HOULIHAN FINANCIAL RESOURCE GROUP, LTD.
FINANCIAL PLANNING & INVESTMENT MANAGEMENT

3rd Quarter 2017

We often hear clients ask; "How long can this market continue to go up!?" We want to address this question from two perspectives:

1. Market fundamentals and supporting economic data
2. Global and geopolitical uncertainty and the potential effects on markets

<u>Our focus on the fundamentals</u>:

Domestically, earnings have been driving market returns. From a macro viewpoint, companies are benefiting from steady (yet slow) economic growth, strong employment numbers and continued consumer spending which accounts for approximately 70% of Gross Domestic Product (GDP). Additionally, large multinational companies are benefiting from a weaker dollar making earnings from abroad more valuable and making US exports more attractive to foreign buyers.

As we drill into different sectors (through 6/30) there are stark differences in performance; technology and heath care up 16.7% and 17.1% and energy and telecommunications stocks down 14% and 9.7% respectively. The difference in sector performance is a testament to the many uncertainties and current expectations that are influencing today's market.

A handful of large firms like Apple, Facebook, Amazon, Alphabet (Google) and Netflix (the FAANG stocks) have accounted for a significant portion of the market's appreciation. As these firms capture a growing share of profits through innovation, disruption and advancements in technological and logistical capabilities investors are willing to pay a higher price today in order to participate in what is assumed to be a much larger revenue stream in the future. That is what we mean when we discuss higher multiples.

While these growth stocks have appreciated dramatically, there is a less appreciated (but no less important) segment of the market comprised of value stocks. These are companies that historically trade closer to intrinsic value (do not have a high multiple), pay a nice dividend, are more mature and are, in many cases, longtime household names (like Proctor & Gamble, Wal-Mart, Coke, Exxon Mobile and JP Morgan). These stocks have been out of favor on a relative basis. However, we believe that value stocks provide the long term diversification that is critical in participating on the upside and protecting on the downside.

<u>Global and Geopolitical Uncertainty:</u>

There is always the possibility that the markets will not continue to take these uncertainties in stride. We are here to discuss your concerns but none of us have a crystal ball when it comes to the threats that we are seeing daily in the news. The best defense is the allocation that allows you to sleep at night and to continue the lifestyle that you have become accustomed to. If we need to adjust your Investment Policy Guideline (IPG), please come in so that we can discuss any changes that need to be made.

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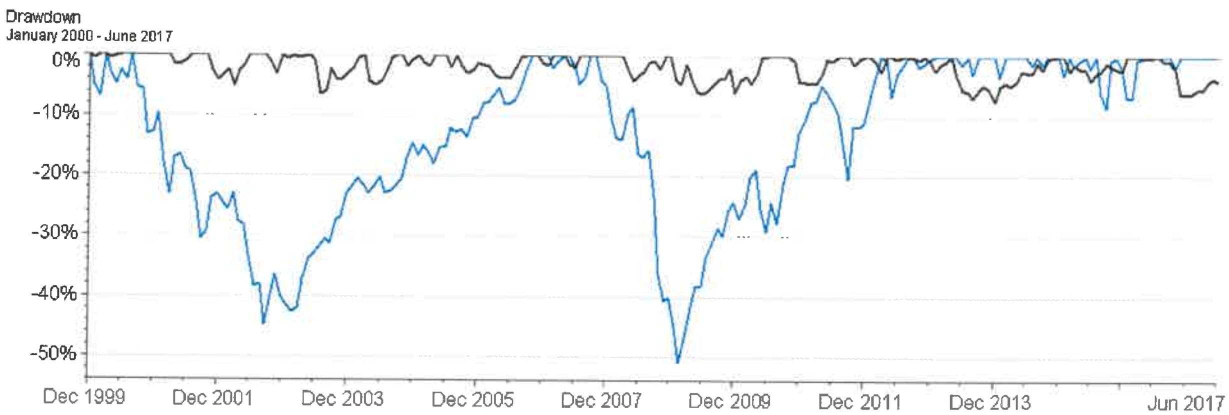
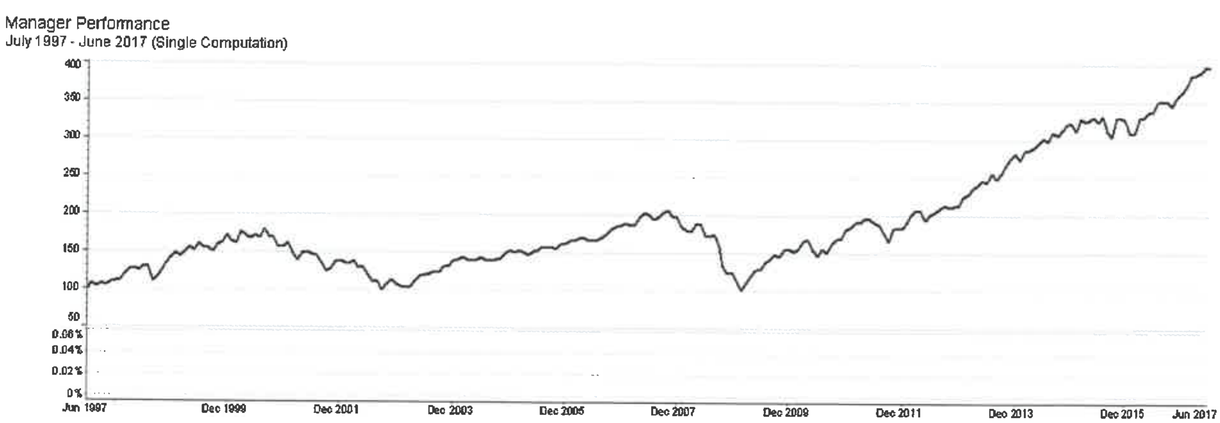
Pictures Speak 1,000 Words:

The chart below shows the last two decades and the more than 40% correction (twice) in the equity markets (blue line) while the bond market (black line) served as protection on the downside.



The graph below shows the total return of the S&P 500 including the recovery from both recessions. This graph emphasizes the importance of allocation and time frame. If you had sold out of the market because of fear by the end of 2002 and had waited to come back into the market when it showed recovery in 2007, you would have realized the losses of both recessions. On the other hand, if you were able stay with your allocation you would be experiencing all time market highs at this point.



We have just moved into our new office which is why this newsletter is arriving a little late. We would love to give you a tour. Due to the change in address, we have updated our ADV and are happy to send a hard copy or to email a copy if you would like.

On a happy note, Carlton and Alyssa welcomed a baby girl, Grace, on July 12th.

Patti, Ryan, Carlton and Becca