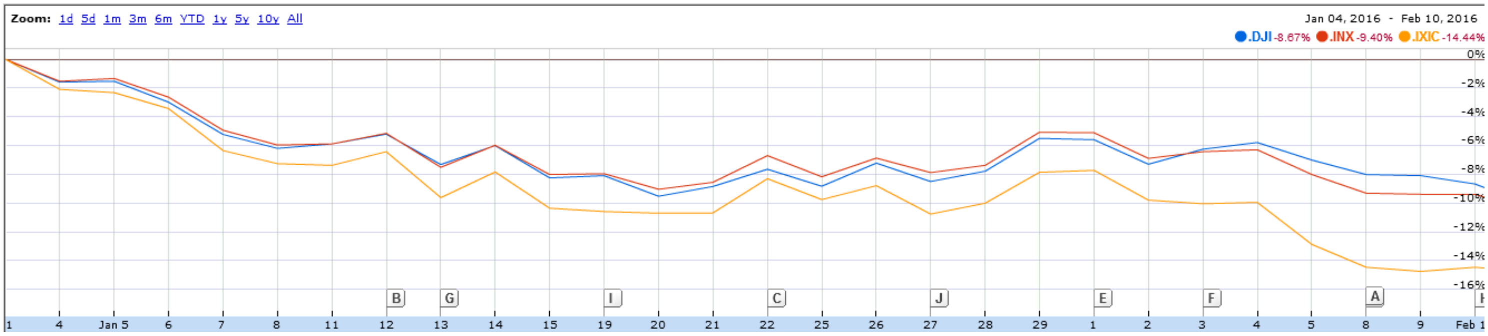
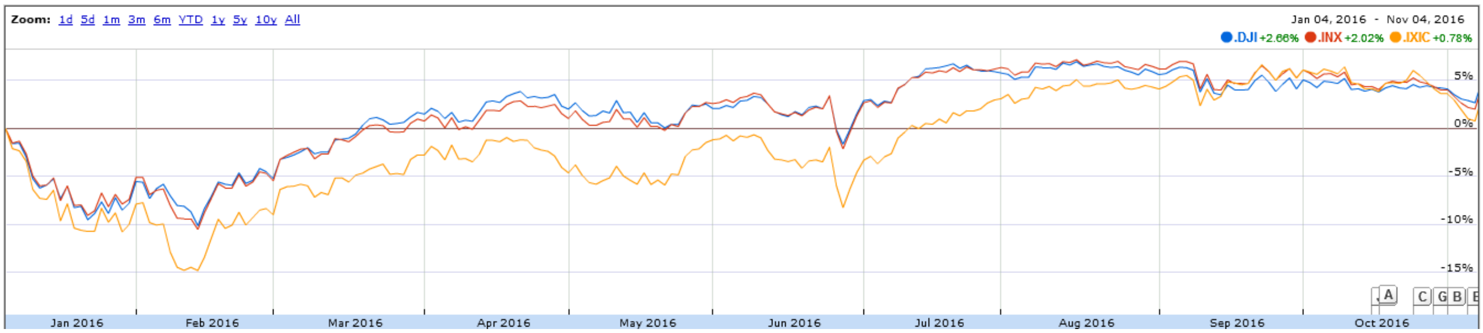
2016: One Year, Two Markets

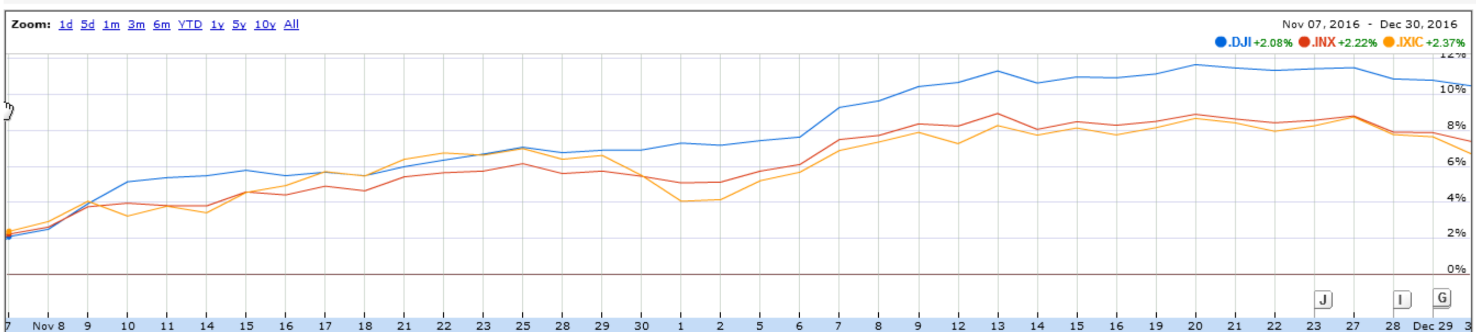
During the first six weeks of the year, the major stock indices fell 10%. Oil was at $29 per barrel and nothing seemed to go right.



However, by the time the presidential election rolled around, the markets recovered, posting a sleepy, but positive 2% gain.

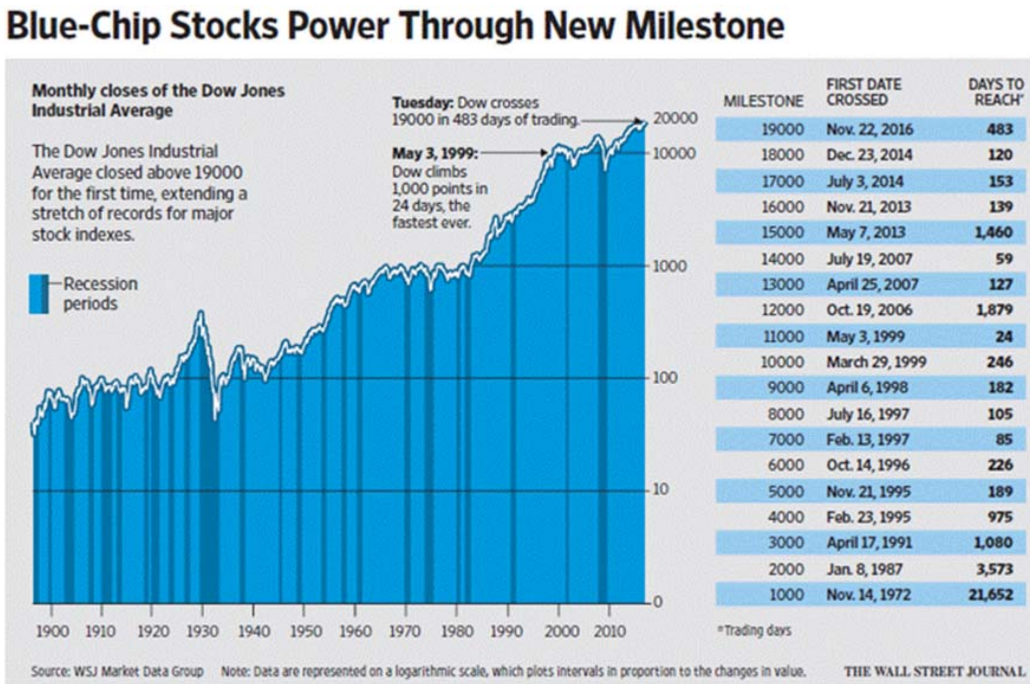


And then the election caught us all off-guard. Instead of a massive sell-off, the U.S. stock markets jumped 8%. So much for professional prognosticators…..



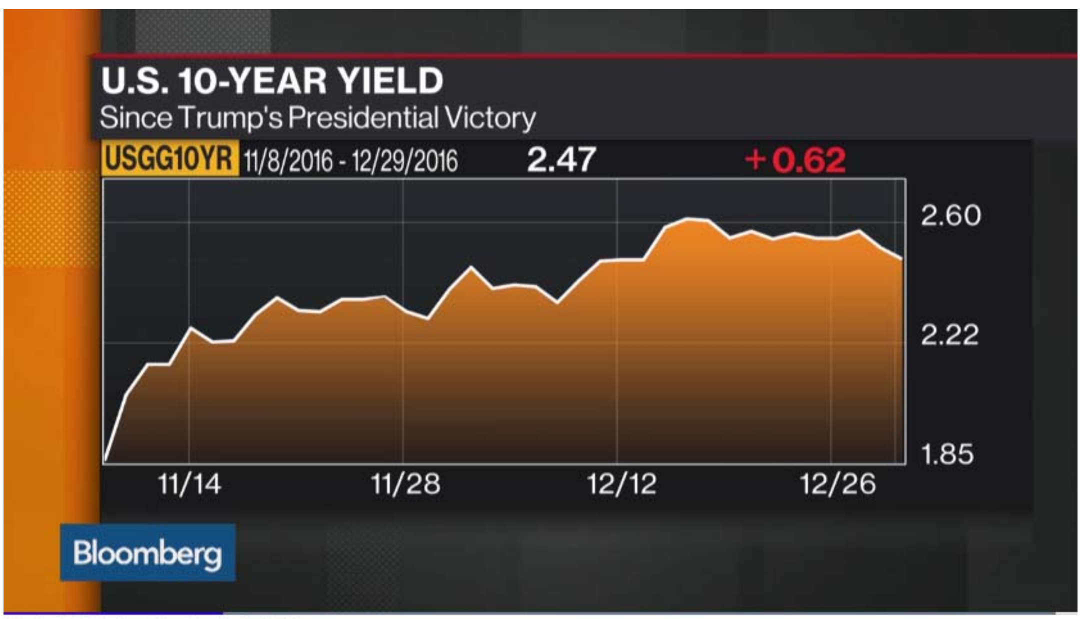
Observations:

1) Markets overreact to short term news.
2) Short term prognostications are rarely right.
3) Just when you think you've got it figured out, things will change quickly.
4) Stock market investing is best done over long periods of time.



MILESTONE	FIRST DATE CROSSED	DAYS TO REACH*
19000	Nov. 22, 2016	483
18000	Dec. 23, 2014	120
17000	July 3, 2014	153
16000	Nov. 21, 2013	139
15000	May 7, 2013	1,460
14000	July 19, 2007	59
13000	April 25, 2007	127
12000	Oct. 19, 2006	1,879
11000	May 3, 1999	24
10000	March 29, 1999	246
9000	April 6, 1998	182
8000	July 16, 1997	105
7000	Feb. 13, 1997	85
6000	Oct. 14, 1996	226
5000	Nov. 21, 1995	189
4000	Feb. 23, 1995	975
3000	April 17, 1991	1,080
2000	Jan. 8, 1987	3,573
1000	Nov. 14, 1972	21,652

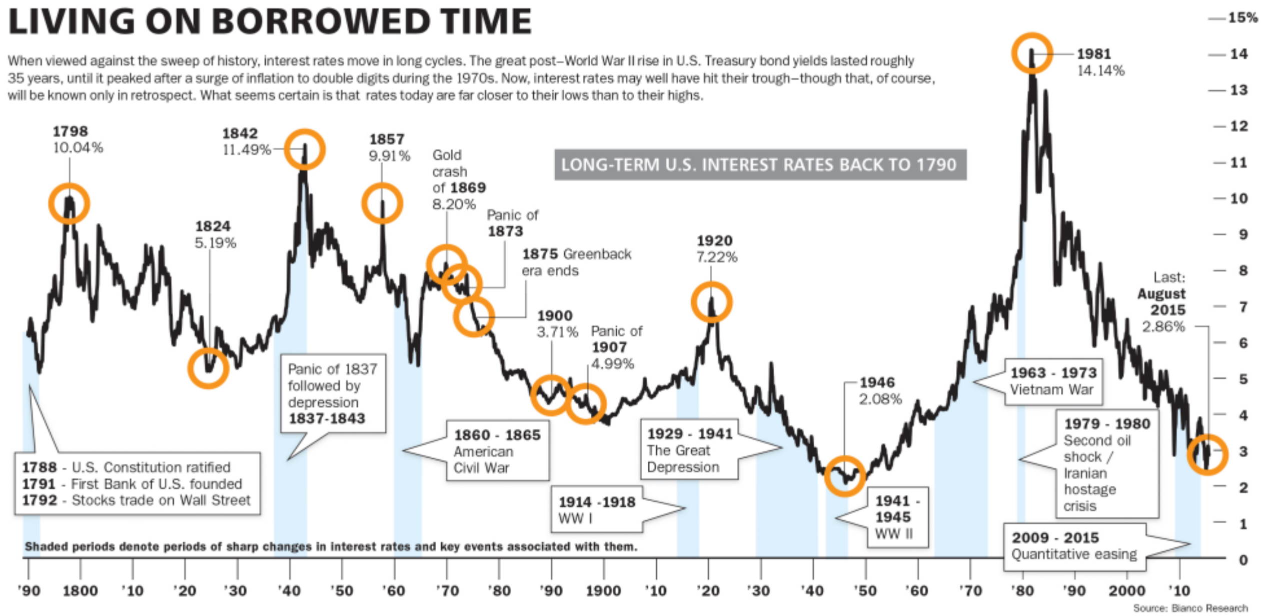
And with the surprising Trump presidency, interest rates strongly rebounded with the 10 Year U.S. Treasury jumping from 1.8% to 2.47%. Although that may not sound like much, it is a 45% move upward in rates.



Market Optimism Heading Into 2017

<u>Observations</u>:

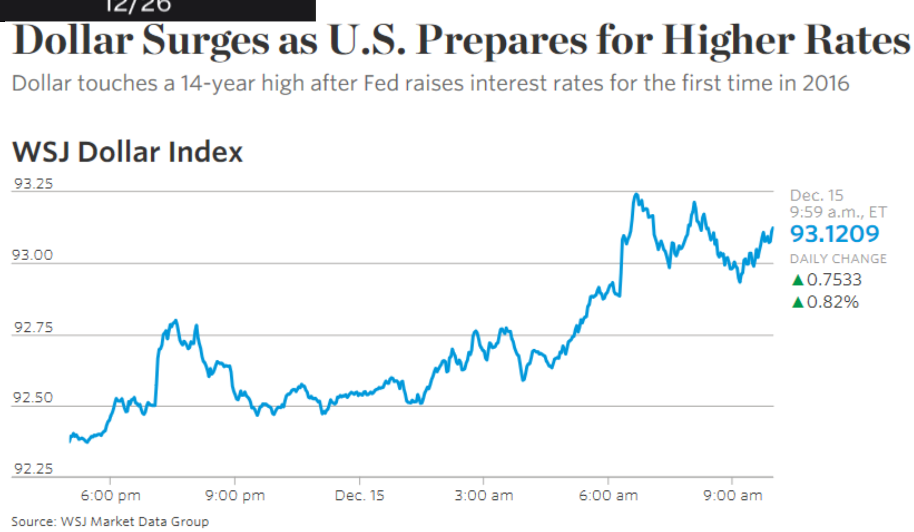
1) Interest rates can go up.
2) The Federal Reserve increased short term rates once in 2016.
3) We anticipate the Fed will increase rates twice in 2017.
4) When interest rates go up, fixed income assets drop in price.
5) Many investors owning junk debt, MLP's, REITS or other "cash flow" sensitive assets found that while stocks rebounded after the election, these assets actually fell in value in reaction to the rise in rates.



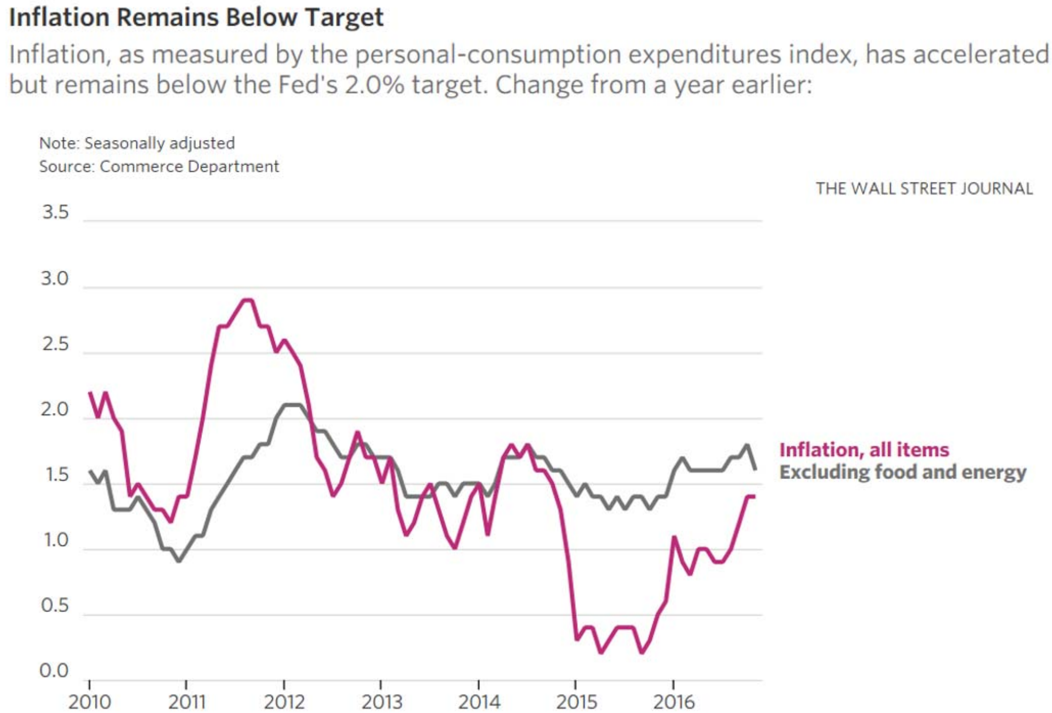
With an increase in interest rates, the strength of the U.S. Dollar soared relative to other currencies. Although this often sounds like a good thing, there are multiple factors impacted by a strong dollar.

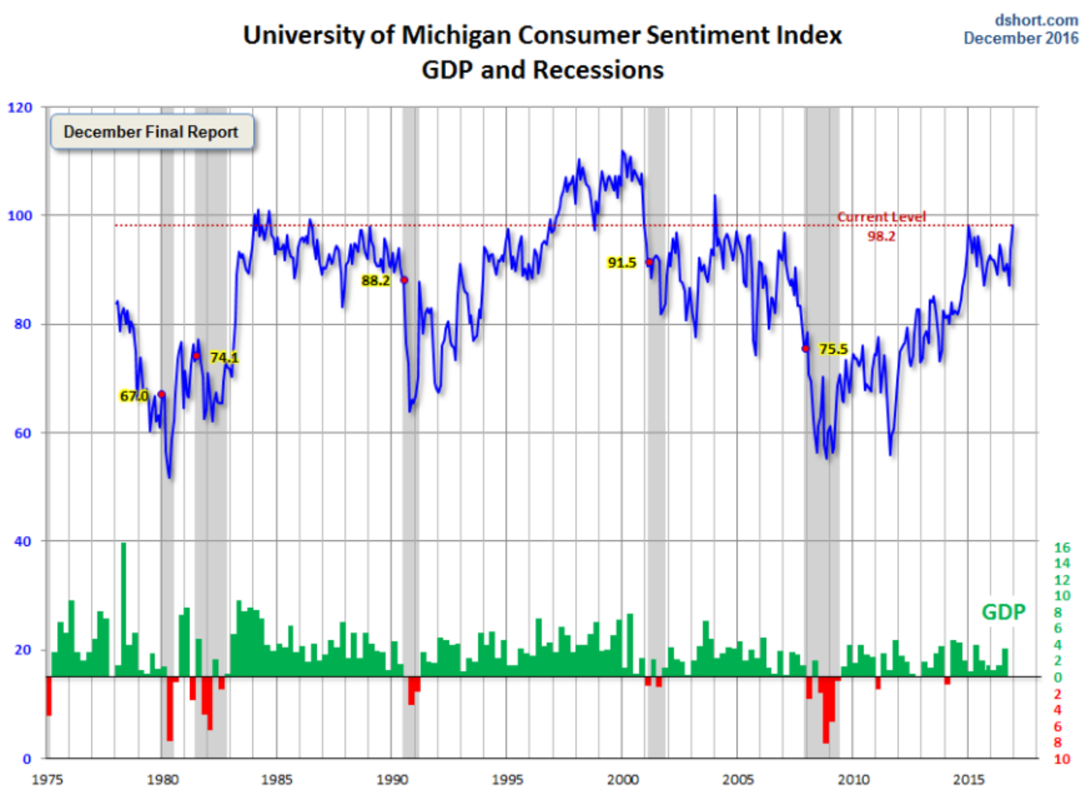
Observations:

1) An increase in interest rates strengthens the U. S. Dollar.
2) A strong dollar means the U.S. can buy more of foreign goods and services.
3) It can be a great time to go on vacation in a foreign land.
4) However, U.S. exports to the rest of the world are more expensive with a strong dollar.
5) A strong dollar increases the cost for foreign companies to invest into plant, property and equipment in the U.S.



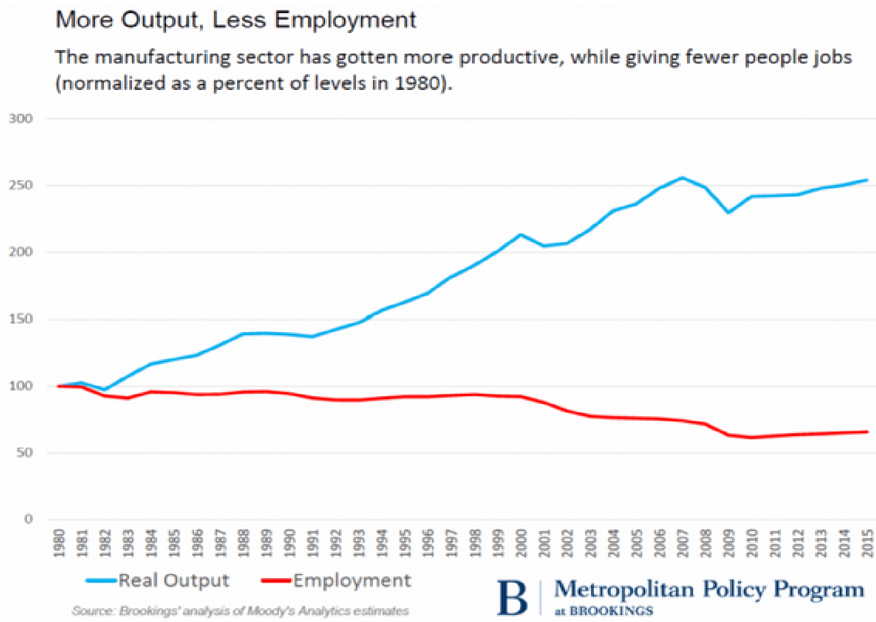
For the time being, inflation remains in check and consumer sentiment remains strong. If consumers are positive, they tend to spend more. Being as 2/3rds of GDP comes from consumer spending, positive consumer sentiment is important for driving our economy.





Despite the positive consumer sentiment, the employment picture and GDP figures are a mixed bag. Many of the jobs that have supposedly been lost to "outsourcing" have actually been lost to automation and robotics. Regardless of what any politicians promised, these jobs are most likely not coming back.

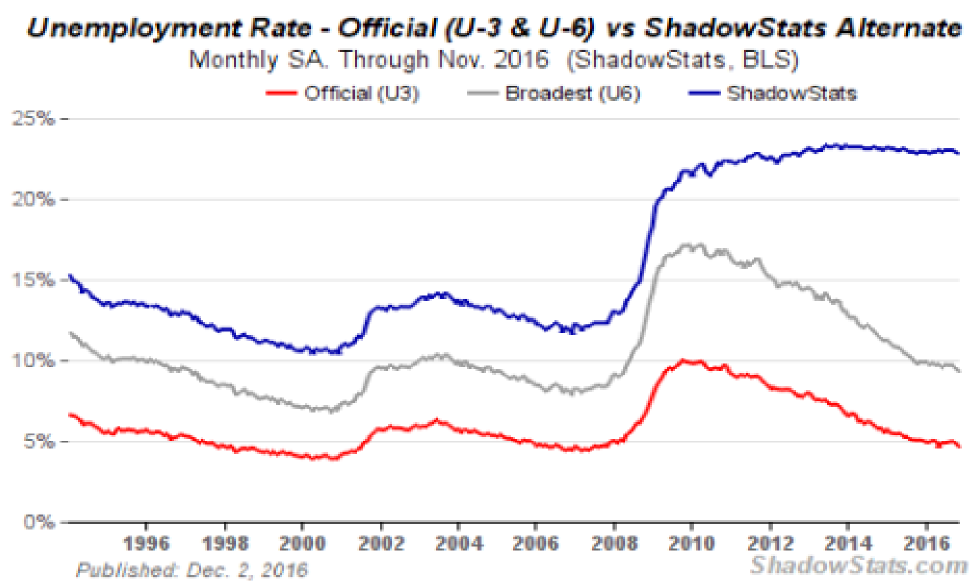
3. While politicians don't like discussing this, it's worth pointing out that increased US manufacturing activity won't necessarily "bring back" those manufacturing jobs (as automation takes off).



Due to the increase in automation, a change in required skills, and a variety of outsourcing impacts, the number of Americans NOT in the work force is now just shy of 95 million. This is also reflected in the Labor Participation Rate of less than 63%.

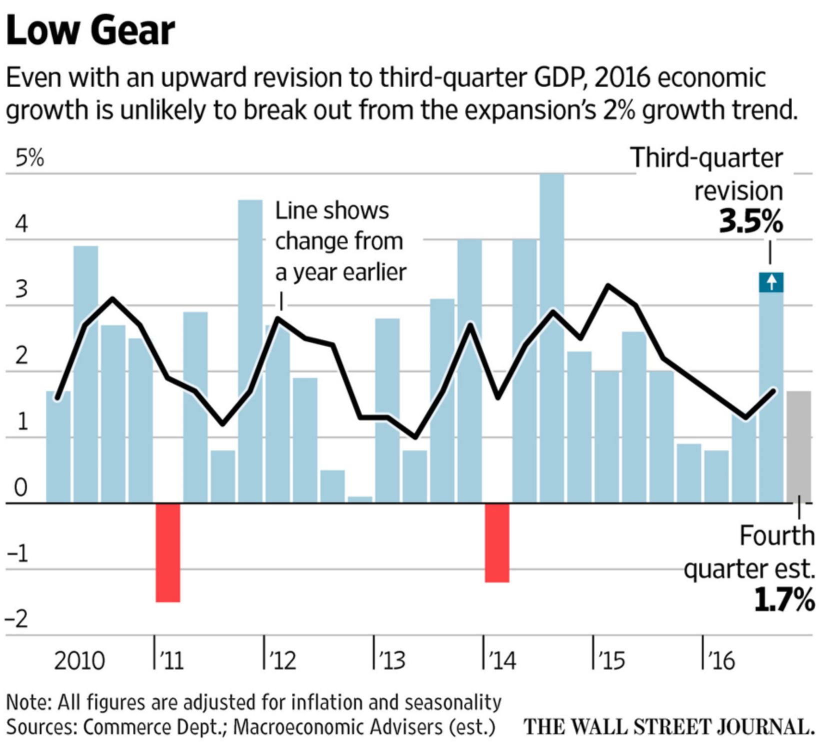
Once those that are either completely out of the work force, or are marginally employed, are factored in, the unemployment/under-employment rate climbs from under 5% to more than 22%.

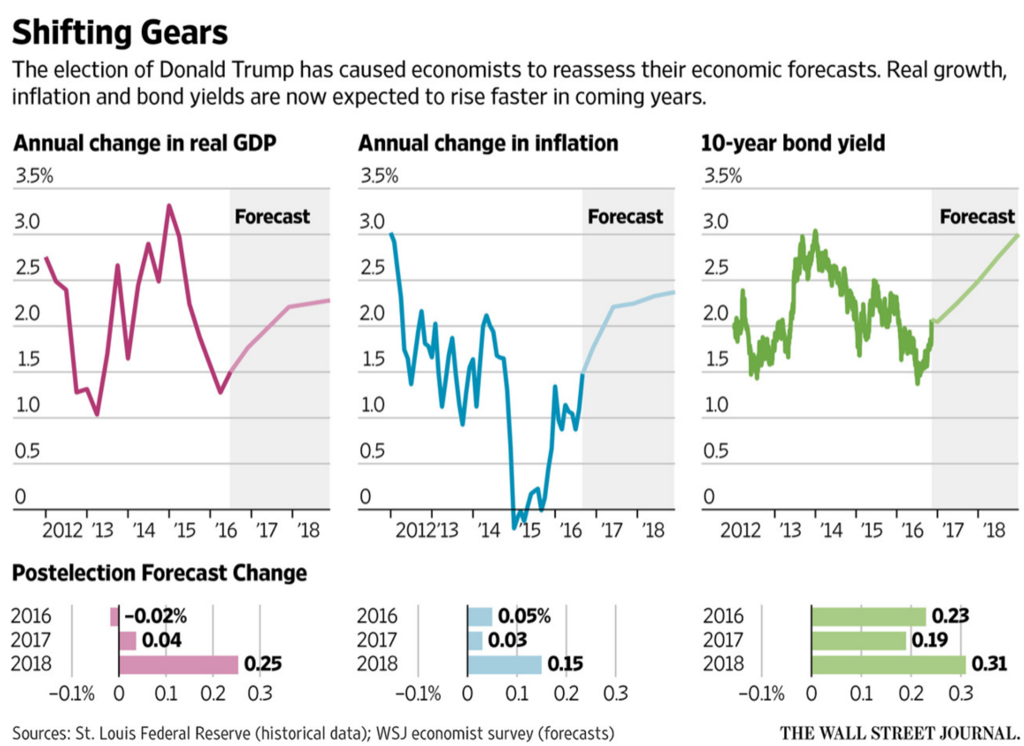
The ShadowStats Alternate Unemployment Rate for November 2016 is 22.8%.



Lastly, the economy seems to be plodding along. Although its trajectory may be a bit slower than many hope for, the economy is none-the-less, growing. The U.S. continues to be in a much better condition than the rest of the world.

Most economists are forecasting 2% increases in GDP, modest inflation and two interest rate hikes during 2017 that should take short term interest rates above 4%.





As we say good-bye to 2016 and welcome in the New Year, we wish you health and prosperity.

Sincerely,

Dave

Dave Sather, President
CERTIFIED FINANCIAL PLANNER™

Warren

Warren Udd, Vice President
CERTIFIED FINANCIAL PLANNER™