Financial Services Advisory
GROW WISER®

How the FSA Portfolios Are Positioned

August Market Review—September 12, 2017

After a relatively strong start to the summer season—with the S&P 500 index rising in June and July—stocks took a breather in August, finishing essentially flat. Small-cap stocks and energy stocks finished lower for the month, while emerging market stocks, technology stocks, and gold finished higher. We should not be surprised at these modest returns, since, as we noted in last month's Market Update, August has historically been the second-weakest month of the year (second only to September).

With all of the portfolios that FSA manages nearly fully invested, let's take a few minutes to review the main areas of focus in the portfolios at this time. On the equity side, the portfolios generally reflect an emphasis in these two areas:

a) **Growth-oriented companies such as technology and health care**
   This focus is reflected by the specific sector funds we hold (in technology and health care) and by our use of diversified funds which invest heavily in these growth areas.
b) **Increasing use of international funds**
   Our allocation to this category of funds is generally between 10% and 15%. If international funds can maintain their strong performance relative to the U.S. market, we will increase these allocations.

There has been a fairly sharp reversal of performance in various market sectors in 2017 as compared with 2016. Last year, smaller companies, along with energy stocks and financial stocks, generated the strongest returns, with foreign stocks and health care stocks among the laggards. For 2017, the leaders have become the laggards and vice versa; health care and foreign stocks have surged higher, while small cap stocks and energy stocks have lagged considerably. International markets have lagged the U.S. market since 2013, so the strong performance of foreign funds is a relatively new phenomenon.

Areas of focus within our bond funds:

a) **High yield bond funds**
   We have favored these more aggressive bond funds, which tend to move in the same direction as stocks, even though they usually are more sedate.
b) **High yield municipal bonds**
   Although we tend to use municipal bond funds primarily for taxable accounts (given the tax-exempt dividends they pay), we have included this category of funds even in retirement accounts as these funds have trended very consistently in 2017.

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We continue to shift the portfolios as trends in the market change. We refer to this process as "Follow the Money." The shift from value stocks (such as energy and financial stocks) to growth stocks (such as technology and health care) has been pretty extreme this year. Growth stocks as a group are up over twice the returns for value stocks. The gap between these two styles is usually not this large. As a result, we have been cautiously on the lookout for a reversal of fortunes, as value stocks may again outpace their "growthier" cousins in the near future. So far, however, the trend points clearly to dominance by growth stocks.

In closing, our hearts and prayers go out to those in Texas still recovering from Hurricane Harvey, as well as those in Florida who are just assessing the damage from Hurricane Irma. In spite of the political differences among us Americans, it's great to see the spirit of neighbor helping neighbor in challenging times like these.

Ronald Rough, CFA
Director of Portfolio Management

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