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Investment Review and Outlook
Third Quarter 2017

The U.S. stock market produced an exceptional return in the recent quarter, supported by strong corporate earnings and low unemployment. International markets also performed very well in the quarter. This is the eighth consecutive quarter of positive results from U.S. stocks. Even more remarkable is that U.S. stocks have produced gains in 18 of the past 19 quarters**.**

For the quarter, U.S. large company stocks rose 4.5% (S&P 500), while small company stocks soared 5.7% (Russell 2000 index) and international markets rose 4.8% (EAFE index). Bonds returned 0.8% (Barclays Aggregate Bond index) during the three-month period.

As we look ahead to the remainder of the year, we have reasons to continue to be optimistic. The synchronized global economic growth recovery will most likely advance, providing a solid foundation for corporate earnings. Offsetting this attractive shorter-term macroeconomic backdrop are some risks, including high U.S. stock valuations, policy changes that have yet to be passed (e.g., tax reform, Obamacare repeal), and future tightening by the Fed.

Despite the U.S. economy's rather healthy economic indicators, we need to keep in mind that a typical 5% to 10%-plus stock market correction can happen at any time, triggered by any number of unpredictable events. Historically, the U.S. market has declined at least 5% roughly three times a year and declined 10% or more about once a year. Yet, the fact is that no one really knows when a decline will take place. Investors must be psychologically prepared for market dips and drops along the way. They are inevitable and may be unsettling, but they are also temporary.

So, as always, our client portfolios are managed with a long-term view. Currently, we are positioning portfolios based on our outlook that stocks should outperform fixed income investments over the next several years. Within the overall stock allocation, small-cap, large-cap value, and real estate are underweighted, while large-cap growth and international exposures are overweighted. On the bond side, exposures are typically allocated to short and intermediate-term holdings.

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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