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Drinking From a Firehose

One of the benefits of modern communication technologies is that we can be anywhere anytime. This ability often leads to an overload of visuals and type. News and analysis hit us with an overload intensity. It's like drinking from a firehose.

Whether its hurricanes, North Korea, ISIS, or political chaos of all kinds, we are presented daily with stories that can make us feel like we should just look away if we could. Many of these stories bring the brutal truths of life to our desktop or phone, others make us want to fear the future.

In our last edition, we tried to break down the many different ways financial anxiety can interrupt sound financial planning. In this edition, we want to stress that while news and events hit us with great veracity, we believe it is vital to manage our expectations and responses to the intense times and focus on what matters for investors.

Despite no action by Congress, the economy seems to be gaining strength organically. Recent reports of consumer confidence (The Conference Board) have returned to levels not seen since 2007. Reports of available jobs have risen from near 5 million earlier this year to over 6 million today (JOLTS). The price of energy appears to be rising again which we read as a sign of accelerating global growth.

Additionally, and perhaps more to investors, is that corporate profits seem to have grown in 2017 by double digits, reversing a slowdown in profit growth in 2014-2016. We think strong corporate profits are the real driver of 2017 strong stock market. On September 28th, GDP growth for the 2nd quarter of 2017 was raised to 3.1% as reported by Bloomberg Economic Calendar. GDP is growing more robustly than in the recent past, again with no direct policy stimulus. We see this as reason to expect corporate profit to continue their strong growth, and could riser even faster should Congress pass pro-growth legislation in the coming months.

We believe that eventually, Congress needs to show their constituents some legislative results for a pro- growth agenda. The next election is now only 14 months away, and it will be difficult for incumbents to face voters next year with an empty hat in hand. We cannot know exactly how this plays out, but we are confident that something on tax reform and a budget will emerge this fall or next spring.

Last, while we are all coping with the tsunami of news and opinion that we are all subjected to daily, investors may be missing another strong reason to believe that the current bull market has a ways to go. Last November, in TWR Volume 19 Number 4 entitled "Now What?" we said: "Longer term, we expect to see the stock market return to its historical norm. ...the stock market over the last 10 years has not come close to its own long term rate of return. In fact, we would call the last 10 year return...to be relatively anemic."

At that time, the Standard and Poor's 500 Stock Index (S&P 500) 10 year average return was just over 7% for the period covering October 2006-October 2016. This rate was compared to its 30 year, 50 year, and 70 prior rates of return which all fell between 10%-11%. Knowing this, we saw a reversion to the mean potential which would indicate that the markets could rise above its historical return for a few years for the reversion to the mean to work through.

A year later, the 10 year average rate of return for the S&P 500 (September 2007-September 2017) is now below 6%. This further drop statically occurred because 2006, the year that was dropped from the current calculation, was a strong up year. We concede that this drop in the 10 year average return despite a strong rise in 2017 may be a bit atypical, but long term cycles can be a more reliable predictor than most believe. We believe, like last year, that the market is currently undervalued and look for the reversion to its mean as the main underlying force of today's bull market.

IN SUMMARY: Currently investors are being overwhelmed with confusing media stories that hit us like a torrent of water, like drinking from a firehose. But, when we step aside from the day to day media tsunami, we can see that markets and the domestic economy are growing at a strong pace. The same can be said for many global stock markets. We think the reversion to its long term mean should help stocks prices with a downwind effect for the foreseeable future.

PORTFOLIOS: Last year we made a strategic shift away from an emphasis on individual securities in favor of an allocation that relies on mutual funds and Exchange Traded Funds (ETFs). We called it "Operation Widen the Sail". This broadened the diversification of not only the number of securities in a portfolio, but also to how many sectors we invest in. We thought this change was a better strategy given our belief at the time that the domestic stock markets were undervalued, and a reversion to its mean was probably going to occur.

But we made a few additions to this allocation in 2017 that broaden the sail even wider. In July we added three investments. One increased our allocation to international equities. Two others were hybrid investments. One is an unconstrained equity manager and can buy anything anywhere. The other is a Long/Short fund, meaning the portfolio holds some positions they think will rise, but also has some investments sold short expecting these items to decline.

In September, we added another theme investment. It is a unit trust investing in four different areas that we think millennials should concentrate their spending habits.
We are confident that this bull market has a ways to go on the upside, and the recent additions to the allocations we manage by discretion will enhance our performance given the risk parameters we have established.

ENCLOSURES

Enclosure #1 is the Raymond James "Investment Strategy Quarterly-Quickview". We have made this piece a regular enclosure for the last few editions. It is a great overview of most relevant economic and market metrics we can find. We understand that this piece covers a lot of territory, but to us it's an information buffet. Glean from it what you wish.

Enclosure #2 is the recent comments from Brian Wesbury from First Trust Advisors. We've shared Mr. Wesbury's writings before and believe this is another one of his best. Here he talks about the current "recovery" and discusses it in a historical context. Of course he cannot answer when the recovery will end, but he provides some good discussion points on the issue.

Enclosure #3 come to us via Jeff Lanza, a retired FBI agent who worked on white collar and cybercrimes for the Bureau during his 20+ year tenure. We hosted his presentation of cyber security and identity theft recently, those in attendance stated they learned a lot. We thought those readers who could not attend would benefit from seeing the highlights of his presentation.

INVESTMENT STRATEGY QUARTERLY QUICKVIEW

OCTOBER 2017

THEMES

Low Volatility: All Quiet on the Market Front?

While volatility levels are by no means 'normal' from a historical standpoint, it doesn't necessarily mean they are unwarranted or unprecedented. Keep in mind that volatility doesn't drive the markets; rather, it is merely a byproduct of the market's actions. Understanding the current environment helps to explain this state of complacency. It's important to manage your investments to the appropriate risk profile to ensure that proper safeguards are in place to protect your assets if and when the equity markets unexpectedly turn.

Q&A: Company Consolidation

The stock market is shrinking in terms of the number of publicly traded companies, a fact that is both a result of, and contributing factor to, the increasing importance of a select few, large companies. Consumers have benefited in a big way, with technological innovation helping to bring down costs and prices, while making lives more convenient and requiring less manual labor.

Bond Market Bubble? Not Where You Think It Is.

Persistently low inflation and continued expansion of global central bank balance sheets suggest a sharp rise in government bond yields is not imminent. Flow of central bank money and low inflation are the key drivers of sovereign yields. Assuming the Fed's plan to unwind quantitative easing is not interrupted by political or economic events, it will take a couple of years to have any effect on rates. The real risk to the bond market, and capital markets in general, is the buying stampede in credit, and as corporate indebtedness continues to climb, risk premiums grind tighter.

For more information, refer to the full *Investment Strategy Quarterly.*

ECONOMIC SNAPSHOT

ECONOMIC INDICATOR

	ECONOMIC INDICATOR
FAVORABLE	GROWTH
	EMPLOYMENT
	REST OF THE WORLD
	BUSINESS INVESTMENT
	HOUSING AND CONSTRUCTION
	MONETARY POLICY
NEUTRAL	INFLATION
	LONG-TERM INTEREST RATES
	FISCAL POLICY
	THE DOLLAR
	CONSUMER SPENDING
	MANUFACTURING

From Scott Brown, Ph.D., Chief Economist, Equity Research

TACTICAL OUTLOOK (6-12 months)

FAVORABLE	U.S. LARGE CAP EQUITY
	NON-U.S. DEVELOPED MARKET EQUITY
	MULTI-SECTOR BOND STRATEGIES
	ALTERNATIVE INVESTMENTS
NEUTRAL	OVERALL EQUITY
	U.S. MID CAP EQUITY
	U.S. SMALL CAP EQUITY
	NON-U.S. EMERGING MARKET EQUITY
	INVESTMENT GRADE INTERMEDIATE MATURITY FIXED INCOME
	INVESTMENT GRADE SHORT MATURITY FIXED INCOME
	CASH AND CASH ALTERNATIVES
UNFAVORABLE	REAL ESTATE
	OVERALL FIXED INCOME
	INVESTMENT GRADE LONG MATURITY FIXED INCOME
	NON-INVESTMENT GRADE FIXED INCOME (HIGH YIELD)
	GLOBAL (NON-U.S.) FIXED INCOME

The tactical asset allocation outlook above reflects the Raymond James Investment Strategy Committee's recommendations for current positioning. Your financial advisor can help you interpret each recommendation within this material relative to your individual asset allocation policy, risk tolerance and investment objectives.

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INVESTMENT STRATEGY QUARTERLY QUICKVIEW

OCTOBER 2017

CAPITAL MARKETS SNAPSHOT

EQUITY	AS OF 9/30/2017*	1Q 2017RETURN**	12-MONTH RETURN
Dow Jones Industrial Average	22,405.09	5.58%	25.45%
S&P 500 Index	2,519.36	4.48%	18.61%
NASDAQ Composite Index	6,495.96	6.06%	23.68%
MSCI EAFE Index	1,973.81	5.40%	19.10%
RATES	**AS OF 9/30/2017***	**AS OF 6/31/2016****	**AS OF 9/30/2016**
Fed Funds Target Range	1.00-1.25	1.00-1.25	0.25-0.50
3-Month LIBOR	1.33	1.30	0.85
2-Year Treasury	1.45	1.38	0.73
10-Year Treasury	2.31	2.27	1.56
30-Year Mortgage	3.83	3.88	3.42
Prime Rate	4.25	4.25	3.50
COMMODITIES	**AS OF 9/30/2017***	**3Q 2017 RETURN****	**12-MONTH RETURN**
Gold	$1,283.10	3.29%	-2.98%
Crude Oil	$51.67	12.23%	7.11%

*Price Level
**Total Return

SECTOR SNAPSHOT

	SECTOR	S&P WEIGHT
OVERWEIGHT	INFORMATION TECHNOLOGY	23.2%
	HEALTH CARE	14.6%
	FINANCIALS	14.5%
	INDUSTRIALS	10.3%
	ENERGY	6.0%
EQUAL WEIGHT	MATERIALS	2.8%
UNDERWEIGHT	CONSUMER DISCRETIONARY	12.2%
	CONSUMER STAPLES	9.1%
	UTILITIES	3.2%
	REAL ESTATE	2.9%
	TELECOM	2.2%

DISCLOSURE:

Data is provided by the Investment Strategy Group. This material is for informational purposes only and should not be used or construed as a recommendation regarding any security.

ADDITIONAL RISKS: International investing involves special risks, including currency fluctuations, different financial accounting standards, and possible political and economic volatility. These risks are greater in emerging markets. Commodities trading is generally considered speculative because of the significant potential for investment loss. The companies engaged in the technology industry are subject to fierce competition and their products and services may be subject to rapid obsolescence. There is no assurance that any of the forecasts mentioned will occur. Asset allocation and diversification do not guarantee a profit nor protect against loss. Dividends are not guaranteed and will fluctuate. The value of REITs and their ability to distribute income may be adversely affected by several factors beyond the control of the issuers of the REITs. There is no assurance that any investment strategy will be successful or that any securities transaction, holdings, sectors or allocations discussed will be profitable. It should not be assumed that any investment recommendation or decisions made in the future will be profitable or will equal any investment performance discussed herein.

Past performance is not indicative of future results. The performance mentioned does not include fees and charges which would reduce an investor's returns. Fixed income securities are subject to interest rate risk. Generally, when interest rates rise, bond prices fall, and vice versa. Specific sector investing can be subject to different and greater risks than more diversified investments. Investing in small-cap and mid-cap stocks generally involves greater risks, and, therefore, might not be appropriate for every investor. High-yield (below investment-grade) bonds are not suitable for all Investors. When appropriate, these bonds should only comprise a modest portion of your portfolio. Specific sector investing such as real estate can be subject to different and greater risks than more diversified investments. Declines in the value of real estate, economic conditions, property taxes, tax laws and interest rates all present potential risks to real estate investments.

ALTERNATIVE INVESTMENTS involve specific risks that may be greater than those associated with traditional investments and may be offered only to clients who meet specific suitability requirements. There is no guarantee that any of the alternative strategies listed will be successful or that they will prevent loss.

INDEX DESCRIPTIONS: Please note that all indices are unmanaged and investors cannot invest directly in an index. An investor who purchases an investment product which attempts to mimic the performance of an index will incur expenses that would reduce returns. Standard & Poor's 500 (S&P 500): Measures changes in stock market conditions based on the average performance of 500 widely held common stocks. Represents approximately 68% of the investable U.S. equity market. The Dow Jones Industrial Average is an unmanaged index of 30 widely held securities. The NASDAQ Composite Index is an unmanaged index of all stocks traded on the NASDAQ over-the-counter market. The MSCI EAFE (Europe, Australia, Far East) index is an unmanaged index that is generally considered representative of the international stock market. The returns noted do not include fees and charges which will affect an investor's return.

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Longest Recovery Ever

Brian S. Wesbury – *Chief Economist*
Robert Stein, CFA – Dep. Chief *Economist*
Strider Elass – *Economist*

If the current economic expansion lasts another year and a half, it'll be the longest on record, even surpassing the expansion of the 1990s that ended in early 2001.

Notice how we didn't say it'll be the "best" expansion of all-time, just the longest; it's not the best by a long shot. From the recession bottom to the expansion peak, real GDP expanded 39% in the 1980s and 43% in the 1990s. So far, eight years in, this one is only up 19%. That's why we've been calling it the Plow Horse Economy.

Still, the length of the current expansion is pretty remarkable given how doubtful most were that it would even get started back in 2009, as well as all the predictions since then that it would end in spectacular fashion during the past eight years.

And we think the odds of going at least another 18 months are very high. Nowhere do we see the kinds of policy shifts or imbalances that could curtail economic growth enough to throw us back in recession.

In terms of policies, tight monetary policy, a major shift toward protectionism, or large tax hikes could all hurt growth.

In the past, tight money has usually been the key factor behind recessions. But, for now, short-term interest rates are about 125 basis points below the yield on the 10-year Treasury, roughly 200 basis points below the growth trend in nominal GDP (real GDP growth plus inflation), and the banking system remains stuffed with excess reserves.

Yes, President Trump has talked tough on some trade issues, but has yet to follow through in any major way compared to previous presidents. Meanwhile, geopolitical issues regarding North Korea may limit his ability to antagonize China with the sort of protectionist policies he suggested during the presidential campaign.

As far as tax hikes go, recent tax proposals would cut key marginal tax rates, not raise them.

In other words, public policy isn't going to be the source of recession anytime soon.

Meanwhile, home builders haven't overbuilt, consumer financial obligations are still hovering near the lowest share of income since the early 1980s, and bank capital ratios are substantially higher than before the financial crisis. Moreover, market-to-market accounting rules were tamed so that there's less likely to be a sudden drop in monetary velocity.

Will there be another recession? Certainly! It's just very unlikely to start any time before Spring 2019, which means the current expansion looks set to become the longest on record. And if Congress and the President get their acts together and find a way to pass tax cuts or tax reform (or both!), that should postpone the next recession even further into the future.

Just another reason why equity investors have good reason to remain bullish.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
10-12 / 7:30 am	Initial Claims – Oct 7	252K	**250K**		260K
7:30 am	PPI – Sep	+0.4%	**+0.4%**		+0.2%
7:30 am	"Core" PPI – Sep	+0.2%	**+0.2%**		+0.1%
10-13 / 7:30 am	CPI – Sep	+0.6%	**+0.7%**		+0.4%
7:30 am	"Core" CPI – Sep	+0.2%	**+0.1%**		+0.2%
7:30 am	Retail Sales – Sep	+1.6%	**+1.6%**		-0.2%
7:30 am	Retail Sales Ex-Auto – Sep	+0.9%	**+0.8%**		+0.2%
9:00 am	Business Inventories – Aug	+0.6%	**+0.7%**		+0.2%
9:00 am	U. Mich Consumer Sentiment- Oct	95.0	**95.6**		95.1

Protecting Your Family in The Information Age

Presented by Retired FBI Special Agent Jeff Lanza

Never go to a login in page through a link in an email or a pop up. Always go to the login page directly by typing the site name or, preferably, through a stored bookmark that you created.

General Rules for Computer Security:

- If you were not looking for it, then don't download it.
- Keep your software current with the latest updates.
- Don't click on links in emails from unknown senders.
- Be cautious when clicking on links in emails from known senders as their account may have been hijacked.
- Keep your PC protected with Windows Defender or antivirus software from a third party.
- Use CLT+ALT+DEL to exit a popup safely in Windows.
- Use CMD+Option+Escape to exit a popup on a Mac.

Current Threats

Fake Notification E-mails
Watch out for fake emails that look like they came from Facebook. These typically include links to phony pages that attempt to steal your login information or prompt you to download malware. Never click on links in suspicious emails. Login to a site directly.

Suspicious Posts and Messages
Wall posts or messages that appear to come from a friend asking you to click on a link to check out a new photo or video that doesn't actually exist. The link is typically for a phony login page or a site that will put a virus on your computer to steal your passwords.

Money Transfer Scams
Messages that appear to come from friends or others claiming to be stranded and asking for money. These messages are typically from scammers. Ask them a question that only they would be able to answer. Or contact the person by phone to verify the situation, even if they say not to call them.

General Online Safety Rules

Be wary of strangers - The internet makes it easy for people to misrepresent their identities and motives. If you interact with strangers, be cautious about the amount of information you reveal.
Be skeptical - People may post false or misleading information about various topics, including their own. Try to verify the authenticity of any information before taking any action.
Evaluate your settings - Use privacy settings. The default settings for some sites may allow anyone to see your profile. Even private information could be exposed, so don't post anything that you wouldn't want the public to see.

See What Others Can Find About You Online
www.zabasearch.com
www.spokeo.com
www.socialmention.com

Security Information For Social Networking Sites
www.facebook.com/security
twitter.com/settings/security
https://security.linkedin.com

Popular Programs:
Malware Removal: Malwarebytes.
Password Management: Keeper, LastPass, Dashlane.

Specific Actions to Avoid

1. **Don't click on a message that seems weird.** If it seems unusual for a friend to post a link, that friend may have gotten their site hijacked.
2. **Don't enter your password through a link.** Just because a page on the Internet looks like Facebook, it doesn't mean it is. It is best to go the Facebook login page through your browser.
3. **Don't use the same password on Facebook that you use in other places on the web.** If you do this, phishers or hackers who gain access to one of your accounts may be able to access your other accounts as well, including your bank.
4. **Don't click on links or open attachments in suspicious emails.** Fake emails can be very convincing, and hackers can spoof the "From:" address so the email looks like it's from a social site. If the e-mail looks weird, don't trust it. Delete it.
5. **Don't send money anywhere** unless you have verified the story of someone who says they are your friend or relative.

Ransomware aka Cryptowall

This fraud scheme begins when the victim clicks on an infected advertisement, e-mail, or attachment, or visits an infected website. Once infected with the ransomware, the victim's files become encrypted. In most cases, once the victim pays a ransom fee, they regain access to the files that were encrypted. ***Here are three ways to stay protected:***
Educate computer users about clicking on suspicious links or popups. Sometimes these come in the form of a package delivery notification from major brand names like Amazon, FedEx or UPS.
Enable popup blockers. Popups are regularly used by criminals to spread malicious software.
Always backup the content on your computer. If you are infected by ransomware, you can have your system wiped clean and then restore your files from your back up. Also, because ransomware can infect all hard drives, disconnect the backup drive when not in use or use cloud backup.

Password Management

Try to use different strong passwords for all your accounts. At a minimum, have different passwords for multiple email accounts, social networking, financial and employer sites.

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Simple Safeguards: Preventing Identity Theft

Presented by Retired FBI Special Agent Jeff Lanza

1. **Protect Your Personal Information**
   - ✓ Don't carry your social security card.
   - ✓ Don't provide your social security number to anyone unless there is a legitimate need for it.
   - ✓ Be aware that most Medicare cards use the social security number as the Medicare number. Take steps to protect your card.
2. **Protect Your Documents**
   - ✓ Shred your sensitive trash with a cross-cut or micro-cut shredder.
   - ✓ Don't leave outgoing mail with personal information in your mailbox for pickup.
3. **Be Vigilant Against Tricks**
   - ✓ Never provide personal information to anyone in response to an unsolicited request.
   - ✓ Never reply to unsolicited emails from unknown senders or open their attachments.
   - ✓ Don't click on links in emails from unknown senders.
4. **Protect Your Communications**
   - ✓ Keep your computer and security software updated.
   - ✓ Don't conduct sensitive transactions on a computer that is not under your control.
   - ✓ Protect your Wi-Fi with a strong password and WPA2 encryption.
5. **Protect Your Digital World**
   - ✓ Use strong passwords with at least eight characters, but the longer the stronger. Try random words strung together or phrases.
   - ✓ Use different passwords for your various accounts.
   - ✓ If you store passwords in a file on your computer, encrypt the file when you save it and assign a strong password to protect that file. This sounds obvious, but, don't name the file "passwords".
   - ✓ Consider using password management programs.

Social Networking Security Reminders

1. Login directly, not through links.
2. Only connect to people you know and trust.
3. Don't put your email address, physical address, or phone number or other personal information in your profile.
4. Sign out of your account after you use a public computer.

Identity Theft for Tax Related Purposes

If you are the victim of identity theft, or at risk because your information has been breached, go to this site: https://www.irs.gov/uac/Taxpayer-Guide-to-Identity-Theft

To remove your name from lists:

Mail - www.dmachoice.org; **Phone** - www.donotcall.gov

To stop preapproved credit card offers:

www.optoutprescreen.com *or* 1-888-5-OPTOUT (567-8688)

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Web Site: www.thelanzagroup.com

Credit Reporting Bureaus

Equifax: (800) 525-6285

P.O. Box 740241 Atlanta, GA 30374

Experian: (888) 397-3742

P.O. Box 9530 Allen, TX 75013

Trans Union: (800) 680-7289

P.O. Box 2000, Chester, PA 19016

- *To place a **fraud alert** on your account with all three credit reporting agencies:* www.fraudalerts.equifax.com
- You are allowed 3 free reports each year; to order: On Web: www.annualcreditreport.com By Phone: 1-877-322-8228

Terms to Understand:

1. **Fraud Alert:** Your credit file at all three credit reporting agencies is flagged and a potential lender should take steps to verify that you have authorized the request.

   Inside Scoop: *Fraud alerts only work if the merchant pays attention and takes steps to* verify the identity of the applicant. *They expire in 90 days unless you have been a victim of identity theft, in which case you can file an extended alert - it lasts for seven years.*
2. **Credit Monitoring:** Your credit files are monitored by a third party - if activity occurs you are notified.

   Inside Scoop: *Talk to your insurance agent about what they offer. It is most likely the least expensive way to protect you and your family. You might consider* www.allclearid.com *– it has a comprehensive protection plan.*
3. **Credit Freeze:** A total lockdown of new account activity in your name. This requires unfreezing before you can open an account.

   Inside Scoop: A proven way to protect against identity theft. Credit freeze laws vary by state. To check yours, go to your state Attorney General's website and search for "credit report freeze".

To Report Internet Fraud: www.ic3.gov

Key Numbers

FBI (202) 324-3000 or your local field office

FTC 1-877-IDTHEFT

Postal Inspection Service 1-877-876-2455

IRS 1-800-829-0433

Social Security Administration 1-800-269-0271

Identity Theft Resource: www.identitytheft.gov

Craigslist Safety: www.craigslist.org/about/scams