Straight Talk

StraightLine
Personal. Unbiased. Proactive.

4th Quarter 2016 | **Steven F. Mosshart AIF®** — **Chief Investment Strategist**
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2016 Market Performance*

S&P 500
11.96%

Dow Jones
16.50%

NASDAQ
8.87%

MSCI EAFE
1.00%

Barclays US Aggregate Bond
2.65%

Morningstar Large Cap Core
13.75%

Morningstar Mid Cap Core
12.40%

Morningstar Small Cap Core
23.63%

**Market data is from Morningstar and is through 12/31/16. All returns are with dividends reinvested.*

2016 was another year of unpredictable results. The US market returns were great - the international markets, not so good. The fixed income market as measured by Barclays US Aggregate Bond Index was under 3% as the interest rate trend reversed itself after 35 years. As an investing community, we are optimistic that the 2016 post-election rise of 6% will continue in 2017 as consumer sentiment is the most positive it has been since 2004.

Near term the market will face several variables that we'll need to be attentive to as they differ from the last eight years plus. Through the Obama years, the Fed employed an aggressive monetary policy, which provided a great deal of support for the stock market. Additionally, very few money managers have managed in a rising interest rate environment. While most normal theory will bear out, our lengthy experience will also play an important role in avoiding pitfalls and capturing potential principal gains inherent in rising rates.

Tale of Two Animals

The Bulls, toward which we lean, believe that upcoming fiscal policies, lower taxes and less regulation will result in higher sustainable growth along with a stronger dollar and higher interest rates. Sharp gains recently occurring post-election will most likely give way to a bit lower growth with sporadic pullbacks – but growth nonetheless. The US market will continue to outperform and international markets will again be subdued. Overall, home prices will rise, consumers are making more money, jobless claims are at historic lows, and a stronger dollar should not derail the bull market.

The Bears: As always, fear leads to the greatest case for a substantial down market. Even if we believe the bull to bear ratio is 75% to 25%, fear adds a good amount of investing caution. The issues at this point are global debt ($152 trillion – 225% of world GDP and in the US the debt, approximately $20 trillion is 77% of US GDP), working age population is shrinking (forecast .4% through 2024), possibility of another global financial crisis, and a stronger dollar will derail the bull market.

StraightLine's research group takes all the global and domestic macroeconomic data and evaluates the most probable outcome when combining the Bull and Bear prognostications. We believe that the Bull will win in 2017. Higher interest rates trends, international volatility and the potential effect of a stronger dollar leads us to sustain a level of diversity that limits the effects of a down market and captures good performance in up markets by underweighting problem areas (long maturity bonds, international equities etc.) and overweighting advantaged sectors (US equities, energy, and financial sectors etc.).

StraightLine is coming up on 15 years of being a researched based, fiduciary money manager and we are committed to continually strengthening our research abilities both in experience and in new technologies. Successfully managing your money has so much to do with hard work and common sense and gratefully our staff has always been loaded with both attributes. As always, we thank you for your trust and will do the very best we can to ensure the best outcome for you personally.

Please contact us at (866) 401-5238 or info@straightline.com if you have any questions.