TOTAL WEALTH PLANNING

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Economic & Investment Outlook – 1st Quarter 2017

The year 2016 began with a rocky start to the investment markets as a result of declining oil prices and fears of a China economic slowdown. These events were followed with dramatic votes for change in both British and US political systems. Finally, the end of two major "curses" in sporting events, -- one brought about by Cleveland with a Cavaliers victory in the NBA Finals, and another by the Chicago Cubs with a World Series victory – made 2016 a year of extraordinary surprises.

The rocky start to 2016 saw most world stock indexes decline 8-12% during January and February, with the S&P 500 experiencing its worst start in history. The sell-off was partially attributable to fears of an economic slowdown in China. The Chinese economy, now one of the largest in the world, had been growing at a phenomenal rate of roughly 10% per year for the last few decades. With projections of a slower growth rate of 6-7%, uncertainty arose as to how this might impact the global economy. At the same time, one of the largest drops in oil prices occurred. Oil prices declined from $105 to a low of $25 per barrel in a period of 18 months.

By the summer, most equity markets had made a full recovery, but then experienced another setback by the surprise vote in Britain to exit the European Union. During the referendum campaign, outside of Britain, the possibility of a "Brexit" had not made many news headlines. Once the results were announced, however, uncertainty arose as to how "Brexit" might impact the global markets, and volatility subsequently spiked. At the present time, while the long-term effects of this vote are still uncertain, the expectation is that "Brexit" will be a long, drawn out process and there will probably be little change in European economic output.

On November 4th, after months of media speculation that Clinton would win the White House, an unexpected Trump victory created a storm within both the equity and fixed income markets. During the evening, as the results were announced, overnight trading immediately resulted in drops of 5% or more in various stock indexes while interest rates jumped. Shortly afterwards, during the next trading day, equity markets made a full recovery and have advanced considerably since then. Meanwhile, interest rates have continued on an upward trend, an indication of confidence in long term economic growth.

Over the long term, by assuming the risks associated with the stock market, investors can typically expect higher rates of return compared to other investments. This expectation may not be met every year, however. For example, in 2015 broad stock market indexes were mostly flat, with more conservative bonds actually outperforming stocks.

By comparison, in 2016 the more aggressive investments generally outperformed the more conservative ones. For example, returns for stocks of small and mid-cap companies outperformed large cap companies, the "value" style of investing outperformed "growth", and domestic stocks outperformed bonds.

The following chart illustrates how the broader markets have performed during the fourth quarter of 2016 and over the longer term:

Index	4th Qtr.	2016	3 year*	5 year*	10 year*	Description
S&P 500 Index	3.82%	11.96%	8.87%	14.66%	6.95%	Large-Cap Stocks
Russell 1000 Growth	1.01%	7.08%	8.55%	14.50%	8.33%	Large-Cap Growth Stocks
Russell 1000 Value	6.68%	17.34%	8.59%	14.80%	5.72%	Large-Cap Value Stocks
Russell 2000 Growth	3.57%	11.32%	5.05%	13.74%	7.76%	Small-Cap Growth Stocks
Russell 2000 Value	14.07%	31.74%	8.31%	15.07%	6.26%	Small-Cap Value Stocks
MSCI – EAFE	-0.68%	1.51%	-1.15%	7.02%	1.22%	International Stocks
MSCI – Emerging Market	-4.08%	11.60%	-2.19%	1.64%	2.17%	Emerging Market Stocks
Barclay's Aggregate Bond Index	-2.98%	2.65%	3.03%	2.23%	4.34%	Domestic Bonds
Consumer Price Index**	-	2.04%	1.17%	1.30%	1.82%	Inflation
*Denotes returns annualized as of December 31, 2016. **CPI updated through November 30, 2016. New results released in late January 2016.						

Expectations are for continued growth in 2017 for the US market, with mixed results internationally.

For 2017, we are anticipating global economic growth to continue. An independent non-profit organization known as The Conference Board, counts 1,200 public and private corporations from 60 countries as its members. It frequently publishes several widely-tracked economic indicators and has reported that consumer confidence is at its highest level in ten years. We track a number of macro-economic indicators that also support this confidence and optimism. Unemployment continues to decline, wages are rising, interest rates remain historically low and the global manufacturing picture continues to improve. Also, housing starts and auto sales, which are two of the largest drivers of economic growth in the US, are at levels not seen since prior to the Great Recession.

All of these strengthening economic fundamentals are lending to a recent shift in monetary policies within the US. The Federal Reserve, after having maintained record low interest rates for nearly a decade, is taking the opportunity to raise interest rates in order to manage anticipated inflation. As a result, the Fed already increased the federal funds rate once in 2015, once in 2016 and has announced they will raise rates up to three more times in 2017.

In other countries, economies are generally not performing as well as in the US and consequently, the international stock markets have been disappointing. Central banks in many of these countries, however, are continuing policies of economic stimulus. They are implementing similar strategies as those which have been pursued in the US over the last several years, with the expectation that economic growth will be sparked. Over time, we expect these policies to be successful. In the meantime, valuations of company stock prices overseas are generally more attractive on a relative basis. For these reasons, along with the benefits of diversification associated with international investments, maintaining a presence in these areas continues to have merit.

Our biggest concern at Total Wealth Planning is that of short-term volatility. We expect volatility may increase as interest rates continue to rise and as administrative transition occurs in the US across all three branches of government. Significant policy changes are likely to include lower tax rates, increased infrastructure spending, possible dismantling of trade agreements, and full or partial repeal of certain regulations such as Sarbanes Oxley and The Affordable Care Act. Congressional debates on these policies in addition to discussion of possible trade tariffs on imports will likely create headlines that rattle many nerves. We expect that this domestic uncertainty, added to rising geopolitical tensions, will spur greater volatility but with relatively quick recoveries after each short-term jolt.

Economic decision making drives Total Wealth Planning's investment decision making

With respect to our investment decision-making, it's important to consider that Total Wealth Planning makes diversification paramount in our methodology. We then use economic analysis to anticipate how each asset class may behave and make investment policy decisions accordingly. We intentionally tune out the present moment financial noise which we generally consider to be conflicting, distracting, and of little value. As a result, our recommendations often seem contrarian to the ongoing market and economic commentaries.

As a fiduciary for our clients, Total Wealth Planning will occasionally tilt portfolios toward a more aggressive or conservative bias, based upon our economic outlook. Since 2009, we have maintained a positive outlook and a correspondingly bias toward stocks. Our clients have been rewarded financially by this tactical overweight to large multi-national equities, as the markets have experienced dramatic growth during this period.

Although our long-term outlook remains positive, in order to prepare for the likelihood of increased market volatility, we believe it is prudent to reduce equity exposure at the present time. Our policy for the last several years has been to overweight stocks by 5% relative to each client's long-term portfolio allocation targets. Our intention for early 2017 is to reduce the equity position to 5% below these targets, meaning a 10% reduction in equities for most clients. Within the first few weeks of January, clients will see a number of adjustments to their portfolios to reflect this policy change. While this tactical change is geared to reduce the risk of the portfolio, it will also provide a "dry powder" of stable investment to deploy as opportunities arise.

As your investment advisor, we have a fiduciary responsibility to prudently manage your hard-earned investment portfolio. Although we regularly attempt to minimize taxes by implementing multiple tax efficient strategies, our primary goal remains, which is to capture growth and protect your portfolio against downside risk.

Our ability to limit the amount of capital gains and corresponding tax liability becomes more challenging as the markets advance and after several years of a bull market. While we are always mindful of tax implications, the benefits of making desired shifts are expected to add value, after accounting for the increased taxes. *However, the amount of tax liability resulting from planned rebalancing of your accounts will probably be higher for 2017 compared to 2016.* Our process aims to defer taxation by rebalancing within tax qualified accounts (IRAs, 401(k)s, etc.) when possible. However, clients with a relatively small proportion of their portfolio in these types of accounts will likely experience a larger amount of taxable capital gains, since more profits will instead be required to be recognized within taxable accounts.

Total Wealth Planning Has Been Recognized Nationally and We Continue to Grow Because Satisfied Clients are willing to Refer New Clients to Us

Today, many people are searching for a knowledgeable and trustworthy advisor to assist them with their current financial planning and investment management needs and concerns. Total Wealth Planning is a fee-only advisor with a proven 25-year track record of success. We have an experienced staff of professionals prepared to advise new clients who are seeking comprehensive financial planning and investment advisory services. We offer, with no charge or obligation, an introductory, get-acquainted consultation to determine if and how we might be able to assist others with our services. For additional information, please view our website at www.twpteam.com or telephone us at 513-984-6696.

From our family to yours, we wish you a healthy and prosperous New Year!

Total Wealth Planning Investment Policy Committee

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