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2017
First Quarter

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George Cerwin's
Quarterly Economic Update

The first quarter of 2017 was a confusing but healthy one for investors. Led by the technology sector, which did very little after the election, equities started the year with very strong gains. Despite backing off of all-time highs, the Dow Jones Industrial Average (DJIA) rose 4.6% to close at 20,663, marking its sixth straight quarter of gains. The other major index, the Standard and Poor's (S&P) 500 Index gained 5.5% for the quarter. Quarter one of 2017 ranks as the third best start to a year in the last ten years, behind both 2012 and 2013. ***(Source: Barron's 4/3/2017, Seeking Alpha 3/30/2017)***

While the quarter was strong, the last month of the quarter's equity performance can be looked at as very confusing. Since making an all-time high on March 1st, the S&P 500 index has failed to make new headway. It still ended the quarter only 1.4% below its highs. The Dow Jones Industrial Average also showed some caution signs in March. At one point during the month, it closed down for eight straight days, but only lost 1.9%. According to Investopedia, a correction is a reverse movement, usually negative, of at least 10% in a stock, bond, commodity or index to adjust for an overvaluation. Corrections are viewed as generally temporary price declines interrupting an uptrend in the market or an asset. Based on that definition, this downturn does not qualify as a "correction." ***(Source: Investopedia, Barron's 4/3/2017)***

The S&P U.S. Aggregate Bond Index rose 0.78% for the quarter. This index is designed to measure the performance of publicly issued U.S. dollar denominated investment-grade debt. Diversified portfolios, which typically include bonds and long-term U.S. interest rates, have generally been flat thus far this year. This quarter featured the Federal Reserve raising the federal funds rate by 25 basis points in March to 0.75%-1.00%. The Morningstar Core Bond Index, one of the broader measures of the fixed-income universe, rose 0.85% in the first quarter. Returns for the largest money funds are still below 1%. In some stable rated countries like Germany, percentagewise, the yield on Germany's 10-year bond almost doubled this past quarter, but that means it rose only 18 basis points to 0.39%.

The bull market officially turned eight this quarter. March 9th, 2009, marks the bottom of the market during the Great Recession. At 96 months old, this bull market is not the oldest in modern history (post-World War II). That title goes to the bull market that lasted from the fall of 1990 to the early spring of 2000, or 113 months, according to CFRA and S&P Global. That record bull market, which is also the best-performing with a 417% gain, lasted just more than a year longer than the current bull market's age.

The current bull market isn't even the runner-up in performance. The baby-boom bull market in the 1950s is the second-best performer, with the market having risen 267% during its seven years. Also, the current bull market is not the one in which stocks became most expensive, though it's getting close. The S&P 500 was trading at a multiple of 30 times earnings in 2000, and 26 times

earnings when it was the same age as the current bull; today, the S&P 500 has price-to-earnings multiple of about 25. ***(Source: Oppenheimer Funds 3/9/2017, Fortune 3/9/2017)***
This bull market has some believing it can't continue. The stock market has continued to be strong, but a recent Wall Street Journal article noted that a correction now might not be so bad. They report that after the post-election rally, some analysts say a 10% retreat is overdue and would be healthy for the market. Market corrections occur once per year on average, according to the WSJ Market Data Group, using data going back to the late 1980s. However, the eight-year bull market has seen only four corrections while stock prices have tripled. That's an anomaly. As for now, investors might be best having a strategy that includes being watchful and not emotional. ***(Sources: The Wall Street Journal, 3/27/2017, Barron's 3/27/2017)***

DJIA Passes 21,000

The Dow Jones Industrial Average closed the quarter at 20,663 but on Wednesday, March 1st, it closed above 21,000 for the first time ever, marking one of its quickest runs to such a milestone.

The blue-chip gauge closed above 20,000 on January 25th, marking a then-second-fastest push (42 days) to a 1,000-point milestone. The Dow's latest milestone matched the fastest-ever such move at 24 days, equaling the same span of trading sessions between 10,000 and 11,000 in May 1999.

While Dow Jones Industrial Average milestones create a lot of attention, investors know that as the market rises, each 1,000-point advance becomes smaller on a percentage basis. The move from 20,000 to 21,000 marks a 5% rise, while the move from 19,000 to 20,000 was a 5.3% move. The move between 10,000 and 11,000 in 1999 marked a 10% rise. ***(Source: MarketWatch 3/1/2017)***

While a rise in the Dow Jones Industrial Average always sounds great, here are a couple of other key facts about the index on its climb to 21,000:

- The longest stretch between such milestones has been the 3,630 days needed for the index to close above the 2,000 barrier, reached on Jan. 8, 1987.

- Apple was the best performer on the index from 20,000 to 21,000, with a gain of 14.7%

- Two other stocks contributed more than 100 Dow points each since the 20,000 milestone: Goldman Sachs and Boeing.

- Intel was the worst performing stock during the most recent 1,000 point run, down almost 5%. The stock is the third-biggest drag on the index, subtracting 12.8 points.

- The top two drags on the index during the move to 21,000 were oil companies—Chevron and Exxon Mobil —which subtracted nearly 23 and 16 points respectively from the Dow.

(Source: Fortune 3/2/2017)

	Key Points
1	**Quarter 1 2017 ranks as the third best start for equities**
2	**Bull market officially turned eight on March 9**
3	**DJIA passed 21,000 in March**
4	**The Federal Reserve raised the federal funds rate by 25 basis points to 0.75 – 1.0% in March**
5	**Investors need to be cautious and watchful**
6	**Focus on your personal goals**

Although milestones are fun to watch, for most investors it is prudent to focus on their goals and not the hype, regardless of what number the media chooses to focus on next.

Interest Rates

For 2017, interest rates remain on an investor's watch list. An entire year passed between the first interest-rate increase in December 2015 and the second in December 2016. The US Federal Reserve's 0.25% rate hike in March 2017 was the first of the three that the Federal Reserve suggested we could see this year. While the prospect of rising rates has many investors paying careful attention, Bill Irving, manager of several Fidelity income funds including Fidelity's Government Income Fund, reminds investors that the Federal Reserve does not control the entire yield curve. He shares that changes in the federal funds rate most directly affect the short end of the curve, or shorter maturity bonds. Investors understand that when the Fed raises rates, it pushes up yields on short-term bonds, but Irving reminds us that yields on 10-year bonds, for example, can be affected by a whole host of other factors, including risk sentiment, expectations for inflation and economic growth, and investors' demand for longer-maturity securities.

To simplify a complicated analysis, the long end of the yield curve doesn't always move in sync with the short end, so the Fed's rate increase may not cause rates to rise or prices to fall on longer-term bonds. For investors looking for income returns, bond yields are still historically on the

lower side. Stephen McBride wrote in Forbes writes that even with inflation at its highest level since 2012, the Fed said monetary policy will remain accommodative "for some time.' As has been the case in the past, the Fed is willing to let inflation consolidate above its 2% target before embarking on a more aggressive tightening path. The consumer price index (CPI), the most widely used measure of inflation, averaged 2.67% for the first two months of the year. Even if inflation averages only 2% for all of 2017—the Fed's target—low interest rates could be still the norm for investors and savers alike. ***(Source: Forbes 4/3/2017)***

Market Outlook

While the first quarter was a healthy one for many investors, it is prudent to be watchful of upcoming factors that may affect markets - geopolitical unrest, potential U.S. political gridlock, possible oil price fluctuations, and interest rate movements can all have significant impacts on the U.S. and world investment markets. As we head into earnings season for corporations, we always advise using caution when making any investment moves and it is helpful to always discuss your personal situation with us.

For the upcoming quarter, BlackRock, the world's largest asset manager, likes equities, but cautions investors that U.S. equities do not look cheap, and gains since the presidential election have been powered mostly by multiple expansion. Russell Investments tells investors that in the medium-term, they are not bearish, and they feel that the U.S. economy shows relatively low recession risk. Fidelity Investments is warning investors to keep a watchful eye on inflation. They warn that there are a lot of uncertainties and "ifs" behind their outlook, however, putting it all together, they feel that the U.S. stock market seems poised to resume its rally, but a valuation headwind could partially offset an earnings tailwind. ***(Sources: BlackRock Market Outlook Q2 2017, Russell Investments Global Market Update Q2 2017, Fidelity Investments)***

Conclusion: What Should an Investor Do?

Investors are typically concerned about their portfolios and returns. The definition of conservative investing includes using an investing strategy that seeks to preserve an investment portfolio's value by including investments in lower risk securities such as fixed-income and money market securities. With today's low interest rates this means that moderate and conservative investors could have returns that are not those of full equity exposure. A well-diversified and balanced investor will have returns that are reflective of benchmarks that hopefully include some safer returns than full equity exposure. In this rising market, that means a well-diversified and balanced portfolio will generate lower returns than a full equity portfolio. While higher risk has been rewarded for some in the current market, investors who are fully invested in equities are usually aggressive investors and that means they may endure extensive volatility and significant losses. Investing is personal, and your ability to take risks depends on a variety of factors. For example, even amongst professional investment managers there can be differing views on exactly how much risk a moderate investor should take. Moderate investors are many times described as "middle of the road" risk-takers. They are aware that the markets go up and down, and they're typically okay with that — up to a point — if it means there's potential for growth.

CAUTION is still advised for investors.

Your focus should be on trying to meet your personal goals and not based on returns generated by an investor who is willing and able to take more risk. With equity markets having advanced, this is a good time to revisit your risk tolerances and time horizons. Many analysts are predicting a volatile ride in equities for the rest of 2017, however, safety comes with a price. For many investors todays traditional fixed rates will not help them achieve their desired goals. Most investors attempt to build a plan that includes risk awareness. Many times this can lead to safer but lower returns. Traditionally, bonds have been used as a nice hedge against market risk, but with interest rates projected to continue to rise, investors need to be extremely cautious.

We focus on your own personal objectives.

During confusing times it is always wise to create realistic time horizons and return expectations for your own personal situation and to adjust your investments accordingly. We try to understand your personal commitments so we can categorize your investments into near-term, short-term and longer-term can be helpful.

If necessary, we can revisit YOUR Strategy.

Investors need to be prepared. Market volatility should cause you to be concerned, but panic is not a plan. Market downturns do happen and so do recoveries. This is the ideal time to ensure that you fully understand your time horizons, goals and risk tolerances. Looking at your entire picture can be a helpful exercise in determining your strategy. We always welcome the opportunity to discuss any updates to your thoughts or situation.

Now is a good time to make sure you are comfortable with your investments.

Equity markets will continue to move up and down. Even if your time horizons are long, you could see some short

term downward movements in your portfolios. Rather than focusing in on the turbulence, you might want to make sure your investing plan is centered on your personal goals and timelines. Peaks and valleys have always been a part of financial markets and it is highly likely that trend will continue.

Discuss any concerns with us.

Our advice is not one-size-fits-all. We will always consider your feelings about risk and the markets and review your unique financial situation when making recommendations.

We pride ourselves in offering:

- ✓ consistent and strong communication,
- ✓ a schedule of regular client meetings, and
- ✓ continuing education for every member of our team on the issues that affect our clients.

A good financial advisor can help make your journey easier. Our goal is to understand our clients' needs and then try to create a plan to address those needs. We continually monitor your portfolio. While we cannot control financial markets or interest rates, we keep a watchful eye on them. No one can predict the future with complete accuracy, so we keep the lines of communication open with our clients. Our primary objective is to take the emotions out of investing for our clients. We can discuss your specific situation at your next review meeting or you can call to schedule an appointment. As always, we appreciate the opportunity to assist you in addressing your financial matters.

George F. Cerwin, CFP®, CLU is President of GFC Financial Management and has over 40 years of experience working with retirees and those about to retire. George offers Securities and Investment Advisory Services through SagePoint Financial, Inc. member FINRA and SIPC. Insurance Services offered through GFC Financial Management, not affiliated with SagePoint Financial, Inc. Visit our website: www.gfcfinancial.com. Our office address is 2764 Sunset Point Road, #600, Clearwater, Fl 33759 and phone number 727-724-9499.

"The investor's chief problem -and even his worst enemy – is likely to be himself." Benjamin Graham

Benjamin Graham was known as "the father of value investing." He mentored Warren Buffet. Graham cautioned investors that market events and volatility are normal. He felt that what causes investors the greatest damage is our reaction to events.

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