OPTIVEST
WEALTH MANAGEMENT

Turning Success into Peace of Mind.

THIRD QUARTER 2017

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U.S. & World Economy by Mark:

Economy: The Trump "sugar rush" is over, yet we have landed on an economic sweet spot for inflation (approximately 2%). This combined with modest worldwide GDP growth, near full employment, and cautious hope on tax reform has lead global financial markets (both stocks and bonds) to end the first 6 months of 2017 with near YTD highs. Surprisingly, we're also in a climate of lower volatility than one would have expected – the lowest in 50+ years according to *Wall Street Journal* - given the drama highlighted by the "news" and the media. However, first half of the year bets on higher inflation and domestic company growth have gone unrewarded as commodities (led by oil), managed futures, and small cap stocks have all underperformed this year so far.

By year-end we suspect that this current economic balancing act will have selected a specific direction: either there will be a belief that pro U.S. business policies will start (and work) and inflation/higher interest rates will resume; or hopes will peter out and our flattening yield curve (combined with high valuations) will lead to the next downturn in the economy and financial markets. We are not willing to make that "all or nothing" market call and thus we remain well balanced and positioned to accept either outcome.

American Exceptionalism: People can silo themselves into an echo chamber and only hear things that they already agree with, tuning out alternative views or facts. Such is the case with the topic of American exceptionalism. The question is whether there have been some unique factors that have spurred our U.S. economy above all others over the last two centuries or if this is just a pompous delusion? I would argue the former, that American exceptionalism is real and fueled by the product of freedom and opportunity, combined with limited government.

Throughout the years, when federal and state governments' policies protected our freedoms and supported new opportunities our country grew and prospered at an exceptional rate. When our government and others impeded citizens with over-regulation, narrow freedoms of choice and limited opportunities, historically economies have stalled. I believe this is the crux of the crossroads we are heading toward under the GOP majority leadership. Can they come together to re-start our economic engine again or will American exceptionalism become a footnote in future history books?

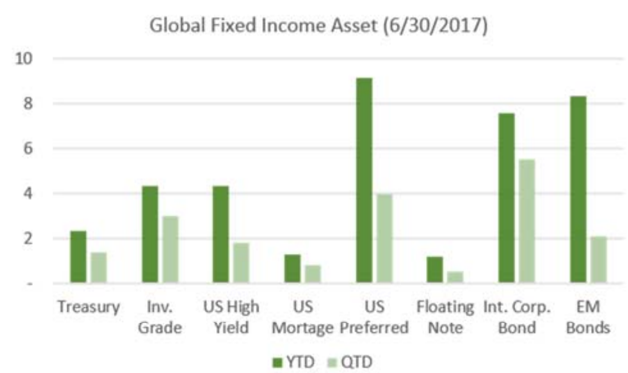
Portfolio Management by Leslie:

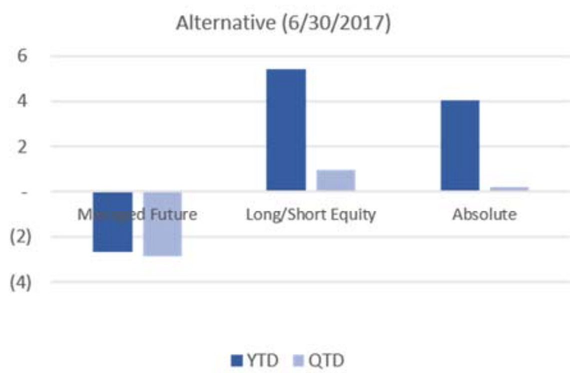
I'm just back from a productive east coast trip during which I visited a prospective real estate investment opportunity and attended a JP Morgan Wealth Management Summit. Only 125 financial advisors from across the country were in attendance to hear the JP Morgan strategy team share their thoughts on the micro and macro-economic environment. My major takeaway is that their top strategists share many of the same thoughts and concerns as our Optivest Investment Committee: We are still in a slow but steady expansion; we are still in mid-cycle economic recovery but getting closer to late cycle; we are likely to experience a "Trump-Light" economy as much of his Presidential agenda will be toned down; many assets are priced for perfection; the Federal balance sheet will likely be brought down at about the same pace that it expanded; foreign Central Banks are slowly turning hawkish; and for the first time in 10 years, Europe is not a tail risk. Bear in mind, however, that as our Fed unwinds their balance sheet starting within the next 6 -12 months, we will see far more sellers than buyers of bonds for the first time since the Fed began QE.

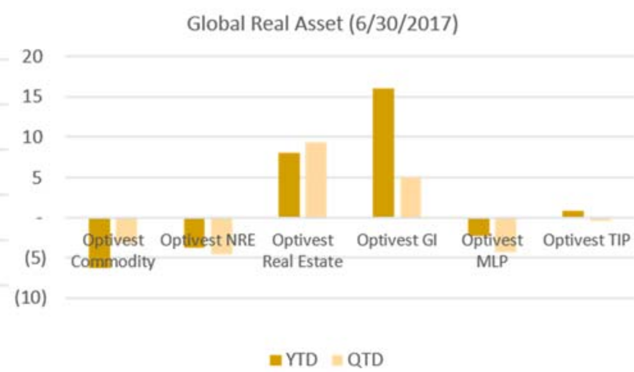
Wise portfolio management is a delicate balance of playing both offense and defense at the same time. Our investment committee team is laser focused on identifying current opportunities and choosing the best mix of investments across multiple sectors that both reflect our investment themes while being properly diversified to withstand the inevitable ups and downs ahead.

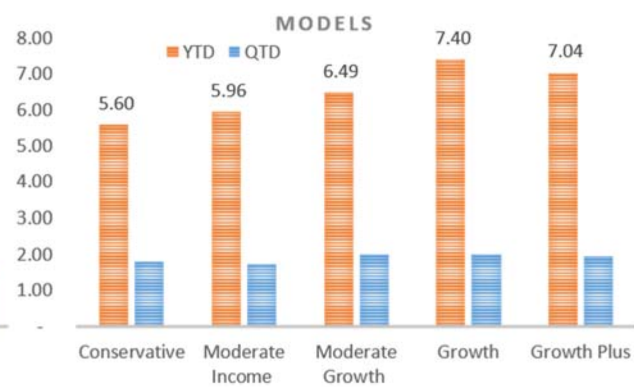
Portfolio Management by Stella:

The Global Equity asset class was a clear winner relative to the three other asset classes. Global Real Asset suffered negative returns due to oil price volatility and the low inflation numbers. In general, we were buying opportunistically in the equity space and underweighting in real assets especially in commodities, natural resources, and TIPs. Global Infrastructure was the contributor toward positive returns that exceeded the S&P Real Asset benchmark. Alternative Asset (managed futures) had negative returns, which is expected when the equity market rallies. In the Fixed Income Asset category, mostly international bonds and preferred securities had compelling returns; many Optivest portfolios are slowly transitioning into one of these models. We are continuously strategic in the equity space due to uncertainty of positive return trends.









Financial & Business Planning by Bart:

Having been a CFP for 25 years, I am often asked what my top tips are for making smart investments. While it's impossible to know what the future will hold, implementing a forward thinking strategy that works toward your individual goals will pay off in dividends. And throughout the current season of change, the key to positioning oneself for the ebb and flow is to diversify and include alternative investments such as non-stock, non-bond assets.

Here are my top 5 wealth building recommendations that everyone should consider:

1. Avoid self-destructive investor behavior. Be an investor…not a trader. From 1994 to 2013, the average stock fund returned 8.7% per year while the average stock investor earned only 5%. We call the gap between these results the "investor behavior penalty." Driven by emotions like fear and greed, the trader succumbed to negative behavior such as:
    a. Pouring money into the latest top performing fund or asset class expecting the winning streak to continue.
    b. Avoiding areas of the market that had performed poorly, assuming recovery will never return.
    c. Abandoning their investment plan by attempting to successfully time moves in-and-out of the market, a near impossible feat.
2. Keep long-term goals and objectives in mind while refusing to be swayed by emotions or "hot tips."
3. Diversify. There is something to be said about the old adage, "do not keep all of your eggs in one basket."
4. Consider adding alternative investments. These are investments that are not stocks or bonds. Examples are commodities, real estate, reinsurance, life settlements, and managed futures.
5. Pay attention to your bond holdings. Rising interest rates could have negative effects on the value of exiting bonds. There is no time like the present to take inventory of what works, what doesn't work and what can be improved upon.

Summary:

While in the midst of the long and maturing recovery, we will continue to set the course by steering portfolios in the direction of optimal diversification for maximum returns with minimum downside participation. Our team is united to bring the best experience to our clients through investment consulting, advanced planning and relationship management. And while our portfolio management services continue to be the crux of our services, we also oversee our clients' overall financial well-being to help navigate "what's next" in life. Please ask us how we can help with advanced/financial planning and facilitated family meetings with your estate and tax advisors to best serve you and your family.

Until next time,

Mark , Leslie, Bart and Stella

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