FINANCIAL CONCEPTS
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President & CEO

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MARKET REVIEW – as of market close June 30, 2017

Dear Client:

A total eclipse of the . . .

We hope you had an enjoyable summer and are looking forward to cooler weather. We are already into August and are soon to be entering into September, a time when traditional bull markets become extremely volatile. We here at Financial Concepts are cautiously optimistic on the Global Equity Markets, as well as the economic data that may well carry these markets further. However, our hope is that the pace at which we march forward is far less frenetic. Central Banks are globally easing credit and being accommodating to their respective markets – all at the same time – for the first time in recent history. Our dollar is weakening, but credit markets are reasonably well behaved. Housing starts here in the US are still progressing at an attractive rate.

The Equity markets have not even seen a 5% drop – the common definition of a “pullback” – since June of 2016. No one can time the next market correction; but with an 8-year bull market, we must understand that we may not be too far away. This current rally in the market, is the second longest since World War II, and likely even more vulnerable to headline risk. It may seem odd to be talking about this now, but it is always important to be prepared and understand where we are in market cycles. One must remember that markets do not always go up.

We’ve often heard (or been heard saying) that “an ounce of prevention is worth a pound of cure”. In order to keep from overestimating your risk tolerance in rising markets, it is with this in mind that we will continue to actively manage your portfolios. As a result, if the opportunity arises to potentially take profits in some positions that have recently appreciated – we’d be content to do so on your behalf.

Snapshot

The Markets

The second quarter proved to be a bit bumpy for equities, but each of the benchmarks listed here closed the quarter ahead of their first-quarter closing values. April saw equities close the month ahead of March, buoyed by favorable corporate earnings reports, proposed tax cuts, and strong foreign economic advances. Nasdaq led the way posting monthly gains of 2.30%, followed by the Global Dow, which gained almost 1.50%. The large-cap Dow advanced 1.34%, ahead of the S&P 500, which increased close to 1.00% for the month. Even the small-cap Russell 2000, which has had some rough weeks, closed April 1.05% ahead of its March close.

May was a slower month as consumer spending and wage growth were relatively weak, with only 138,000 new jobs added in May, compared with an average monthly gain of 181,000 over the prior 12 months. Nevertheless, only the Russell 2000 lost value, falling 2.16% from its April closing mark. Nasdaq continued to surge, ending May with a monthly gain of 2.50%.

June saw mixed results for the indexes listed here. The Nasdaq lost almost 1.00%, while the Russell 2000 made up for its May losses, advancing almost 4.00% over May. The Dow had a strong June, closing the month up 1.62%, while the S&P 500 and the Global Dow failed to advance 0.50% over May. Long-term bond prices increased in the second quarter with the yield on 10-year Treasuries falling 8 basis points. The price of gold fell during the second quarter, closing June at $1,241.40, down from its $1,251.60 closing price at the end of the first quarter.

Market/Index	2016 Close	As of June 30	Month Change	Quarter Change	YTD Change
DJIA	19762.60	21349.63	1.62%	3.32%	8.03%
NASDAQ	5383.12	6140.42	-0.94%	3.87%	14.07%
S&P 500	2238.83	2423.41	0.48%	2.57%	8.24%
Russell 2000	1357.13	1415.36	3.30%	2.12%	4.29%
Global Dow	2528.21	2769.39	0.38%	2.90%	9.54%
Fed. Funds	0.50%-0.75%	1.00%-1.25%	25 bps	25 bps	50 bps
10-year Treasuries	2.44%	2.30%	10 bps	-8 bps	-14 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.

The Economy

• **Employment:** May's employment report showed unexpected weakness in the labor sector with 138,000 new jobs added in the month, on the heels of 174,000 new jobs added in April, revised. April and March were downwardly revised a combined 66,000, which, when coupled with the average gain of 181,000 over the prior 12 months, clearly shows that job growth is slowing. For May, job gains occurred in health care, mining, and professional and business services. The unemployment rate dipped to 4.3% — down from 4.4% in April. There were 6.9 million unemployed persons in May. The labor participation rate inched down 0.2 percentage point to 62.7%. The average workweek was unchanged at 34.4 hours. Average hourly earnings increased by $0.04 to $26.22. Over the last 12 months ended in May, average hourly earnings have risen by $0.63, or 2.5%.

• **FOMC/interest rates:** Following its meeting in June, the Federal Open Market Committee raised the target range for the federal funds rate by 25 basis points to 1.00%-1.25%. This is the second interest rate hike in 2017, with the first coming in March. In support of its decision to raise interest rates, the Committee observed that economic activity has been rising moderately so far in 2017, business spending has continued to expand, and, while job gains have moderated, the unemployment rate has declined. Noting that inflation has slowed in the short term, the Committee expects inflation to stabilize around 2.0% over the medium term.

• **Oil:** The price of crude oil (WTI) closed June at $46.33 per barrel, down from its end of May value of $48.63. The national average retail regular gasoline price was $2.288 per gallon on June 26, 2017, $0.118 lower than the May 29 price but $0.145 more than a year ago.

• **GDP/budget:** Expansion of the U.S. economy slowed over the first three months of 2017. According to the Bureau of Economic Analysis, the first-quarter 2017 gross domestic product grew at an annualized rate of 1.4% compared to the fourth-quarter GDP, which grew at an annualized rate of 2.1%. Growth in the GDP was slowed by downturns in private inventory investment, a deceleration in consumer spending, and a slowing in state and local government spending that were partly offset by an upturn in exports, an acceleration in nonresidential (commercial and business) fixed investment, and a deceleration in imports. As to the government's budget, the federal deficit for May was $88.4 billion. Through the first eight months of the fiscal year, the deficit sits at $432.9 billion, which is more than $27 billion above the deficit over the same period last year.

• **Inflation/consumer spending:** Inflationary growth is slowing. Consumer spending, as measured by personal consumption expenditures, expanded at a rate of 0.1% in May. In contrast, PCE climbed 0.4% in both April and March. Core PCE (excluding energy and food) inched ahead 0.1% for the month. Personal income (pre-tax earnings) rose 0.4% for the month, and disposable personal income (income less taxes) enjoyed a 0.5% increase over April. However, wages and salaries moved very little in May, inching up 0.1%. Year-on-year, both the PCE price index and core prices have increased 1.4%.

The prices companies receive for goods and services were unchanged in May from April, according to the Producer Price Index. Year-over-year, producer prices have increased 2.4%. Energy prices, which fell 3.0% for the month, have played a large part in the lack of movement of the PPI. Prices less food and energy climbed 0.3% in May over April. The PPI less food and energy has risen 2.1% since last May.

Consumer prices fell 0.1% in May following a 0.2% increase in April. For the 12 months ended in May, consumer prices are up 1.9% for the year, a mark that remains below the Fed's 2.0% target for inflation. Even the core rate, which excludes food & energy, climbed 0.1% in May and is up 1.7% year-over-year.

• **Housing:** Sales of new and existing homes, which had slowed during the first quarter of the year, may have picked up the pace in May. Generally, a lack of available homes for sale is driving home prices higher. The median price for existing homes reached its highest recorded level, coming in at $252,800 — 5.8% higher than the price last May. Sales of existing homes climbed 1.1% in May to a seasonally adjusted annual rate of 5.62 million from a downwardly revised 5.56 million in April. May's sales pace is 2.7% above a year ago and is the third highest over the past year. The Census Bureau's latest report reveals sales of new single-family homes increased 2.9% in May to an annual rate of 610,000 — up from April's rate of 593,000. The median sales price of new houses sold in May was $345,800. The average sales price was $406,400. The seasonally adjusted estimate of new houses for sale at the end of May was 268,000. This represents a supply of 5.3 months at the current sales rate, which is essentially unchanged from April.

• **Manufacturing:** One of the reasons the Fed raised interest rates in June was due to expansion in business fixed investment. However, manufacturing did not expand in May according to the Federal Reserve's monthly index of industrial production (which includes factories, mines, and utilities). Manufacturing output declined 0.4% in May following an April increase of 1.1%. Overall, industrial production was unchanged in May, as declines in manufacturing were offset by gains in mining (1.6%) and utilities (0.4%). Total industrial production in May was 2.2% above its year-earlier level. Capacity utilization for the industrial sector edged down 0.1 percentage point in May to 76.6%, a rate that is 3.3 percentage points below its long-run average. As for durable goods, May's report from the Census Bureau shows new orders decreased $2.5 billion, or 1.7%, from the prior month. Excluding the volatile transportation segment, new durable goods orders increased 0.1%. Orders for core capital goods (excluding defense and transportation) dropped 0.2% in May, but are up 5.0% over May 2016.

• **Imports and exports:** The advance report on international trade in goods revealed that the trade gap narrowed by 1.8% in May. The overall trade deficit was $65.9 billion in May, down $1.2 billion from April. Exports increased 0.4% to $127.1 billion, $0.4 billion more than April exports. Imports fell 0.4% to $193.0 billion, $0.8 billion less than April imports. Both import and export prices fell in May. Import prices fell 0.3%, led by a sharp 3.9% fall in petroleum imports. This was the largest monthly drop since import prices fell 0.5% in February 2016. U.S. export prices declined 0.7% in May, after advancing 0.2% the prior two months. The May decrease was the first monthly drop since August 2016 when the export prices fell 0.8%.

• **International markets:** Major elections during the month were held in France (Emmanuel Macron and his party were elected) and the UK (Theresa May was reelected, but her Conservative Party lost parliamentary seats). Brexit negotiations began during the third week of June, although European markets had little reaction. Japan's economic growth slowed in the first quarter on the heels of weaker consumer spending, softening what had been the country's longest run of economic expansion since 2006. China has attempted to expand its financial markets and entice more foreign capital, which may help drive that country's GDP and stock markets.

• **Consumer sentiment:** The Conference Board Consumer Confidence Index® for June rose 1.3 points to 118.9. Consumers expressed confidence in current economic conditions, but were somewhat reticent about their expectations for future economic growth. The Index of Consumer Sentiment from The Surveys of Consumers of the University of Michigan dipped from 97.1 in May to 95.1 in June. Keeping in line with The Conference Board's report, consumers indicated current economic conditions were favorable, but respondents were less certain about future expectations.

In Closing

In closing, please know that while we are enjoying the second longest bull market on record, “trees don’t grow to the sky”. Yet, as your portfolio is not entirely invested in the market (or the Dow, or the S&P), it likely has bonds and alternatives to offset the volatility of equities. We still firmly believe that diversification of a portfolio is necessary to smooth out as much volatility as viable without overly diminishing returns. With this in mind, we will continue to manage your wealth, so that it has the potential to, one day, eclipse what you require to enjoy the fruits of your labor for a long time to come.

Warmest Regards,

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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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