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Investment Review and Outlook
First Quarter 2017

U.S. stocks continued to perform well this quarter, as economic indicators have been improving and investor confidence has been very strong. International stocks also produced attractive results, reflecting rising corporate earnings and valuations that are cheap compared with the U.S. market. Bonds remained slightly positive during the three-month period even though the Federal Reserve's widely anticipated 0.25% increase in the federal funds rate finally occurred.

For the quarter, U.S. large company stocks rose 6.1% (S&P 500), while small company stocks returned 2.4% (Russell 2000 index) and international markets rose 6.5% (EAFE index). Bonds returned 0.8% (Barclays Aggregate Bond index).

Economic growth in most countries and industries has been improving. While unexpected shocks can occur at any time, the likelihood of an impending U.S. or global economic recession appears low. Without a recession, history suggests that a significant bear market in stocks is unlikely. However, the U.S. stock market is as expensive as it has ever been in the past 50 years, with one exception: the dot-com stock market bubble of the late 1990s. When stock market valuations are high, the odds are that future U.S. stock market returns may be low. Corporate earnings must start growing vigorously to maintain this level of stock valuation or the market may take this premium away through lower stock prices.

On the international side, many investment analysts feel that over the next several years, European and emerging market companies are likely to grow earnings at a faster rate than U.S. companies. This does not suggest that the U.S. market is about to drop and that international and emerging market stocks are going to surge in the short-term, but we do feel that investing in a broadly diversified manner enhances long-term returns while reducing risk (or volatility).

Finally, we would be remiss to not mention the current geopolitical situation. Tensions are growing and any further escalation of saber-rattling rhetoric could be the catalyst for a temporary market correction. Maintaining a long-term investment strategy is not easy. It is helpful to view volatility as the short-term discomfort an investor must weather in order to reap attractive long-term returns.

As always, please call us anytime if you have any questions or if we can assist you in any way.

Best Regards,

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