3Q
2017

Quarterly Investment Commentary

Summary of Quarterly Market Performance

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'Good to great' was the theme of the markets through the third quarter of the year. All major asset classes have had solid gains during the year, with some standout performances within both equity and the fixed income markets. While the markets have a nasty habit of changing directions on a dime, it's worth noting that this bull market has surprised many. Is it time for a correction? Only time will tell.

Historically, as with any 'style,' certain types of investments come in and out of favor. This year seems like many of the past several, with the growth 'style' trouncing value-based investors. 2016 seemed to be a pivot point, but the returns for 2017 have once-again demonstrated that growth has yet to give up its style dominance. Large company equity, when compared with mid-cap and small-cap issues, led the rally. The largest contributor was large company growth, with technology-related investments adding considerably to the growth-based lead. Value investors weren't unhappy, with large company value stocks adding almost 5% for the period, slightly behind the 5.6% returns for large company growth investments. Small and mid-cap stocks were starkly different, with returns of 8% and 12% on a year to date basis, respectively. Growth positions in the small and mid-cap areas also demonstrated dominant performance, with value taking a backseat.

International equities have, perhaps, finally found a little of their groove with both developed and emerging markets doing well during the period. Of course, this is due in no small part to the reduction in the value of the US Dollar. As the dollar depreciates, investments overseas made by those living in the United States will have amplified returns. As the dollar appreciates, which has not been the case lately, returns will be muted due to the negative currency impact on returns. Nonetheless, the returns realized within the international marketplace have had much to do with the weakening US currency and the good performance of the underlying international markets - a double positive for investors. With the Trump administration's stance favoring a weaker US Dollar, this comes as no surprise. However it should be noted that increasing interest rates may prove to be a formidable foe, since interest rates and the value of a country's currency tend to move together. For the time, however, a weaker currency is substantially helping the returns of foreign investments by serving as a substantial tailwind.

The interest rate environment has changed little over the course of the past year. The 10-year treasury bond has rallied on a year-to-date basis, with government bonds achieving positive returns during the year. The last quarter for the bond market was positive across the board no matter which asset class investors owned - corporate, government, high-yield, or global fixed income - providing a significant boost to conservative clients' portfolios that maintain substantial bond positions. The best performing asset class during the past quarter was the high-yield bond market, earning slightly more than a 7% return, with laggards in the short-term government bond market. As confidence grows in the US economy, which has been the case this year, corporate bonds have demonstrated better returns in order to compensate investors for assuming risk beyond the government bond market. Money market funds have finally been able to pull themselves off the floor, with yields now in excess of .5%. Inflationary pressures remained incredibly tame during the year, with commodity prices still remaining sluggish during the year. Absent significant inflationary pressures, the Federal Reserve still remains largely on the sidelines without making large and sequential rate increases. However, they have started quantitative tightening by taking actions within the bond market to reduce the supply of bonds on the Federal Reserve's balance sheet.

Positive stock and bond market gains are good to see. However, they come with the risk that a downturn will eventually happen. We applaud the use of diversified portfolios, and strongly suggest that both value and growth-based investments be used across the board. While diversification is no assurance against loss, it does provide additional stability during periods of unrest. We have witnessed an unprecedented period of time absent a significant market correction, defined as a loss of 10% or more. This doesn't mean that we should remain complacent, but rather, investors should continue to deploy prudent investment strategies using rebalancing, and diversified investments over the long-term. *The roses are pretty, and they smell good too. But, be sure to mind the occasional thorn.*

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Return information provided as of September 30, 2017. Data provided by Morningstar Direct, and Morningstar Office.

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