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Q3, 2017 was yet another strong quarter for investments and all our 5 asset classes were up. Commodities were the strongest performers followed by Non-US equities.

Continued strong performance raises questions: Will there be a correction? (Quite likely), Will it be a temporary correction? (Quite likely). Are we predicting any of this? NO! Trying to reliably forecast the Market is notoriously difficult. (Indeed reliably forecasting most social events is difficult - witness the recent Presidential Election).

Instead, our view is that risk and uncertainty cannot be reliably forecast, let alone removed. So we find it more useful to accept them and focus on evidence-based investment strategies to construct robust portfolios.

Our plan is to continue to monitor and evaluate Fundamentals and make proactive portfolio changes if they get egregiously out of balance. But we also remain vigilant to a possible market downturn and, at that time, we will opportunistically deploy our sell discipline.

Our investment philosophy is steadfast: diversify portfolios across the five main asset classes using evidence-based approaches. We believe this is both sensible and prudent; an approach 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.



QUARTERLY MARKET REVIEW: JULY-SEPTEMBER 2017

The Markets (as of market close September 29, 2017)

Trading during the summer months is customarily slow, and the summer of 2017 proved no different. July kicked off the third quarter with equity markets enjoying noteworthy gains over their June closing values. Both the Dow (2.54%) and S&P 500 (1.93%) posted significant gains, as did the Global Dow (3.13%). The Nasdaq posted a very favorable 3.38% monthly increase. The yield on long-term bonds changed very little from June as investors seemed to focus on surging equities. Crude oil prices reached \$50 per barrel by the end of July after closing June at \$46 per barrel. The national average retail regular gasoline price was \$2.269 per gallon on July 31, down from the June 26 selling price of \$2.288.

Equities held their own in August, despite hurricanes that devastated several

Key Dates/Data Releases

**10/2: PMI
Manufacturing Index, ISM
Manufacturing Index**

**10/5:
International**

trade

10/6: Employment situation

southern states and Puerto Rico, causing extraordinary economic loss. Conflicts both at home and abroad certainly influenced investor sentiment. Clashes between protestors in Charlottesville, Virginia, and escalating tensions between the United States and North Korea dominated the news. Nevertheless, a late-month rally in August pushed equities ahead of their July values. The Russell 2000 decreased from its July closing value as energy stocks plunged. The Dow and S&P 500 posted marginal gains, while the Nasdaq led the month ticking up 1.27%. Long-term bond prices rose, with the yield on 10-year Treasuries falling to 2.12%, or 17 basis points below July's end-of-month yield.

10/11: JOLTS

10/12: Producer Price Index, Treasury budget

Investors regained some of their confidence in September, pushing stocks ahead of their August closing values. Each of the indexes listed here posted notable gains, led by the small-cap Russell 2000, which surged 6.09%, followed by the Global Dow, the Dow, and the S&P 500, each of which closed the month up about 2.0%. The tech-heavy Nasdaq gained a modest 1.05%, yet that index still leads the way for the year, up almost 21.0% over its final 2016 value.

10/13: Consumer Price Index, retail sales

10/17: Import and export prices, industrial production

Ultimately, investors saw the benchmark indexes make impressive gains by the end of the third quarter. The Nasdaq and the Russell 2000 posted gains in excess of 5.0%, followed closely by the Global Dow and the Dow. The S&P 500 trailed the other indexes listed here, yet still managed to increase by almost 4.0% over its second-quarter close. Crude oil jumped from \$46.33 per barrel on the last day of June to \$51.64 on the last business day of September. Gold, which had been climbing, fell at the end of the quarter, closing at \$1,282.50 — still ahead of its June closing price of \$1,241.10. Regular gasoline, which was \$2.288 per gallon on June 26, soared to \$2.508 on the 25th of September.

10/18: Housing starts

10/20: Existing home sales

10/25: New home sales, durable goods orders

10/26: International trade in goods

10/27: GDP

10/30: Personal income and outlays

Market/Index	2016 Close	As of September 29	Month Change	Quarter Change	YTD Change
DJIA	19762.60	22405.09	2.08%	4.94%	13.37%
NASDAQ	5383.12	6495.96	1.05%	5.79%	20.67%
S&P 500	2238.83	2519.36	1.93%	3.96%	12.53%
Russell 2000	1357.13	1490.86	6.09%	5.33%	9.85%
Global Dow	2528.21	2907.67	2.13%	4.99%	15.01%
Fed. Funds	0.50%-0.75%	1.00%-1.25%	0 bps	0 bps	50 bps
10-year Treasuries	2.44%	2.33%	21 bps	3 bps	-11 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:** August saw 156,000 new jobs added, which is a little below the monthly average of 176,000 per month for 2017. The unemployment rate increased slightly to 4.4%, and has been either 4.3% or 4.4% since April. There were about 7.1 million unemployed persons in August. According to the Bureau of Labor Statistics, Hurricane Harvey had no discernable effect on the employment and unemployment data for August. Notable job gains occurred in manufacturing, construction, professional and technical services, health care, and mining. The labor participation rate was unchanged at 62.9%. The average workweek for all employees declined 0.1 hour to 34.4 hours in August. Average hourly earnings rose by \$0.03 to \$26.39. Over the 12 months ended in August,

average hourly earnings have risen \$0.65, or 2.5%.

- **FOMC/interest rates:** The Federal Open Market Committee met in September following its last meeting in July. Noting moderate economic activity, stagnant inflation, and the temporary effects of two damaging hurricanes, the FOMC left the target federal funds rate range at 1.00%-1.25%. Nevertheless, the Committee indicated that it will remain on schedule to raise interest rates at least once more this year.
- **GDP/budget:** The gross domestic product expanded over the second quarter at an annual rate of 3.1%, according to the final estimate from the Bureau of Economic Analysis. The first-quarter GDP grew at an annualized rate of 1.2%. Gross domestic income, which estimates all income earned while producing goods and services, increased 2.9% in the second quarter compared to an increase of 2.7% in the first quarter. As to the government's budget, the federal deficit for August was \$107.7 billion, \$64.8 billion higher than the July deficit. Through 11 months of the fiscal year, the deficit sits at \$673.7 billion, which is about 8.8% above the deficit over the same period last year.
- **Inflation/consumer spending:** Upward price inflation continues to be weak. The personal consumption expenditures (PCE) price index (a measure of what consumers pay for goods and services) ticked up only 0.2% in August following a 0.1% bump in July. The core PCE (excluding energy and food) price index inched ahead 0.1% for the month. Personal (pre-tax) income increased 0.2% and disposable personal (after-tax) income gained 0.1% from the prior month. Personal consumption expenditures (the value of the goods and services purchased by consumers) also rose only 0.1%.
- Consumer prices rose 0.4% in August, after recording a 0.1% gain in July. For the 12 months ended in August, consumer prices are up 1.9%, a mark that remains slightly below the Fed's 2.0% target for inflation. Core prices, which exclude food and energy, edged up 0.2% in August, and are up 1.7% since August 2016.
- Prices companies receive for goods and services advanced 0.2% in August from July, according to the Producer Price Index. Year-over-year, producer prices have increased 2.4%. Prices less food and energy increased 0.1% for the month and are up 2.0% over the past 12 months.
- **Housing:** Scant inventory and rising prices slowed sales of new and existing homes in August. Total existing-home sales slipped 1.7% for the month following a 1.3% drop in July. Over the last 12 months, sales of existing homes are up only 0.2%. The August median price for existing homes was \$253,500, 1.9% lower than July's median price of \$258,300 but up 5.6% from the price last August. Inventory for existing homes declined 2.1% for the month and is now 6.5% lower than a year ago. The Census Bureau's latest report reveals sales of new single-family homes fell 3.4% in August to an annual rate of 560,000 — down from July's upwardly revised rate of 580,000. The median sales price of new houses sold in August was \$300,200, 6.6% below the median price in July. The average sales price was \$368,100 (\$371,200 in July). The number of houses for sale increased at the end of August to 284,000 (274,000 in July), which represents a supply of 6.1 months at the current sales rate.
- **Manufacturing:** Industrial production declined 0.9% in August following six consecutive monthly gains. Hurricane Harvey is estimated to have reduced the rate of change in the total output by roughly 0.75 percentage point. Also impacted by Harvey, manufacturing output edged down 0.3% after increasing 0.1% in July. The manufacturing industries with the largest estimated storm-related effects were petroleum refining, organic chemicals, plastics materials, and resins. Mining output fell 0.8% in August after increasing 0.5% in July. The index for utilities

dropped 5.5% as mild temperatures, particularly on the East coast, reduced the demand for air conditioning. New orders for manufactured durable goods increased 1.7% in August. This increase follows a sharp 6.8% drop in new orders in July. However, excluding the transportation segment, new durable goods orders increased 0.5%. Shipments of manufactured goods increased 0.3%, while unfilled orders remained virtually unchanged in August from July.

- **Imports and exports:** The advance report on international trade in goods revealed that the trade gap narrowed 1.4% in August over July. The goods trade deficit was \$62,943 billion in August, compared to the \$63,858 billion goods deficit from the prior month. Exports of goods were \$128,870 billion in August (\$128,601 billion in July) while August imports were \$191,813 billion (\$192,459 billion in July).
- **International markets:** Inflation may be rising in Europe as eurozone wages increased at the fastest rate in over two years. Despite Brexit, the eurozone economy has grown stronger than expected, which could reduce the need for continued government stimulus. On the other hand, the Bank of Japan has kept its monetary policy intact with the short-term interest rate remaining at -0.1%. China's GDP grew 1.7% in the second quarter and is up 6.9% from a year earlier. For the year, benchmark stock indexes remain ahead in most foreign countries. The Nikkei 225 is up 6.2%, China's Shanghai Composite is ahead of last year by 8.0%, and the UK's FTSE 100 is up 2.3% on the year.
- **Consumer sentiment:** The Conference Board Consumer Confidence Index® for September declined to 119.8 from July's revised 120.4. Not surprisingly, consumer confidence in the economy decreased considerably in Texas and Florida following the devastation caused by hurricanes Harvey and Irma. Consumers expressed growing confidence in current economic conditions, but were reticent about future economic prospects.

Eye on the Month Ahead

The summer saw the economy slow a bit, as inflation remained relatively stagnant, wages advanced only slightly, rhetoric between North Korea and the United States became testy, and Mother Nature blasted the southern states with two very powerful hurricanes. Through it all, the stock market continued to enjoy monthly gains, with several of the benchmark indexes reaching all-time highs. The start of the year's last quarter may see the economy pick up as some economic indicators are projecting. While the Federal Open Market Committee didn't raise interest rates in September, it most likely will do so at least once during the fourth quarter. Employment is expected to remain steady as it has averaged roughly 176,000 new jobs per month.

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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