Lassus Wherley ...a View from the Top
Building Better Futures

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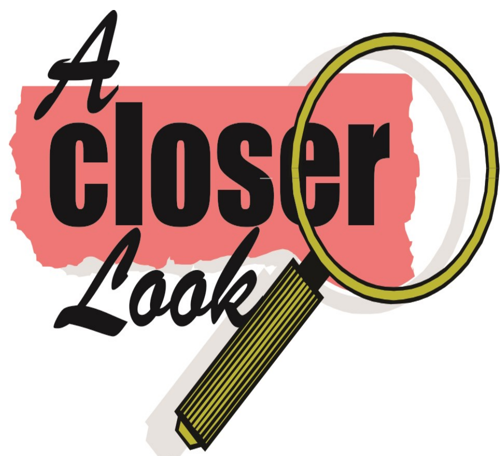
It Isn't Going To Be Dull!

Here are our thoughts on the last few weeks of financial markets, economics, politics and some client questions that add much food for thought.

Chaos is pretty much how it has felt since President Trump (our 45th President) took office. Every day has become an adventure in terms of trying to figure out what happens next. Whether you support the current president or are wishing you had a time machine to fast forward through the next 4 years, it has been and will continue to be a time filled with major challenges and quite a bit of uncertainty.

I have a tendency to keep a ledger of positives and negatives at any point in time both in reference to the financial markets and in reference to the world in general. Right now positives outnumber the negatives in terms of the economy and the financial markets, but there are some dark clouds out there that could cause some significant volatility over the next year. Many of these dark clouds are driven in large part by the uncertainty of actions on a day-to-day basis from the current administration. The issues surrounding immigration and the Executive Order (EO) that effectively banned immigration from specific countries that are majority Muslim will continue. It will ultimately be settled in the courts, but in the meantime, it will continue to create challenges for many individuals and their families.

The activism that has been triggered by the actions of the new administration is significant and seems to be taking on a life of its own. For those who disagree with the direction the Trump administration is taking our country,



there is cause for cheering. There are reasons to groan for those who agree with the direction. Either way we are going to continue to have major battles between the two different views, and I doubt that there will be much in the way of compromise between the Republicans and the Democrats.

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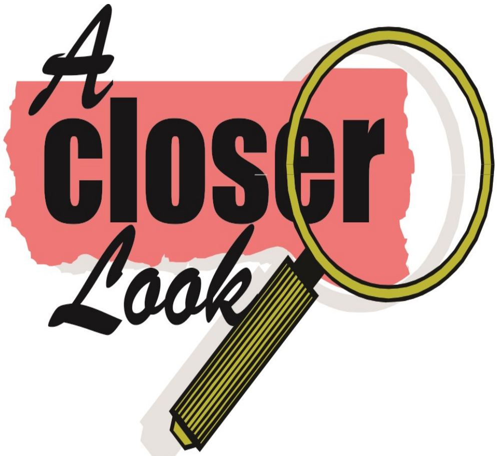

We know there will be much more to come in the days ahead. The markets are looking forward to meaningful tax reform legislation and reduction of regulation to help small businesses. At the same time, there are major concerns about proposed changes to Social Security, Medicare and Medicaid, and information about this has been very slow coming out of Washington. The proposal that is causing the most heartburn is the proposal to repeal and replace the ACA or Obamacare. This is probably the most feared for many, given the drive to repeal without having a plan for replacement.

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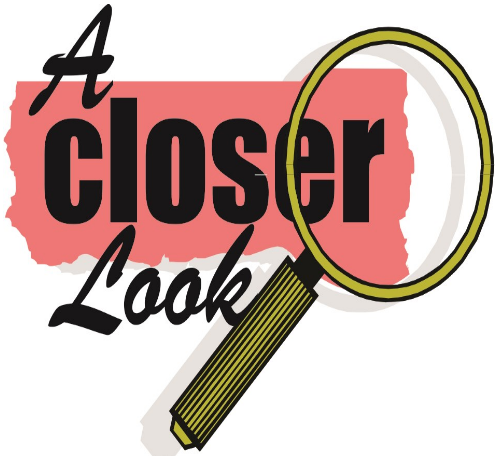
We will continue to monitor the activity, including legislation that is introduced to determine the potential impact. We will keep you posted with our thoughts, but please feel free to let us know yours and to contact us with any questions you might have.

The Markets Keep Going

US equity markets closed out 2016 with strong returns and continued that momentum into January. US Large Cap stocks, as measured by the S&P 500, were up 1.98% in December followed by a 1.90% return in January. US Small Cap stocks, as measured by the Russell 2000, also posted positive returns in both months with a 2.80% return in December followed by a 0.39% return in January. Overseas equity markets also fared well, having bounced back from negative returns in October and November. Developed International stocks, as measured by the MSCI EAFE, returned 3.42% in December followed by a 2.90% return in January. Emerging Market stocks, as measured by the MSCI EM, also posted positive returns in both months, with a 0.22% return in December and started the year off strong with a 5.7% return in January.

US Bond markets managed small positive returns after several months of negative returns, with the Bloomberg Barclays US Aggregate Bond Index posting returns of 0.14% and 0.20% in December and January, respectively. Municipal bonds outpaced returns on taxable bonds, with the Bloomberg Barclays Municipal Bond Index returning 1.17% in December and 0.66% in January. Our Emerging Market bond fund closed out a very strong year in 2016 with a return of 2.14% in December and continued that momentum into this year with a 1.45% return in January. Our global real estate fund also closed out the year on a positive note, returning 3.93% in December and starting the year with a 0.29% return in January. The ongoing volatility in financial markets and varied returns amongst equity



and bond markets both domestically and overseas continue to encourage investing in a well-diversified portfolio of global investments for the long term.

Despite the abundance of headlines we have to wade through relative to the political arena as well as uncertainties that remain around policy on several fronts, it is important to keep in mind that the fundamentals of the US economy look to be healthy and the economy is continuing to grow. The economy is continuing its slow-growth trajectory, with GDP growth for the 3rd quarter of 2016 coming in at 3.5%, followed by GDP growth of 1.9% in initial estimates for the 4th quarter. Increases in consumer spending, residential investment, and business investment all contributed to GDP growth in the 4th quarter. Net exports served to hold down growth somewhat, as recent strength in the dollar has made US exports less attractive. We continue to see an overall positive trend in the housing market, although very recent reports have been mixed. In addition, jobs reports remain consistent with strength in the labor market. Recent reports are also showing some traction in the manufacturing sector. Finally, consensus estimates for US corporate earnings, one of the most significant drivers of stock prices, look to be strong for 2017. Some relief from the drag on earnings due to weakness in the energy sector in 2016, in addition to potential tax cuts, are contributing to these positive estimates.

With that said, we do expect volatility to be a dominant theme for financial markets in 2017. As we continue to wade through the implications of executive orders that have been put into place and a high degree of uncertainty around policy, we also note that the market has seemed to price in the perceived positives around tax cuts for individuals and corporations, infrastructure spending, and reduced regulation. However, the market does not seem to have meaningfully accounted for the potential negative impacts surrounding immigration and trade policy. We recently saw some negative reaction in equity markets due to the immigration ban that was put into place. However, this reaction was short-lived.

For those of you who pay attention to headlines that read, "Dow 20,000," or "Markets at All-Time Highs," it is important to remember to put these types of headlines into context. We view the Dow hitting 20,000 as having much more significance psychologically than it does from an investment perspective. It is also important to remember that the DJIA (Dow Jones Industrial Average) consists of just

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30 companies, with a significant weighting in financial stocks such as Goldman Sachs and JP Morgan Chase, which fared quite well post-election and helped to push the Dow up significantly relative to the S&P 500, which is a much broader representation of the US stock market. Given this, when we see downdrafts in the financial markets, it is reasonable to expect the Dow Jones to sell off more quickly than what is a better representation of the US equity market in the S&P 500. Furthermore, it is preferable to focus on where equity markets stand on a relative basis vs. long-term historical averages, rather than the absolute level of markets at any given time. Finally, it is important to remember that you are invested in a globally diversified portfolio and that the picture for overseas equity markets relative to their long-term averages is different from that of US markets.

There is always the potential for the markets to take a step back from current levels, and we stand ready to take advantage of opportunities to rebalance if that occurs. As always, keep us posted relative to any short-term needs you may have, and feel free to contact us with any questions you may have.

Here are a couple of great questions from clients. Let us know if you have one you would like included.

Question: *We are so focused on what is going on in the US, but should we be concerned about other parts of the world?*

Answer: An excellent question considering how so many issues that were top headlines not that long ago have faded from the news. Issues in Greece are certainly ones that continue to be under the radar. For example, the yield on Greek bonds has increased significantly while discussions have been going on with the International Monetary Fund about the terms of the most recent bailout. There seems to be questions concerning whether or not Greece has lived up to the terms of the agreement.

We have also been monitoring what is happening in France with their presidential election coming up. There are rising concerns that the alt-right candidate Marine Le Pen could win the election. This increases fears around whether France could pull out of the European Union (EU). Many feel this could lead to a weakening in France's economic and financial position.

Numerous countries today are dealing with challenges at either a political or economic level or both. The British are on a path to ultimately exit the EU after a bill was passed through the House of Commons.

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ty in the world today, so we continue to focus on maintaining diversification. If the financial markets in certain geographic areas are suffering, it becomes an opportunity to rebalance and add dollars.

Question: *Since we are expecting some type of tax reform which may lower our taxes, shouldn't we wait to take profits in our portfolio?*

Answer: The simple answer is you never want to let the tax tail wag the investment dog. However, we always have to pay attention to the tax impact of any investment decision. There could very well be some level of tax reform this year, but it doesn't make sense to sit and wait for something to happen. We will continue to rebalance portfolios and take profits with some exceptions. If there are significant gains, we will review the options available and may delay taking profits or possibly take profits over time.

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There may also be instances where there is a specific reason to attempt to keep gains lower, such as doing a Roth conversion in the current year. One other factor to keep in mind is that many times when legislation is signed into law, it is made effective retroactively to the beginning of the year in which it is signed. So even if tax reform is not passed until late in the year, it could have an impact on the full year. We could also see tax reform pushed into next year if the leadership isn't able to come to an agreement on certain issues. It will certainly be a busy year just keeping track of proposed legislation, the status and the potential impact.

Question: *What is your best advice for when things get crazy?*

Answer: The best advice I have received during very crazy times is "breathe." So take a deep breath and focus on those things you can control. If you are worried about legislation, call your Congressman or Senator or local leader. Make sure they know your concerns and ask questions about what is happening. If you can't get through because the line is busy, you can email, send postcards or even do what I call a drive-by visit. When I am in Washington, DC, for meetings and find some free time, I go to the House or Senate buildings and drop by. Usually there is a staffer who can update me on the current action and positions of my Representative or Senator. It sends them the message that I am interested and will continue to follow up with them on issues of concern. If you can't make it to Washington, DC, remember that your Representative and Senators also have local offices.

Social media is another way to

make a statement, but be careful about the time you spend on Facebook, Twitter and Instagram. I prefer Twitter only because you can get a lot of information and headlines that direct you to articles you may have missed. It is really easy to get caught up in the Social Media world, so I try to limit my time to early mornings and late evenings.

Bottom line for most of us feeling very stressed these days is take the time to clear your head, get plenty of exercise, get plenty of rest, spend time with family and friends, and focus on those things you can control.

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Keep in touch and remember that you are a long-term investor regardless of what happens in the financial markets in the short term.

We recognize the uncertainty surrounding us with what is happening in Washington, DC, and know that the world is changing very quickly.

So please let us know if you have questions we can answer for you or concerns we can help you address.

And remember to take that deep breath when the world starts to get to you.

Enjoy the crazy weather and look forward to Spring!

Diahann

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