements; making portfolio changes only if the fundamentals are poor or if they are egregiously out of balance. This does not seem to be the case currently but we remain vigilant.

We made minimal changes to portfolios this quarter and held on to any new cash that came into accounts. Ditto any dividends that were paid out towards the end of 2016.

We see no reasons to change our philosophy to diversify portfolios across the five main asset classes. We believe this is a prudent investment approach; one that is likely to provide adequate returns and keep risks at reasonable levels. We are also sensitive to costs and try to keep the total cost of investing at or below median levels in the industry.

Our advice to investors who have itchy fingers: Act on things that you control! As Warren Buffett is rumored to have said - "I've never met a person who has forecasted the market reliably". Nor have I.



QUARTERLY MARKET REVIEW: JANUARY-MARCH 2017

The Markets (as of market close March 31, 2017)

Riding the momentum following the presidential election, stocks surged for much of the first quarter of 2017. Buoyed by the anticipation of tax cuts and policies favorable to domestic businesses, the benchmark indexes listed here reached historic highs throughout the quarter. At the end of January, the Dow reached the magic 20000 mark for the first time, while the tech-heavy Nasdaq gained almost 4.50% for the month. The trend continued in February, as stocks posted solid monthly gains. The Dow closed the month with a run of 12 consecutive daily closings that reached all-time highs. The S&P 500 also achieved a milestone — 50 consecutive trading sessions without a daily swing of more than 1.0%. At the

Key Dates/Data Releases

**4/3: PMI
Manufacturing
Index, ISM
Manufacturing
Index**

4/4:

International trade

close of trading in February, each of the benchmark indexes listed here posted year-to-date gains, led by the Nasdaq, which was up over 8.0%.

4/7:

Employment situation

March began with a bang but ended with a whimper. The Dow closed the first week of the month at over 21000, while the Nasdaq gained over 9.0%

4/11: JOLTS

year-to-date. However, energy stocks slipped as the price of oil began to fall.

4/12: Treasury budget

Entering mid-March, investors exercised caution pending the potential Fed interest rate hike and the push for a new health-care law. Following its mid-March meeting, the Fed raised interest rates 25 basis points, while the move to replace the ACA with a new health-care law failed for lack of congressional support.

4/13: Producer Price Index

For the quarter, each of the indexes listed here posted impressive gains over their fourth-quarter closing values. The Nasdaq climbed the most, posting quarterly gains of close to 10.0%, followed by the Global Dow and the S&P 500, which achieved its largest quarterly gain in almost two years. Long-term bond prices increased in the first quarter with the yield on 10-year Treasuries falling 6 basis points. Gold prices also climbed during the first three months of the year, closing the quarter at \$1,251.60 — about 8.5% higher than its price at the end of the fourth quarter.

4/14:

Consumer Price Index, retail sales

4/18: Industrial production, housing starts

4/21: Existing home sales

4/25: New home sales

4/27:

International trade in goods, durable goods orders

4/28: GDP

Market/Index	2016 Close	As of March 31	Month Change	Quarter Change	YTD Change
DJIA	19762.60	20663.22	-0.72%	4.56%	4.56%
NASDAQ	5383.12	5911.74	1.48%	9.82%	9.82%
S&P 500	2238.83	2362.72	-0.04%	5.53%	5.53%
Russell 2000	1357.13	1385.92	-0.05%	2.12%	2.12%
Global Dow	2528.21	2691.45	1.36%	6.46%	6.46%
Fed. Funds	0.50%-0.75%	0.75%-1.00%	25 bps	25 bps	25 bps
10-year Treasuries	2.44%	2.38%	-1 bps	-6 bps	-6 bps

Chart reflects price changes, not total return. Because it does not include dividends or splits, it should not be used to benchmark performance of specific investments.

Monthly Economic News

- Employment:** February's employment report showed continued strengthening in the labor sector with 235,000 new jobs added in the month, on the heels of 238,000 new jobs added in January. Job gains occurred in construction, private educational services, manufacturing, health care, and mining. The unemployment rate dipped to 4.7% — down from 4.9% a year earlier. There were 7.5 million unemployed persons in February. The labor participation rate inched up 0.1 percentage point to 63.0%. The average workweek was unchanged at 34.4 hours in February. Average hourly earnings increased by \$0.06 to \$26.09, following a \$0.05 increase in January. Over the last 12 months ended in February, average hourly earnings have risen by \$0.71, or 2.8%.
- FOMC/interest rates:** Following its meeting in March, the Federal Open Market Committee raised the target range for the federal funds rate by 25 basis points to 0.75%-1.00%. This is the first interest rate change for 2017, although the FOMC projects that it will increase rates two more times this year. The Committee expects that economic activity will expand at a moderate pace, labor market conditions will strengthen somewhat further, and inflation will stabilize around 2% over the medium term. FOMC Chair Janet Yellen supported the current rate hike,

cautioning that without gradual rate increases inflation could escalate, requiring the Committee to raise rates rapidly which, in turn, could risk disrupting financial markets and push the economy into recession.

- **Oil:** The price of crude oil (WTI) closed March at \$50.85 per barrel, after spending much of the month hovering around \$48.00 per barrel. The national average retail regular gasoline price was \$2.314 per gallon on February 27, 2017, \$0.018 higher than the January 30 price and \$0.531 more than a year ago.
- **GDP/budget:** Expansion of the U.S. economy slowed over the final three months of 2016. According to the Bureau of Economic Analysis, the fourth-quarter 2016 gross domestic product grew at an annualized rate of 2.1% compared to the third-quarter GDP, which grew at an annual rate of 3.5%. Growth in the GDP was slowed by downturns in exports, federal government spending, and business investment. A positive from the report is the rise in consumer spending, which increased 3.5% over the prior quarter. An indicator of inflationary trends, the price index for gross domestic purchases increased 2.0% in the fourth quarter, compared to an increase of 1.5% in the third quarter.
- As to the government's budget, the federal deficit for February was \$192 billion. Over the first 5 months of the fiscal year, the deficit sits at \$385 billion, which is 0.7% below the same period of time last year.
- **Inflation/consumer spending:** Inflation, as measured by personal consumption expenditures, reached the Fed's 2.0% annual target in February. For the 12 months ended in February 2017, personal consumption expenditures expanded at a rate of 2.1%. Core PCE (excluding energy and food) increased 1.8%. For February, PCE climbed 0.1%, while core PCE rose 0.2%, following a 0.3% monthly increase in January. Personal income (pre-tax earnings) rose 0.4% for the month, and disposable personal income (income less taxes) enjoyed a 0.3% increase over January. For the 2016 calendar year, personal income increased 3.6% from the 2015 annual level, compared with an increase of 4.4% in 2015. Disposable personal income increased 3.9% in 2016, compared with an increase of 3.8% in 2015. In 2016, PCE increased 3.9% compared with an increase of 3.5% in 2015.
- The prices companies receive for goods and services trended higher in February as the Producer Price Index climbed 0.3% for the month. Year-over-year, producer prices have increased 2.2%. Energy prices have played a large part in the upward movement of the PPI, climbing 0.6% in February. The PPI less food and energy has risen 1.5% for the year, after climbing 0.3% in February.
- Consumer prices also increased marginally in February, climbing 0.1%. However, consumer prices are up 2.7% for the year, a mark that is not only well above the Fed's 2.0% target for inflation, but stands as the highest rate of growth in almost five years. Even the core rate, which excludes energy, is holding steady at 2.2% since February 2016.
- **Housing:** The housing sector proved to be a mixed bag in February as the sales pace of existing homes slowed while new home sales increased. Higher home prices and a lack of available homes for sale are the main reasons for the drop in the sales of existing homes, which fell 3.7% to a seasonally adjusted annual rate of 5.48 million, down from January's revised annual rate of 5.69 million, according to the National Association of Realtors®. However, February's sales pace is still 5.4% above a year ago. The median sales price for existing homes was \$228,400 — up 7.7% from January. Total housing inventory at the end of February increased 4.2% to 1.75 million existing homes available for sale, but is 6.4% lower than a year ago (1.87 million) and has declined year-over-year for 21 straight months. Conversely, the Census Bureau's latest report reveals a spike in new home sales. Sales of new single-family homes increased 6.1% in February

to an annual rate of 592,000 — up from January's rate of 558,000. The median sales price of new houses sold in February was \$296,200, while the average sales price was \$390,400. The seasonally adjusted estimate of new houses for sale at the end of February was 266,000. This represents a supply of 5.4 months at the current sales rate, which is up from 262,000 homes available (supply of 5.4 months) in January.

- **Manufacturing:** One of the reasons the Fed raised interest rates in March is the increase in manufacturing production. The Federal Reserve's monthly index of industrial production (which includes factories, mines, and utilities) remained at the same level in February as the prior month, held down by another weak month for utilities. Unseasonably warm weather prompted utility production to fall 5.7% in February following a 5.8% drop in January. However, manufacturing production increased 0.5% month-over-month, which is the largest increase in monthly volumes since July 2015. At 104.7% of its 2012 average, total industrial production in February was 0.3% above its level of a year earlier. Capacity utilization for the industrial sector declined 0.1 percentage point in February to 75.4%. As for durable goods, the latest report from the Census Bureau shows new orders increased 1.7% in February from the prior month. Excluding the volatile transportation segment, new durable goods orders gained a lackluster 0.4%. Orders for core capital goods (excluding defense and transportation) dropped 0.1% for the month, but are up 2.7% over February 2016.
- **Imports and exports:** The advance report on international trade in goods revealed that the trade gap narrowed by 5.9% in February. The overall trade deficit was \$64.8 billion in February, down \$4.1 billion from January. Exports declined 0.1% to \$126.8 billion, \$0.1 billion less than January exports. Imports fell 2.1% to \$191.6 billion, \$4.2 billion less than January imports. The prices for U.S. imports of goods advanced 0.2% in February, led by higher nonfuel import prices, which more than offset lower fuel prices. U.S. export prices rose 0.3% in February, after advancing 0.2% in January. Export prices haven't recorded a monthly decline since the index fell 0.8% in August 2016.
- **International markets:** A relatively positive stream of eurozone economic data helped international stocks post gains for February. Both manufacturing and service sectors accelerated during the month, while eurozone job creation reached a 10-year high. In Great Britain, Prime Minister May continued to push forward with Brexit amid pushback from Parliament and protestors. Nevertheless, the UK delivered written notice to the president of the European Union, formally beginning the process of leaving the EU. This action now opens a two-year window for Britain to negotiate the terms of its exit. One of the potentially contentious issues that will be addressed is whether, and how much, Britain will pay to leave the bloc. In Japan, retail sales increased 1.0% for the month, although the fourth-quarter GDP growth slowed from the previous quarter.
- **Consumer sentiment:** The Conference Board Consumer Confidence Index® for February rose 3.2 points to 114.8. Consumers expressed confidence in the job market, which increased expectations for the economy in general. The Surveys of Consumers of the University of Michigan Index of Consumer Sentiment dipped from a 10-year high of 98.5 in January to 96.3 in February. Nevertheless, consumers continued to express optimism about current economic conditions, as the Current Conditions Index has been trending upward since December 2016.

Eye on the Month Ahead

The first quarter of 2017 proved to be a banner three months for equities. The FOMC next meets during the first week of May, when it will consider another interest rate hike. If employment remains strong and consumer prices trend higher, the Fed may raise the

target range rate to 1.25% following their next meeting, with at least one more rate increase likely before the end of the year.

Data sources: Economic: Based on data from U.S. Bureau of Labor Statistics (unemployment, inflation); U.S. Department of Commerce (GDP, corporate profits, retail sales, housing); S&P/Case-Shiller 20-City Composite Index (home prices); Institute for Supply Management (manufacturing/services). Performance: Based on data reported in WSJ Market Data Center (indexes); U.S. Treasury (Treasury yields); U.S. Energy Information Administration/Bloomberg.com Market Data (oil spot price, WTI Cushing, OK); www.goldprice.org (spot gold/silver); Oanda/FX Street (currency exchange rates). News items are based on reports from multiple commonly available international news sources (i.e. wire services) and are independently verified when necessary with secondary sources such as government agencies, corporate press releases, or trade organizations. All information is based on sources deemed reliable, but no warranty or guarantee is made as to its accuracy or completeness. Neither the information nor any opinion expressed herein constitutes a solicitation for the purchase or sale of any securities, and should not be relied on as financial advice. Past performance is no guarantee of future results. All investing involves risk, including the potential loss of principal, and there can be no guarantee that any investing strategy will be successful.

The Dow Jones Industrial Average (DJIA) is a price-weighted index composed of 30 widely traded blue-chip U.S. common stocks. The S&P 500 is a market-cap weighted index composed of the common stocks of 500 leading companies in leading industries of the U.S. economy. The NASDAQ Composite Index is a market-value weighted index of all common stocks listed on the NASDAQ stock exchange. The Russell 2000 is a market-cap weighted index composed of 2,000 U.S. small-cap common stocks. The Global Dow is an equally weighted index of 150 widely traded blue-chip common stocks worldwide. The U.S. Dollar Index is a geometrically weighted index of the value of the U.S. dollar relative to six foreign currencies. Market indices listed are unmanaged and are not available for direct investment.

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