2017 Outlook- the catalyst for optimism!

Can it be possible that we have finally broke through a period of market skepticism and we are about to enter the third phase of the market cycle, optimism? Maybe we finally got the catalyst that was needed to invigorate the economy from its slow growth mode and into a period of accelerating growth, generating greater revenues, profits and dividends. While we use a variety of research sources including Goldman Sachs, JP Morgan and others, we have a lot of respect for the research work of LPL Financial and we generally agree with its outlook projections for 2017. We have included their full report *"OUTLOOK 2017, Gauging market milestones".*

Whether this new optimism, some people in the investment world call it "animal spirits", comes from the fundamentals of the economy or the pro-business approach President Trump brings to his office, their does seem to be hopeful optimism at this point. With good fundamentals from the labor market, housing, consumer spending, corporate earnings, and a still accommodative FED we should see an acceleration in GDP growth in 2017. If our President and Congress can agree on corporate tax reforms, tax cuts for the middle-class, less regulation and a repatriation of off-shore tax money, there can certainly be a reinforcement of the building strength in the US economy. Also, as LPL research suggests, a more balanced mix of growth drivers, featuring more business investment and some fiscal spending, can take off some of the strain from the US consumer who has been doing the heavy lifting so far.

There are certainly risks involved with any outlook and a major policy mistake from the FED (raising interest rates too quickly) or from the President/Congress (the inability to deliver on promises) or a global macro "event" that creates a high degree of world-wide tension or war, can certainly de-rail our expanding economy. Sir John Templeton has described a bull market as being born in pessimism, growing in skepticism, maturing in optimism and dying in euphoria. As we look at the equity markets today and consider the likely phase we are in within the economic cycle we believe we are in the optimism phase of the secular bull market that began many years ago.

As we look to position our portfolios for 2017, taking into consideration the risk tolerance of each individual client, we are considering the risk of future inflation or anticipated inflation and looking for opportunities in both the equity markets and the bond markets. In regards to inflation risk we have increased our allocation to "real assets" which encompasses the commodity asset class as well as investments in MLP's (the toll-booths of transporting oil and gas) and even a mutual fund that invests in the water industry. We are also maintaining our allocation to alternatives especially the managed futures category as we seek to help mitigate some of the volatility we expect in 2017. On the equity side we are tilting towards certain sectors of the markets like health care and technology as well as mid-cap

equities and those funds that invest in dividend growing companies. In our bond allocation we are tilting towards funds that invest in floating rate investments which typically have less interest rate sensitivity. We look forward to the opportunities and challenges of 2017 and we encourage you to review the outstanding research report from LPL Financial which is enclosed for your convenience. As always, please feel free to call me with any questions, comments or specific requests.