

## Market Review and Outlook—June 8, 2017

**Foreign Stocks Lead the Way** While the headlines point to US stock market records, in the past six months US stocks have risen less than 10% while foreign stocks are up almost 17%. The chart below shows US stocks over the past quarter with miniscule gains, while foreign stocks are up close to 10%. US stock returns are actually fine, but foreign stock gains have been on fire. There are two primary reasons—their prices didn't start the period high, and the economic climate continues to brighten overseas, from moderate to good.

**Bonds are Yawn-Inspiring** Bond results have been very subdued, and this is expected to continue with quality bond returns expected to return less than 2½% for several years, due to slowly and steadily rising interest rates. Opportunity bonds, which are more sensitive to the economy, have outperformed quality bonds in each listed period. We continue to favor our 65/35 quality/opportunity approach. While the quality bonds have been underperforming, they serve as ballast, a steadying factor that is needed when stock markets suddenly turn down.

**Looking Forward** The US economy is expected to continue to grow, albeit at a low growth rate. Given the record levels of US stock markets, however, we find greater opportunities overseas, where economic progress is currently stronger and where prices are lower. We are pleased that our dogged dedication to global (not just US-only) diversification is paying off after years of foreign stock underperformance.

**Rebalancing** Our first investment principle is incorporating a very deliberate, transparent level of risk in a portfolio. The second is to regularly rebalance, especially when markets have swings. The table below shows the big variance between US and foreign stocks. This presents a prime time to rebalance, and thus 'sell high and buy low.' You may end up 'picking the flowers and watering the weeds,' however when regularly done, such rebalancing enables you to avoid the painful corrections (such as the dot-com bust of 2000 and financial sector meltdown of 2008). While we see a lot to like in foreign stocks, "enough is as good as a feast." Rebalance.

Category	3 Months	12 Months	3-Yr Avg	5-Yr Avg	10-Yr Avg
Fidelity Govt Cash Reserves	+0.10%	+0.22%	+0.08%	+0.05%	+0.67%
Intermediate Term Bond	+1.50%	+2.59%	+2.28%	+2.52%	+4.26%
Intermediate Muni Bond	+2.25%	+0.89%	+2.62%	+2.58%	+3.65%
Large-Cap Stock	+2.21%	+16.05%	+8.08%	+13.99%	+5.98%
Mid-Cap Stock	+0.25%	+14.69%	+6.15%	+13.24%	+5.81%
Small-Cap Stock	-0.99%	+17.56%	+6.32%	+12.99%	+5.73%
Foreign Large-Cap Stock	+9.37%	+15.99%	+1.55%	+9.04%	+0.99%
Foreign Small/Mid Cap Stock	+10.74%	+17.51%	+4.34%	+11.90%	+3.16%
Diversified Emerging Markets	+8.06%	+23.72%	+0.99%	+4.68%	+1.71%
Technology	+10.60%	+33.52%	+15.76%	+17.93%	+9.63%
Real Estate	-2.21%	+3.17%	+6.97%	+9.17%	+3.99%
Natural Resources	-4.32%	+9.50%	-6.77%	+1.23%	-1.02%
Moderate Allocation (50-70% stocks)	+2.15%	+10.66%	+4.36%	+8.43%	+4.73%

*The data in this table comes from Morningstar and is as of May 31, 2017*

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