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FINANCIAL ADVISORS, LLC
Independent Registered Investment Advisor

FOREIGN LEADS THE WAY

The Dow Jones Industrial average had its **eighth consecutive positive quarter** for the first time in 20 years.

The S&P 500 and Russell 2000 indexes **both hit record highs**.

The MSCI emerging markets and MSCI EAFE indexes are enjoying their **best year out of the last seven years.**

The strong performance of US stocks in the past several years has certainly benefited investors. However it has also raised the level of risk in many portfolios. **Due to the long running popularity of US stocks, many investor portfolios now have an extreme home country bias, excessive allocation to domestic stocks.** Home country bias, the natural tendency of investors to be most attracted to investments in their home markets, is not just a US phenomenon. Investors around the world tend to favor the stocks of their own country. Overexposure to a single country or region creates concentration risk in a portfolio leaving it vulnerable to a downturn in the region and underexposed to a stronger performance in other parts of the world.

The earnings and stock prices for international companies have also greatly improved. International economies have shown renewed cyclical growth momentum relative to the US since mid-2015. The gap in corporate earnings growth has narrowed making the cyclical outlook for international equities relatively more attractive after several years of underperformance.

Attractive valuations when looking at price to earnings ratios exist for both developed international and emerging market equities relative to their history and relative to the US market.

We are seeing the most synchronized global expansion in years. For the past 12 months, the global economy has been experiencing a steady synchronized expansion generally. Most developed economies are in more mature, mid to late, stages of the business cycle, with the Eurozone not as far along as the United States. China's improved trajectory has boosted many emerging economies and created a recovery in the global manufacturing, trade, and commodity industries. According to the Organization for Economic Cooperation and Development, all 35 countries tracked by their group are expected to increase their GDP this year.

Although US investors with a home country bias have certainly done well in recent years, it is crucial to understand that the performance leadership of both domestic and international stocks has tended to be cyclical, one has historically outperformed the other for several years at a time. The average cycle of the out or underperformance has been roughly seven years which is about how long domestic stocks outperformed in the current cycle. Therefore with the US rally getting long in the tooth and leading indicators pointing toward improved prospects for non US equities, **now is a good time to consider increasing the allocation of international stocks.**

U.S. & INTERNATIONAL AVERAGE ANNUAL STOCK RETURNS (Period Ending June 6, 2017)

	5-Year Return	3-Year Return	1-Year Return	Year-to-Date
U.S. Stocks	15.5%	9.9%	17.6%	9.5%
International Developed	10.7%	2.0%	17.2%	15.3%
Emerging Markets	5.2%	1.8%	26.7%	18.7%

All returns in U.S. dollars, U.S. stocks: S&P 500 Index. International developed: MSCI EAFE index. Emerging markets: MSCI Emerging Markets Index. Past performance is not guarantee of future results. Source: FactSet, as of June 6, 2017.

Clarksdale named among 11 most famous small towns in America!

Smart Travel has just named Clarksdale one of the most famous small towns in America. We are in good company with towns like Stowe, Vermont, Princeton, New Jersey, Hershey, Pennsylvania, and Key West, Florida. The article notes that Clarksdale, nicknamed "the birthplace of the blues", is the home of many famous blues musicians like Muddy Waters, Robert Johnson, and Son House. They give us credit for having a great museum and a town that is a lot of fun to visit. Congrats Clarksdale!

Trump and the Republicans Unveil a Tax Reform Plan

President Trump has unveiled a Tax Reform Plan designed to simplify the cumbersome US tax code. Under the proposal, todays seven brackets would shrink to three, with the potential for an additional bracket for higher earners. The corporate tax rate would be cut from 35% to 20%. The Plan would nearly double the standard deduction for most households and retain mortgage interest and charitable deductions, while eliminating deductions for state and local taxes. The proposed Trump Plan would also end the estate tax and the alternative minimum tax. **Markets have greeted the proposal positively and anticipate that tax reform will be a reality.**

Update on Energy

Statistics currently point to a tightening supply in the energy world. The International Energy Agency published a report in September noting that global oil supply contracted for the first time in months while demand remained very robust. Demand is soaring and is set to reach 100 million barrels next year, a feat that was only expected around 2025 by earlier forecasts. The glut is shrinking due to the increased demand from Europe, the United States and also emerging markets. Both OPEC and non OPEC countries have also cut their production**. It is interesting to note that energy as a percentage of the S&P 500 is currently only 5.7% when historically it averages 8% to 10%.** The export market is also now in its early stages with liquefied natural gas shipments to Lithuania, the United Kingdom, and South Korea happening for the first time in July. Crude oil exports to India happened for the first time in October 2017.

Economic Expansion, the longest recovery ever

If the current economic expansion lasts another year and a half it will be the longest on record according to Brian Wesbury, Chief Economist for First Trust. Notice that Wesbury did not say the best expansion of all times, just the longest since it is not the best by a long shot. From the recession bottom to the expansion peak, real Gross Domestic Product expanded 39% in the 1980s, 43% in the 1990s, and so far eight years in the economic expansion is up only 19%. That is why Wesbury continues to call this economy the plow horse economy. **The length of the expansion is remarkable given how doubtful most were that it would even get started back in 2009** as well as all of the predictions since then that it would end in a spectacular fashion.

Wesbury goes on to say that he thinks the odds of the expansion continuing for another 18 months is very high.

The risk to any further market expansion, according to most economists, lies in the action of the Federal Reserve and in any military action that could occur with North Korea.

It is a pleasure working with you and we welcome your questions and comments.

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