Financial Services Advisory
GROW WISER®

Staying the Course – For Now

July Market Review—August 4, 2017

Both the stock and bond markets were kind to investors last month, posting reasonable gains for investors. This was a nice gift since—as we discussed in last month's Update—returns over the summer, have been, on average, pretty slim. This boost in returns is especially welcome given that August and September are historically the worst two months of the year. Returns in August have been positive in only five of the past 20 years.

Several developments in July provided encouraging news that helped to keep stock market returns on an upward trajectory:

1) Testimony by Federal Reserve Chairman Janet Yellen before a House committee helped both stocks and bonds, leading Fed watchers to believe the central bank won't be quick to hike interest rates.
2) The technology sector, which makes up 23% of the market weight of the S&P 500, was the leading sector in July. We have exposure to this sector in the Core Equity, Tactical Growth, and Sector Rotation strategies.
3) The second quarter GDP number came in as expected, supporting the notion that the economy is in fairly good shape.
4) Finally, company earnings have been solid, with 73% of the companies that have reported so far beating analysts' sales estimates, a percentage we haven't seen since 2011.

With all of the good news out there, the stock market has been chugging along with no visible clouds on the horizon. Just how long will the smooth sailing continue before a course correction occurs? Although, there are no glaring red flags, a few looming issues could put a damper on the returns we might expect for the rest of the year:

1) If the economy is doing well, small cap stocks tend to lead, but instead, they have lagged this year—one "canary in the coal mine," if you will.
2) Corrections are normal in a healthy market. We have not seen a market correction of even minor magnitude since the early part of 2016, making the past 17 months the longest stretch without a pullback since before the financial crisis of 2008.
3) Geopolitical tensions with North Korea and Russia could heat up, prompting market participants to exit stocks for safer ground.

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The current market environment is one in which the good news has been enough to keep the waves of worry at bay. As long as this trend lasts, FSA will stay the course and continue to lean into those areas that are doing well. The trades you have seen over the past several months have been made mainly to rebalance the accounts and shift from areas that are beginning to lag into areas showing stronger trends. The table below is a snapshot of how the portfolios were allocated as of the end of July, as we continued to hold high levels of stock funds. Our bond positions are primarily in high yield bonds, along with some foreign bonds, and these areas are helping our income-oriented strategies.

STRATEGY	Allocation to EQUITIES	Maximum Allocation to Equities	Allocation to BONDS	Allocation to CASH
Income	N/A	N/A	95%	5%
Income & Growth	50%	50%	45%	5%
Conservative Growth	70%	75%	25%	5%
Core Equity	95%	100%	0%	5%
Tactical Growth	75%	100%	15%	10%

Note: Portfolios are managed individually and may differ from these allocations.

Please remember to inform your advisor of any changes in your life that could affect your investment objectives.

Enjoy the rest of your summer!

Mary Ann Drucker
Assistant Portfolio Manager

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