Investment Report Summary for CMA, July 2017 – prepared by John Howle

1. 2017 YTD Returns: (as of 06/30/17)
   - CMA Return: 4.30% YTD
   - Estimated Annual Cash Flow: $38,405 (gross) and $31,405 (net)
   - Current Combined Cash Flow Yield: 5.30%

2. Portfolio Value:

12/31/15	$661,398
12/31/16	$696,996
06/30/17	$723,851

3. CMA Investment Growth:

   - Beginning Value: $696,996 (12/31/16)
     - Withdrawals: $24,142
     - <u>Fees: $3,643</u>
   - Sub Total: $669,211
     - Contributions: $20,000!
     - Income: $18,459
     - <u>Investment Gain: $16,181</u>
   - Ending Value: $723,851

4. Index Return 2017 YTD:

   - Bond Markets:
     - Bloomberg Barclays **Aggregate Bond** Index: 2.08%
     - Bloomberg Barclays **Muni Bond** Index: 3.53%
     - Bloomberg Barclays **Corporate Bond** Index: 3.59%
     - Bloomberg Barclays **High Yield Corporate** Bond Index: 4.98%
     - Bloomberg Barclays **Mortgage Bond** Index: 1.15%

   - Equity Markets:
     - S&P 500 – 8.44%
     - Dow Jones – 8.38%
     - NASDAQ – 13.38%
     - MSCI World Index – 9.57%

5. Your Portfolios:

   Account returns have been fairly consistent for the year regardless of the asset allocation, which is a sign that just about everything has moved higher in tandem this year. The fixed income holdings are up 8.00% as a whole year to date, and the equity portion is up 3.90% year to date. Stand-outs in the fixed income holdings have been GOF (Guggenheim Strategic Opportunities) up **13.40% YTD**, and MMD (Mainstay Muni Defined Term) up **10.50% YTD**. On the equity side PSLDX (PIMCO StockPlus Fund) is up **15.90%**, Amazon is up **29.10%**, MGU (Macquarie Global Infrastructure) is up **16.40%**, and GRX (Gabelli Healthcare & Wellness) is up **17.90%**. Total returns in equities were negatively impacted by a realized loss in Under Armour of **32%** and an unrealized loss in Whitestone REIT of **11.10%**.

6. Asset Allocation

   - Fixed Income – 56%
   - Equities – 33%
   - Alternative Assets – 6%
   - Money Markets – 5%

7. Markets:

   Bonds: I have shared my thoughts with you on the flattening yield curve and what that potentially means for the future of the economy. In real terms the Fed Funds rate is 100bps higher today than where it was before the current hiking cycle began, but the 10yr Treasury is 13bps lower. In addition the 30yr Treasury is 35bps lower than its December 3.21% high. Although a flattening yield curve is only one sign of a potential recession, it is certainly one to watch. On the corporate bond front we are seeing multi-year low rates relative to Treasury rates for investment grade corporate bonds. High-yield corporate bonds remain low in yield due to the current friendly environment of stocks rallying, volatility dropping, oil rising and low supply. On the municipal bond front we continue to see growing pockets of stress fueled by the potential downgrade of Illinois to junk, the ongoing financial wrangling in Puerto Rico, and the government shut-down in New Jersey over the 4th of July holiday. The pension time bomb is already exploding in the most underfunded states, and that issue could put pressure in the future on muni prices. Municipal bond prices are once again nearing their July 2016 highs resulting in lower yields once again.

   Equities: Stocks continue to grind higher to all-time highs in price as more and more investors look for returns over and above the generally low rates in fixed income. Given the low level or rates in the bond markets, the current 21.45x p/e ratio doesn't seem too stretched; and with corporate earnings continuing to advance, the forward p/e is now 18.61x. Goldman Sachs is expecting US corporate earnings to grow 10% in 2017 and with more potential upside in the event of corporate tax reform. The 2 best performing sectors so far this year have been Information Technology and Health Care, while the 2 worst performing sectors have been Telecom and Energy.

Strategy: With rates remaining low and credit spreads tight, it remains a challenge to find quality yield opportunities in the bond markets. However there are small pockets of value to be found in floating rate securities and municipal bonds on relative basis. Given the low level of rates we remain a bit over weighted to equities in the CORE+ strategy and will continue to look for sector and/or tactical opportunities in closed-end funds and ETFs. Our industry specific ETFs such as HACK (cyber security) and CGW (water) have been steady gainers, and I believe both have continued long-term upside.