

Market Summary				
Security Name	Ticker	Current	% CHG Day	% CHG YTD
U.S.				
iShares DJ US ETF	IYY	120.83	(0.17)	7.84
iShares Core S&P 500 ETF	IVV	243.08	(0.06)	8.04
iShares Core S&P Mid-Cap ETF	IJH	171.77	(0.32)	3.89
iShares Core S&P Small-Cap ETF	IJR	68.38	(0.57)	(0.55)
U.S. Sectors				
SPDR Consumer Discretionary	XLY	90.81	0.08	11.56
SPDR Cons Staples Sclt	XLP	56.48	(0.04)	9.22
SPDR Energy Sel Sctr	XLE	65.72	(1.34)	(12.75)
SPDR Financial Select	XLF	23.45	(0.68)	0.86
SPDR Health Care Select Sector	XLV	75.78	(0.14)	9.92
SPDR Industrials Sclt	XLI	67.39	(0.03)	8.31
SPDR Materials Select	XLB	52.92	(0.02)	6.48
Real Estate Select Sector SPDR	XLRE	31.91	(0.28)	3.77
SPDR Select Technology	XLK	56.62	0.43	17.08
iShares DJ US Telecom ETF	IYZ	32.64	0.09	(5.39)
SPDR Utilities Select	XLU	53.57	0.32	10.29
U.S. Bonds				
iShares Barclays 1-3 yr Tr Bnd	SHY	84.61	0.04	0.19
iShares S&P Natl AMT-Fr Mun	MUB	110.58	0.11	2.22
iShares iBoxx \$ Inves Grd Corp	LQD	120.11	0.23	2.50
iShares iBoxx \$ HY B ETF	HYG	88.66	0.10	2.44
iShares Barclays MBS Bond ETF	MBB	107.43	0.09	1.03
International Stocks				
iShares MSCI EAFE ETF	EFA	65.98	(0.11)	14.29
iShares MSCI United Kingdom	EWU	34.54	0.17	12.54
iShares MSCI EMU ETF	EZU	41.06	(0.36)	18.67
iShares MSCI Japan ETF	EWJ	53.29	0.21	9.07
iShares MSCI Pacific Ex Jap	EPP	44.32	(0.23)	12.00
iShares China Large Cap ETF	FXI	40.35	0.30	16.25
iShares MSCI Emerg Mkts ETF	EEM	41.52	(0.53)	18.59
International Bonds				
iShares Core US Aggrgt Bd ETF	AGG	109.65	0.00	1.47
iShares Int'l Treasury Bnd ETF	IGOV	95.05	0.00	5.82
SPDR Barclays Interntl Corp Bd	IBND	32.96	0.01	6.74

2 June 2017 – Even though daily discussions on the market from around the world chatter about record highs for the USA market, the longer-term story is a continuation of slow, but steady improvement in the economy and stock market. This has been a reoccurring theme for the past seven years. I'm not complaining. We have been on the soap box since that time stating, both in print and on the air, that expectations for a quick recovery or grand explosion of economic growth are wishful thinking. Both consumers and businesses have adopted a new risk matrix since 2000 that looks more like the behavior of post-Great Depression than the late-1990s. The risk-taking environment is more conservative now than in the last sixty years and it will take time before the sting of three major corrections melds into the background. Consistent investment in the markets will prove to be in the investor's best interests.

The current economic condition is good almost everywhere in the world. The USA is looking at a continuation of a recovering housing market, good employment conditions, improving personal income levels and reasonable trade conditions. The U.K. is recognizing its place in the world as one of the most important economic engines along with

several others. Europe is no longer on the edge of default triggered by Greece. China is on a more stable path than the astronomic projection of ten years ago. Over the past 20 years that I have been an investor in China, I cannot count the number of times I have read about either the dominance or collapse of China; this is a perfect example of the whipsaw syndrome of investing. The country is important and is figuring out how to balance growth, control, independence and world interaction. It is not an easy job by any means and so far they are doing well. International markets are the clear winner with emerging markets and Europe taking the top spots exceeding 18% each. The worst foreign market in 2017 is Japan at 9.07%.

The American story is a nice one. We have already reached the long-term average in market total return and it is only the beginning of June. Both the Dow and S&P500 are neck-and-neck with 7.84% and 8.04%, respectively. While there is much debate as to whether which of the market measurements is better than the other. Over time, there is little statistical difference in the final number. When asked which index should be used, I suggest an investor use the index they feel most comfortable.

The unusual return is in the midcap and smallcap areas of the market, especially smallcap. Smallcap has been a great performer for a while only to be followed by rapid downward corrections. In May, smallcap

had finally succeeded in moving into positive territory after several months of negative results. No sooner had the numbers turned green, more money moved out of smallcap index funds than had ever been withdrawn over the past 10 years.



Midcap has remained well below the long-term average as well, but is slightly positive for the year at 3.89%. Energy is holding the midcap back. Uncertainty surrounds the sector in all market capitalization categories: large, mid, small, but, especially in midcap. Currently, the midcap energy sector is at 83.3% Fv (fair value) which is the lowest of any sector in any of the market capitalization classifications. The sector is certainly poised for a significant increase. However, energy supply and demand is fluctuating and trends in energy span years with no regard for calendar time periods. If you are willing to look at a 5 year, or more, return time-period an investment in this area may be well rewarded. However, prepare for many times of great uncertainty and gut-wrenching fear when experts predict the end of fossil fuel consumption. (I also remember reading about the end of ground-based cars in Scientific American in the 1960s. We were all going to fly pods in the air by 2000 just like George Jetson.) Dramatic changes are ahead of the energy sector that is for sure, but innovation generally runs into difficulties when they must be used by the general population. It tends to slow things down a bit.

The top performing sector so far this year has been technology posting a 17.08% return. Running very close to Technology has been Consumer Discretionary at 11.56% and Utilities at 10.29%. This is rather unusual for utilities and technology to be in the top performing ranks at the same time. However, there is an interesting optimistic view on future growth in the market combined with another segment of the investor community that is seeking income. Bonds are improving, but have not reassured the income investor that the anchor asset has returned to the once treasured status.

Healthcare has decided to shake off the dismal performance of 2016 and reach the top ranks at #4 with a 9.92% return. It is interesting to see the sector perform so well given the uncertainty over healthcare coverage. It is clear the market has identified the difference between healthcare and insurance. Sometimes I wish the political discussion/confusion would separate the two issues and focus on them separately. We all know healthcare will be a major force in the world as people live longer and advances in medicine continue.

Financials have not fulfilled most investor's expectations this year with only a 0.86% return. Once interest rates started to move up many believed this was the beginning of improved financial enterprise earnings. As a result, most bank stocks moved into overvalued territory Financials will need to wait for a clearer direction before positive results appear.

Be careful to make asset allocation decisions based on views into future economic conditions and resist the temptation of chasing yesterday's price movements. Don't be whipsawed.