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April 24, 2017

Dear Client,

This letter contains news and views that I feel will be of interest to you. As always, please call me or Darren at your convenience to set up your quarterly meeting.

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Going, Sebastien, Fisher & Le Bouef, LLP News:

- GSF&L constantly researches asset classes to include in clients' portfolios to increase income or reduce risk or both. We offer Insurance-Linked Securities, Alternative Lending, and other Alternative Strategy Securities, so feel free to contact us for more details.

Investment Views:

- ***Morningstar Data - Through March 31, 2017 - Year-to-date returns -*** Dow Jones Industrial Average 5.19%, NASDAQ Composite (dollars) 9.82%, Russell 2000 2.47%, S&P 500 6.07%, MSCI EAFE (dollars) 7.25%, and the Barclays U.S. Aggregate Bond Index 0.82%.

- **Rates of Interest (As of March 23, 2017) –**

Federal Funds Rate	0.91%	10-Year TIPS	0.46%
3-Month Treasury Bill	0.76%	10-Year Muni Bonds	2.35%
10-Year Treasury Note	2.41%	15-Year Mortgage Fixed	3.44%
30-Year Treasury Bond	3.02%	30-Year Mortgage Fixed	4.23%

- ***Northern Trust – Investment Strategy – March 31, 2017 –*** During the election campaign, candidate Donald Trump promised that the U.S. would achieve 4% annual economic growth. The administration reasons that tax reform, infrastructure spending, and reduced regulation will lift gross domestic product (GDP) growth to twice the rate it has averaged during the current expansion. Yet every country has a unique "speed limit" that bounds the pace of economic activity. The potential capacity is determined by two factors: labor force growth and productivity growth.

- ***Bureau of Economic Analysis – March 30, 2017 -*** Real Gross Domestic Product (GDP) – the value of goods and services produced by the nation's economy less the value of the goods and services used up in production increased at an annual rate of 2.1% in the fourth quarter of 2016, according to the "third" estimate released. In the third quarter of 2016, real GDP increased 3.5%. Personal Income increased 3.6% in 2016 as compared with an increase of 4.4% in 2015.

- ***Bureau of Labor Statistics – April 14, 2017 –*** On a seasonally adjusted basis, the Consumer Price Index for All Urban Consumers decreased 0.3% in March, and over the last 12 months the all items index rose 2.4% before seasonal adjustment. The unemployment rate declined to 4.5% in March, and total nonfarm payroll employment edged up by 98,000. Employment increased in professional and business services and in mining, while retail trade lost jobs.

Craig's Thoughts and Views:

Historical Stock Market Returns

Last year's return of 11.96% of the S&P 500 was slightly below the median of 13.69% dating back to 1926. The return did mark eight consecutive years of positive returns earned since the financial crisis of 2008-2009. The histogram on page 3 reveals several points that one should consider (produced by American Investment Services, Inc.).

First, the randomness of returns is evident by noting no particular momentum in annual returns. Second, positive returns have been dominant; there have been 67 years of market gains (depicted in green) versus 24 years with losses. Third, the magnitude of the market's gains in positive years on average have exceeded the magnitude of losses during the negative years. The average (arithmetic) return during the positive years was about 21.24% versus the annual average loss of 13.61% during the negative years.

Over the 91-year period, the average compound annual return was 10.04%. However, over shorter time periods (ten years or in some cases longer) the return was breakeven or negative. For example, from January 01, 1999 through December 31, 2009 an investor's average annual return would have been -1.070%. And for the period January 01, 1930 through December 31, 1945 the average annual return was -1.406%.

The histogram does not take into account the impact of price inflation. If you adjust the 10.04% return for the loss of purchasing power (as measure by CPI), the annualized return falls to 6.94%. To put these returns in perspective, an investment of $1,000 made at the beginning of 1926 would have grown to $6.03 million by the end of 2016 in nominal dollars; however, after accounting for price inflation, the ending value would have been only $447,226.

Despite the almost impossibility of predicting calendar year returns, the U.S. stock market is likely to continue to be an alternative for investors looking for long-term real growth.

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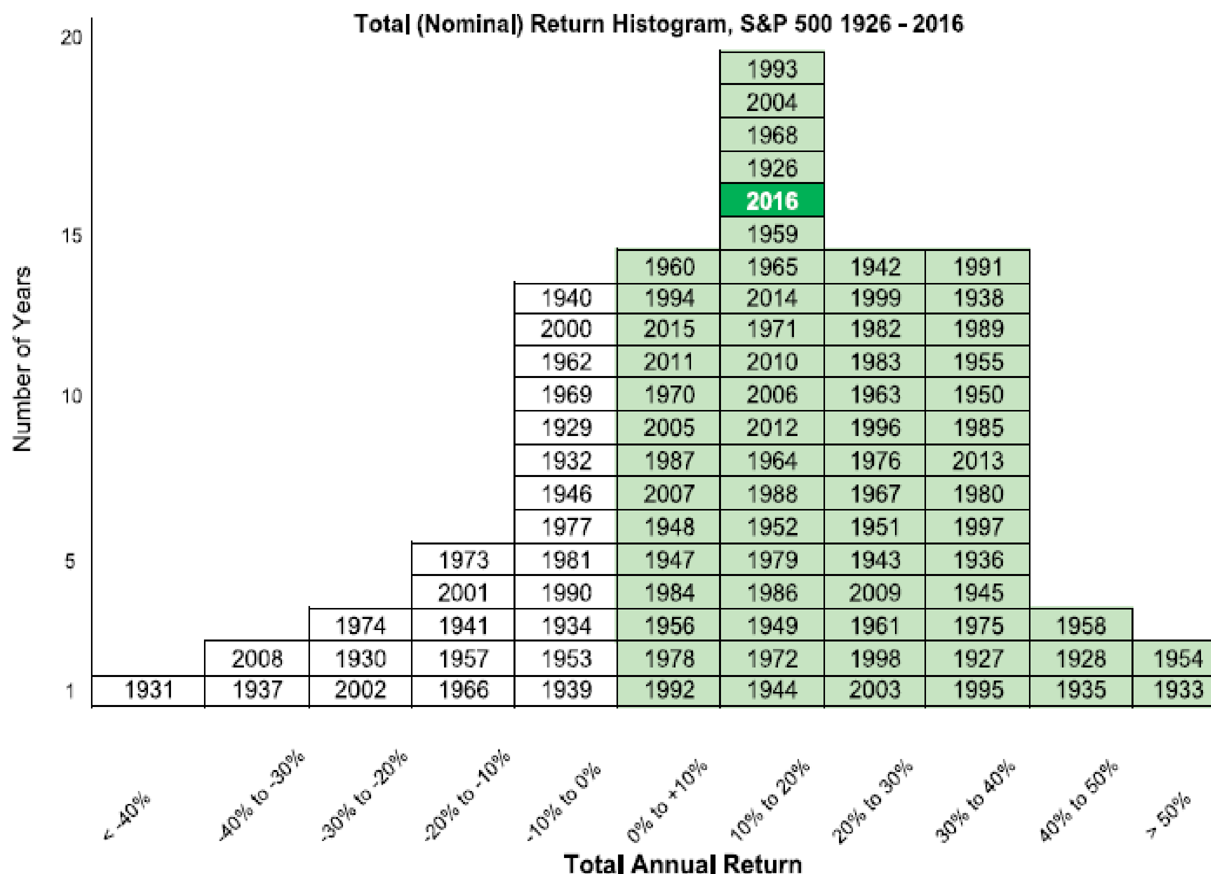

Is the 60/40 Traditional Portfolio Viable into the Future?

Most individual investors' portfolios are predominantly made up of two asset classes: domestic equities and bonds. Historically, these asset classes have been the "risky" and "safe" asset classes, respectively. The traditional portfolio, typically known as the "60/40" portfolio reflecting an allocation to stocks and bonds has performed well over the past 30 years and has enabled millions of investors to meet their investment objectives to purchase things like a home, college, and fund a more secure retirement. This good performance has been driven by tailwinds that some believe may not continue in the same capacity as in the past: a decline in interest rates, securitization, favorable demographics, globalization, etc. If these attributes do not continue to have the same impact going forward, today's investors who may have identical financials goals as the prior generation could face more challenges to deliver similar returns.

The primary obstacle to those similar returns may be interest rates. Short-term interest rates across the developed countries are near zero, with longer-dated bond yields at or near all-time lows. The days of money in a bank account earning around 5% or getting about 8% in longer duration bonds seem to be unlikely any time soon. For example, if a bank offers 5% interest on an account then the price of equities may return around 9% to induce investors to take risk; however, if the bank account yields 0.10%, then investors may be willing to hold equities even if they expect to earn far less, like 4%. The reason being it still beats getting zero (or almost zero) on your money. Therefore, going forward will low rates mean that other traditional assets (like equities) will be priced to earn lower returns.

While low interest rates themselves may represent a drag on portfolio returns, they also create a risk where there is limited room for rates to go lower to boost returns; thus, there is more room for interest rates to go up, weighing returns down. The last time the U.S. experienced a long-term rise in interest rates from low points began about 50 years ago (1964-1981). During that time period, researchers have calculated what the excess returns the 60/40 portfolio would have generated over

putting your money in a bank account, was calculated to be -1.4%, before taking out taxes and fees. In comparison, the trip after 1981 (when interest rates started declining from the peak) was a breeze with excess returns averaging 6.00% or more. Whether history will repeat itself and excess returns will end up being negative over the next 20 years or whether returns will end up higher is unknown, but it appears that if interest rates continue to increase that would not be a very good outcome for investors clinging to the traditional 60/40 portfolio.

So what is an investor to do? One way to escape the dilemma is to stay consistent with modern portfolio theory on which the traditional 60/40 portfolio is based. This may seem ironic, but the basic principles of modern portfolio theory are sound. The answer is to add new return streams that can both provide consistent returns with what would be expected historically to grow wealth and provide adequate diversification for investors to protect their wealth.

An investor could choose to build a portfolio that is not concentrated in just two asset classes (equities and bonds). Rather, he or she could remodel their portfolio to include alternative strategies thereby reducing equity and bond allocations. How much in the way of alternative strategies will be a decision each investor will have to decide on, but intuitively it would seem advantageous to do so particularly should interest rates continue their ascent. Alternative strategies that may be considered (but not all inclusive) would include alternative lending, catastrophe bonds, market insurance, better beta, and real estate.

Alternative strategies have become more democratized and are now more openly available to individual investors as compared to years ago. Going forward in this new world, there are more asset class return streams that may not only help investors protect their wealth, but also grow it without having to rely just on equity risk premiums.

This article will not go into the details and benefits of these alternative strategies, should you wish to learn more, please contact Craig or Darren.

GSF&L, LLP Registered Investment Advisors:

We can never know what the future holds, but we can make informed decisions regarding investment strategies and portfolio allocations. We (GSF&L) make changes based on our perception of opportunities in the capital markets. We assimilate fundamental, technical, and economic information to make informed decisions. Of course it is important to have long-term focus on portfolio management, but with a critical analysis of intermediate strategies.

Managing risks and opportunities are important to portfolios and reaching one's financial needs and goals. Having a complimentary understanding of investment horizon and attitude toward risk are equally important. Markets and economies do not always behave as we expect them to. That is the problem with investing! There is no luck to professional investing. You can no more have a successful, disciplined approach by luck or accident than you can win a chess tournament by luck or accident.

If you know of someone who may fit our financial and investment planning philosophy, please mention our name. We are a small organization and intend to remain so. A solid organization makes it possible for us to spend our time managing our business rather than each other. Because everyone has so much to do, much gets done. We will forego any growth opportunity that may detract from our ability to serve our clients as they have become accustomed to. We never expect to be among the biggest, but our attention to be among the best is not subject to compromise.

Regards,

Craig

Craig C. Le Bouef, MBA, CPA/PFS, CFP®

NASDAQ composite measures the performance of all issues listed in the NASDAQ Stock Market, except for rights, warrants, units, and convertible debentures. The S&P 500 is made up of 500 common stocks representing major U.S. industry sectors. The Dow Jones Industrial Average contains 30 stocks that trade on the New York Stock Exchange (NYSE) which reflect the performance of 30 large American companies. The Morgan Stanley Capital International Europe, Australia, and Far East Index (MSCI EAFE) is a market-weighted aggregate of 20 individual country indexes that collectively represent many of the major markets of the world, excluding Canada and the U.S. The Lehman Brothers U.S. Aggregate Bond Index tracks performance of debt instruments issued by corporations and the U.S. Government and its agencies. The returns for this index are total returns, which includes reinvestment of dividends. The Russell 2000 Index measures the performance of the 2,000 smallest companies in the Russell 3000 index, which represents approximately 8% of the total market capitalization of the Russell 3000 index.

All indices are unmanaged. It is not possible to invest in an index.

Past performance is no guarantee of future results. Diversification does not assure against market loss.

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