A Newsletter from M.K. Brown Wealth Advisory

M.K. BROWN
WEALTH
ADVISORY

An Independent Registered Investment Advisor.

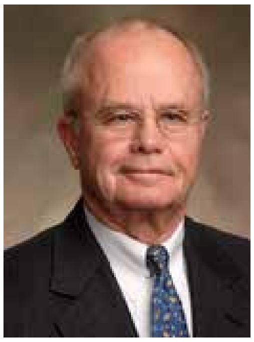
Winter 2017

Investor's Quarterly

Eye on the Market

"Courage is the first of human qualities because it is the quality that guarantee all the others."

– Aristotle



The last couple of years have been very difficult for stock investors, unless you happened to guess right and successfully rotate into the hot sectors and asset classes. Watching the S&P 500 decline over the first six weeks of the year felt like the end was near, other than a major bear market, that event was scary. While the overall market is greatly improved, it certainly hasn't been straight up and it feels like individual sectors (financials, technology, energy, etc.) has taken its turn leading and lagging along the way. That action alone explains much towards how difficult the market has been.

Also, keep in mind that the market index, the Dow Jones and the S&P 500 are not necessarily good benchmarks to use, in my opinion. Both indexes are price weighted, meaning that the higher price stocks have more impact more impact on the performance of said index as a whole, which has allowed just 3 or 4 stocks to account for the majority of the move in the last few months. Please remember to keep a long-term perspective when it comes to your goals and objectives. While it is generally agreed that diversification is best for most investors in the long run, it does mean that a diversified portfolio will typically underperform the hot areas of the market in the short term.

The result is a performance pattern where the US stock markets have moved higher, but almost every other asset has moved lower. So it's understandable that diversified investors may have been frustrated, especially when reminded that the markets are continuing to hit all-time highs, while diversified portfolios may struggle to keep pace.

As we welcome 2017, we look back on market activity and what it tells us about the year gone by and the year ahead. Significant political events resonated in the capital markets in 2016, most notably the United Kingdom's vote in June to leave the European Union, a move that sparked a two-day downturn in the equity market as investors pondered the decision's effect on the

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Eye on the Market *(continued)*

European and global economies. Calm was quickly restored, however, and the equity market rallied just seven days later.

After a slow start, U.S. equity markets enjoyed a prolonged rally for most of 2016, surging after the U.S. presidential election, with major U.S. indices hitting record highs in late November. Subsequently, momentum investors poured into financials, industrials, energy, materials and telecom, leaving behind the select sectors of technology and healthcare – thus setting up a potential counter-trend rally.

The U.S. Federal Reserve's plan to increase interest rates up to four times in 2016 was thwarted by timely events, such as the equity market downturn that began the year, the Brexit vote over the summer and the U.S. presidential election in the fall. In December, the Fed raised its target range for the federal funds rate 0.25%. The rate hike and prolonged interest rate rally following the election created headwinds for the bond market, pushing investment-grade yields up and driving prices down. Meanwhile, the dollar remained generally firm against major international currencies, according to Chris Bailey, European strategist, Raymond James, Euro Equities★.

	12/30/16 Close	12/31/15 Close	Change	Gain/Loss
DJIA	19,762.60	17,425.03	+2,337.57	+13.42%
NASDAQ	5,383.12	5,007.41	+375.71	+7.50%
S&P 500	2,238.83	2,043.94	+194.89	+9.54%
MSCI EAFE	1,644.00	1,716.28	–32.28	–1.88%
Russell 2000	1,357.13	1,135.89	+221.24	+19.94%

Performance reflects price returns as of 4:15 p.m. EDT, Dec. 30, 2016.

Below are additional thoughts on various factors that are influencing the domestic and global markets. Please let me know if you have any questions about how these factors may impact your overall financial plan or ability to reach your long-term goals.

Economy

- "While there are a number of uncertainties in the economic outlook, the largest risk is in global trade," said Raymond James Chief Economist Scott Brown. "A trade war would boost inflation through higher import costs and disrupt supply chains in U.S. manufacturing. Cooler heads should prevail, but a trade war would undermine economic growth at a time when global trade is already slowing."
- The U.S. unemployment rate fell to 4.6% from 4.9% in October and 5.0% a year ago. Though the report is promising, we're not seeing the kind of improvement in participation that one would expect in a tight job market (except for the key cohort: those aged 25 to 54).
- "The job market should continue to tighten in the near term, putting some upward pressure on wages," Brown said. "Although, consumer price inflation is likely to be moderate. The Federal Reserve should continue to gradually normalize short-term interest rates. Increased government borrowing should lift long-term interest rates."

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Eye on the Market *(continued)*

- Manufacturing activity still appears to be in a slow patch – neither growing nor shrinking – with lower-than-expected, but above-normal industrial production.
- "The pre-election outlook held that slowing population growth – resulting in slower labor input and economic growth – was the 'new normal,'" Brown said. "Post-election sentiment suggests that we are going to get some fiscal stimulus, but that likely will be ineffective in boosting growth on a long-term basis due to demographic constraints."
- Figures are noisy when it comes to housing starts, but the numbers continue to suggest a moderately positive trend in single-family homebuilding.

Equities

- We believe the equity markets are transitioning from an interest rate-driven secular bull market to an earnings-driven secular bull market, which should become increasingly evident in 2017, according to Jeff Saut, Raymond James Chief Investment Strategist, Equity Research. Any weakness should be viewed with a long-term perspective and seen as a potential buying opportunity, depending on your personal goals and objectives.
- As evidence of the earnings-driven bull market, the benchmark S&P 500 reported earnings growth in the fourth quarter, the first time since the fourth quarter of 2014 and first quarter of 2015 that the index has reported two consecutive quarters of growth.
- With the S&P 500 at above-average valuations, according to some metrics, earnings growth will likely have to resume higher in order to justify appreciably higher prices for this market over the next 12 to 18 months. For now, it appears that economic activity and earnings should pick up in 2017. If this comes to fruition, the current bull market could continue into 2017.

Monetary Policy

- As expected, the Federal Open Market Committee (FOMC) raised the federal funds target range by 25 basis points, to 0.50-0.75%, while the Fed's Board of Governors approved a similar increase in the discount rate to 1.25% from 1.00%.
- Seasonal adjustment boosted the price of gasoline, food prices remained split and shelter costs continued to outpace the overall Consumer Price Index.
- While nominal hourly earnings have been trending moderately higher – reflecting a tighter job market – growth in inflation-adjusted earnings slowed over the past year.
- The Fed's Federal Open Market Committee (FOMC) raised the federal funds target range by 25 basis points, and the Real GDP growth estimate for the third quarter was revised upward to 3.5% from the previous estimate of 3.2% in November, while consumer spending led the way with 3% growth, up from the previous estimate of 2.7%.

Global

- Concerns continue to circulate over a surprise devaluation by China, which could threaten emerging market stability and commodity demand levels. While the nation's ongoing credit and debt bubble poses a potential risk to the outlook, we foresee no near-term catalyst for a crisis, according to Paul Berg, CFA, Cougar Global Investments*.

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Eye on the Market *(continued)*

- A major demographic transition is occurring among China's working-age population, which shrank in 2016 – a legacy of the One Child Policy – and the yuan has fallen to its lowest level against the dollar in more than a decade.
- Exchange rates remained uppermost in the minds of international investors outside the United States as the dollar remained generally firm against major international currencies
- European currencies remain weak against the dollar, but the focus across the region going into 2017 likely will be centered on political developments such as Brexit discussions and upcoming elections in a number of countries, including France and the Netherlands.
- Italian banks remain stressed, and the second half of December saw moves by the nation's government to offer formal support. The European Central Bank also confirmed a $579 billion stimulus in the eurozone.
- Generally, international markets trade at a discount to those in the United States. This reflects a greater level of event uncertainty but also means that returns have the potential to be higher if realities turn out to be less problematic than expected.

Fixed income

- The 2017 bond market stands to be much more unpredictable and altering relative to the stationary interest-rate environment of recent years.
- "Near-term, risk markets have more room to run with economic and fiscal policy optimism," said James Camp, CFA, Managing Director of Fixed Income, Eagle Asset Management*. "Through Q1 of 2017, the market is going to do well. The curve is steep. There's a term premium. Let's not forget that we opened 2016 with a big downdraft. This is a retracement from Brexit low yields and not particularly concerning."
- We are entering the year with a significant yield disparity among top economic powers that will continue to have mitigating influence on U.S. interest rates until these global rates close the gap.
- "Municipal bonds are unbelievably attractive right now," said Benjamin Streed, Raymond James CFA, Strategist, Fixed Income. "They're trading above Treasuries in terms of yield across the curve, so for investors that pay high marginal tax rates, munis look fantastic."
- There are numerous headwinds tempering interest rate swings: global market influences such as interest-rate disparity, central bank immersion, demographics, U.S. dollar strength and corporate earnings.
- "Asset allocation is important and, from a strategic standpoint, we are staying the course," said Doug Drabik, Raymond James Senior Strategist, Fixed Income. "Rising interest rates and the widening of municipal market spreads further emphasize decent opportunities for fixed income."

Bottom line

- U.S. equity experienced a downturn in the beginning of 2016, but enjoyed a prolonged rally as well as a surge following the U.S presidential election.

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Eye on the Market *(continued)*

- As the dollar holds firm against major international currencies, China and Europe are bracing for major political and economic decisions in 2017, which could impact market stability and commodity demand levels.
- Though each of the major U.S. indices hit record highs following a post-election rally in November, it is well-advised to keep a long-term perspective when it comes to diversification and your financial goals.
- We will continue to monitor political developments or economic shifts both domestically and abroad, carefully assessing how they may affect your financial plan.
- When reviewing market activity and investment performance, it is important to have a long-term perspective and keep in mind your personal asset allocation and the role a well-diversified portfolio plays in helping you reach your objectives.

Investing involves risk, and investors may incur a profit or a loss. All expressions of opinion reflect the judgment of the Research Department of Raymond James & Associates, Inc. and are subject to change. Past performance is not an indication of future results and there is no assurance that any of the forecasts mentioned will occur. The Dow Jones Industrial Average is an unmanaged index of 30 widely held stocks. The NASDAQ Composite Index is an unmanaged index of all common stocks listed on the NASDAQ National Stock Market. The S&P 500 is an unmanaged index of 500 widely held stocks. The MSCI EAFE (Europe, Australia, Far East) index is an unmanaged index that is generally considered representative of the international stock market. International investing involves additional risks such as currency fluctuations, differing financial accounting standards, and possible political and economic instability. These risks are greater in emerging markets. Small and mid-cap securities generally involve greater risks. Companies engaged in business related to a specific sector are subject to fierce competition and their products and services may be subject to rapid obsolescence. There are additional risks associated with investing in an individual sector, including limited diversification. The performance noted does not include fees or charges, which would reduce an investor's returns. Asset allocation and diversification do not guarantee a profit nor protect against a loss. Material prepared by Raymond James for use by its advisors.

How to Reach Us

Please note that we are not able to initiate security or investment purchases or sales via e-mail or voice mail. You must speak to a representative of our office for any trades to occur. For other communications, our e-mail addresses and phone extensions follow. Our phone number is (937) 298-8904.

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A Plan for All Seasons

Start the new year with an organized outlook

Still trying to think of a New Year's resolution? Consider organizing, decluttering and updating your financial plan. To start, going paperless, embracing online file sharing and organizing your tax documents from the beginning can help you avoid frenetic filing. Review the following list with your financial advisor to find even more timely to-do's.

WINTER 2016/17 | MARKET CLOSURES

Monday, January 2: New Year's Day, observed
Monday, January 16: Martin Luther King Jr. Day
Monday, February 20: Presidents Day
Friday, April 14: Good Friday

MARK YOUR CALENDAR

- **Tuesday, January 17:** Fourth quarter estimated tax payments are due, if required.
- **Tuesday, January 31:** Raymond James mails year-end retirement tax packets for 1099-R and 5498, if applicable.
- **Wednesday, February 15:** Raymond James begins mailing 1099 tax statements to account holders today. On Tuesday, February 28, Raymond James mails amended 1099s and those delayed due to specific holdings and/or income reallocation. Wednesday, March 15, is the final day to mail any original 1099s as well as continued amended 1099s as needed.

PLANNING TO-DO'S

- **Make New Year's financial resolutions:** Resolve to get organized: Sign up for Investor Access, where you can view your account online and go paperless to reduce clutter. Additionally, you can organize your personal and financial documents by uploading them to Vault, our online file sharing and content management platform.
- **Reassess retirement:** Double-check your employer retirement plan contributions and take advantage of any available employer match. Maximize IRA contributions early in the year so they will have more time to generate tax-deferred gains; you have until mid-April to do so for the previous year if you have not already. If you are 50 or older, ask your advisor about catch-up contributions.
- **Analyze health spending:** If you participate in a flexible spending account (FSA) or health savings account (HAS), review your contribution levels to ensure you're taking full advantage based on your family's needs, but be careful not to exceed applicable limits. If you have an FSA, be sure to utilize available funds before your plan's use it or lose it deadline.
- **Prioritize upcoming expenses:** Do a cash flow and liquidity analysis for the coming year. Do you have any major new expenses on the horizon that you should plan for in advance? Additionally, prioritize how you'll apply any available savings, for example paying down high-interest debt, building or maintaining an emergency fund, or increasing retirement savings.
- **Avoid frenetic filing:** Keep your tax documents in order as they arrive so you'll be prepared when it's time to file. Talk to your advisor about coordinating with your tax professional to make sure everything is in order.

Important Information for Tax Season 2016

As you prepare for tax season, here is some information that you may find beneficial.

2016 Form 1099 mailing schedule

- **January 31 –** Mailing of Form 1099-Q and Retirement Tax Packages
- **February 15 –** Mailing of original Form 1099s
- **February 28 –** Begin mailing delayed and amended Form 1099s
- **March 15 –** Final mailing of any remaining delayed original Form 1099s

Additional important information

Delayed Form 1099s

In an effort to capture delayed data on original Form 1099s, the IRS allows us to extend the mailing date until March 15, 2017, for clients who hold particular investments or who have had specific taxable events occur. Examples of delayed information include:

- Income reallocation related to mutual funds, real estate investment, unit investment, grantor and royalty trusts; as well as holding company depositary receipts
- Processing of Original Issue Discount and Mortgage Backed bonds
- Expected cost basis adjustments including, but not limited to, accounts holding certain types of fixed income securities and options.

Amended Form 1099s

Even after delaying your Form 1099, please be aware that adjustments to your Form 1099 are still possible. Raymond James is required by the IRS to produce an amended Form 1099 if notice of such an adjustment is received after the original Form 1099 has been produced. There is no cutoff or deadline for amended Form 1099 statements. The following are some examples of reasons for amended Form 1099s:

- Income reallocation
- Adjustments to cost basis (due to the Economic Stabilization Act of 2008)
- Changes made by mutual fund companies related to foreign withholding
- Tax-exempt payments subject to alternative minimum tax
- Any portion of distributions derived from U.S. Treasury obligations

What can you do?

You should consider talking to your tax professional about whether it makes sense to file an extension with the IRS to give you additional time to file your tax return, particularly if you held any of the aforementioned securities during 2016.

If you receive an amended Form 1099 after you have already filed your tax return, you should consult with your tax professional about the requirements to re-file based on your individual tax circumstances.

You can find additional information at https://raymondjames.com/wealth-management/why-a-raymond-james-advisor/client-resources/tax-reporting.

I hope you find this additional information helpful. Please call me if you have any questions or concerns about the upcoming tax season.

Please note, changes in tax laws or regulations may occur at any time and could substantially impact your situation. Raymond James financial advisors do not render advice on tax or legal matters. You should discuss any tax or legal matters with the appropriate professional.

Random Thoughts

Recently, I have been asked the same question on more than one occasion (especially during review meetings); what benchmark are you using to compare my portfolio's performance against? A good question but should not be important to clients of M.K. Brown Wealth Advisory. My essential principle of portfolio management in pursuit of my clients' most important goals are fourfold:

1. The performance of a portfolio relative to a benchmark is largely irrelevant to financial success.
2. The only benchmark we should care about is the one that indicates whether you are on track to accomplish your goals.
3. Risk should be measured as the probability that you want to achieve your financial goals.
4. Investing should have the exclusive objective of minimizing that risk to the greatest extent practicable.

It is worth reiterating the nature of our philosophy of advice. Generally speaking, my experience has been that successful investing is goal-focused and planning driven, while most of the failed investing I've observed was market-focused and performance driven Another way of making the same point is to tell you that the really successful investors I've known were acting continuously on a plan – tuning out the fads and fears of the moment – while the failing investors I've encountered were continually (and randomly) reacting to economic and market "news." I don't forecast the economy, I make no attempt to time the markets and I cannot – nor am I convinced anyone else can – consistently project future relative performance of specific investments based on past performance. In a nutshell, I believe my highest value services are planning and behavioral coaching – helping clients avoid overreacting to market events both negative and positive.

One of the more important informational pieces that we have included in your prior reviews, is the chart showing the average intra year decline in the S&P 500 to be at least 14% every year, going back to 1980. Yet even without counting dividends, annual returns have been positive in 28 of these 37 years and the index has gone from 106 at the beginning of 1980 to 2238 at year end 2016. I believe the great lessons to be drawn from these data are that historically, at least temporary, market declines have been very different from permanent loss of capital, and that the most effective antidote to volatility has simply been the passage of time. I can't predict that it will always work out that way. I can only fall back on the wisdom of the great John Templeton, who said that the four most dangerous words in investing are "it's different this time."

We are fortunate to have received many referrals.

Thank You!

Please ask about our Tiffany Gift Program for referrals.

Personal

Holidays are over and it's back to work, much to my relief! Christmas is for the little guys, and did they have fun. Barrett and Croix love their cars and trucks, while older kids, Aimy, Tatum and Bowen were forever locked into gizmos (iPad, phone, etc) playing games, strange they are in their own little world. Possible vacation for Sukey and I, still in the planning stages, Mexico in March? Cold weather reminds me that golf is getting closer, I hope.

Respectfully,

Martin K. "Bo" Brown, CFP®, CIMA®
Financial Consultant

Office News

As a reminder, our regular office hours are from 8:30 AM to 5:00 PM, Monday thru Thursday. Note that the office will be open from 8:30 AM to 12:00 PM on Fridays.

Be aware that requests to buy or sell securities cannot be accepted by voice mail but must be made by direct phone contact or in person. Please do not leave time sensitive instructions on voicemail. As always, you may access your account online through Investor Access or call Raymond James Client Services at (800) 647-7378 for immediate attention.

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Portfolio Investment Strategy

Asset Class Target Allocations (Current)

Portfolios*

Asset Class	1		2		3		4	
	Current Weight	Change	Current Weight	Change	Current Weight	Change	Current Weight	Change
Investment Grade Bond	15%	+3	12%	+5	3%	+1	0	0
Multi-Sector Bond	13%	-5	7%	0	2%	+2	0	0
High Yield	5%	0	10%	+3	7%	+2	0	0
Global Market Bond	13%	0	8%	–7	6%	–5	0	0
Large Cap Equity	30%	+8	31%	+5	43%	+8	56%	+9
Small/Mid Cap Equity	5%	+2	10%	+1	10%	–3	15%	0
International Equity	15%	+5	15%	+5	23%	+8	26%	+7
Alternative Investment	4%	–4	4%	–4	3%	–3	0	–5
Cash	3%	–9	3%	–8	3%	–9	3%	–11
	100%		100%		100%		100%	

Portfolio*	Name	Neutral Allocation %
1	Conservative Balance	60% Bonds, 40% Equity
2	Balance	40% Bonds, 60% Equity
3	Equity Balance	25% Bonds, 75% Equity
4	Equity	0% Bonds, 100% Equity