Guiding you towards your financial goals

AMERICAN RETIREMENT & Investment Strategies, LLC

2nd Quarter 2017

A LOOK AT THE FIRST QUARTER of 2017

The first quarter of the year saw a continuation of the trend from last quarter of 2016. The elephant in the room was the Federal Reserve, signaling that the US economy is finally strong enough to stand on its own two feet, indicating a higher interest rates era on the horizon. The only question left is "how many times will rates be raised this year?"

Overall we are still optimistic with the equity markets, but also growing more cautious. With interest rates creeping up, mortgage rates are also going up, making it tougher for people to borrow money. The US dollar is higher and that makes US goods less attractive overseas. On the international front, Europe is seeing more consensus, while China is on everyone's mind as the biggest bet for 2017. In fact, the Chinese economy could trigger some bumps in the road.

From an equity perspective, although we have seen a strong market since the beginning of the year, we certainly do not think the same pace should be expected for the remainder of the year; or at least until we see tangible results of a higher GDP coupled with tax reforms passed by the legislative body. Stock valuations and future expectations are getting a bit high, and we believe that going forward security selection will be more and more important. From a sector standpoint within our economy, we remain bullish on Financials, Technology, and Healthcare. We are keeping a close eye toward Basic Material as this could be the huge winner from the $1 trillion infrastructure plan which both the Democrat and Republican parties want to pass to rebuild America .

The Federal Reserve has signaled between 2 and 3 more rate hikes this year and both the equity and bond markets have already fully digested and priced this information within most asset classes. The "frequency" of higher interest rates could become an issue if inflation picks up more steam than forecasted (forcing the Fed to be more aggressive with the higher rates). What is reassuring to us for now is that both the 30-year Treasury bonds (yielding around 3%) and the 5-year Treasury note (yielding 2%) are indicating that things over the long term should not experience catastrophic perils, while the shorter 2-year Treasury note at 1.4% is perhaps signaling some bumps ahead. We will keep an eye open for rates, inflation and the difference between the long Treasury bonds versus the short Treasury notes as they are amongst the best indicators for any economic slowdown.

Overall we remain relatively upbeat about the state of the U.S. economy as fundamentals remain solid, including the labor market, manufacturing, housing, consumer spending and business investment. However, we think equity markets and risk assets in general could be poised for a "healthy" correction. The good news is that investor sentiment is at the highest level of the last 16 years, meaning they are unlikely to overreact to negative news as they did periodically throughout 2016. As such, if we should experience a market correction, we suggest that investors ride out any near-term equity turbulence. We are maintaining our pro-growth investment view and continue to believe equities will outperform bonds over the next year and beyond.

Internationally we continue seeing all the major European indexes moving higher, in fact Germany's blue-chip DAX index is within striking distance of its all-time high. If we look at the flows of new funds being invested, Europe continues to be in vogue among global investors; March saw the largest inflow into European equities in more than 60 weeks. Unfortunately, the Japanese economic picture is exactly the opposite of Europe, showing signs of fatigue with retail consumer spending still very weak. This is raising doubts — once again — about the ability of the government to meet its growth and inflation targets, even after one of the biggest stimulus packages ever seen to revive domestic consumption.

The Chinese economy has shown signs of strong economic indicators in March, surprising everybody, especially the manufacturing indicators. We think the government's stimulus spending and lending from 2016 is finally showing signs of stabilization. The real problem with China and its economy lies with its over-leveraged financial sector coupled with over inflated industries which now need to de-leverage and move toward a more market-driven economy.

Emerging markets in general entered 2017 in their best shape in five years. However, US policy uncertainty and imbalances in the Chinese economy are becoming key sources of risk. We believe appetite for riskier assets should improve given expectations of stronger US and global growth, which could benefit areas including high yield dollar denominated emerging markets debt and specific emerging markets. Overall, we could be at the early-stages of a multi-year bull market for emerging markets and commodities alike.

The Dynamic Portfolio

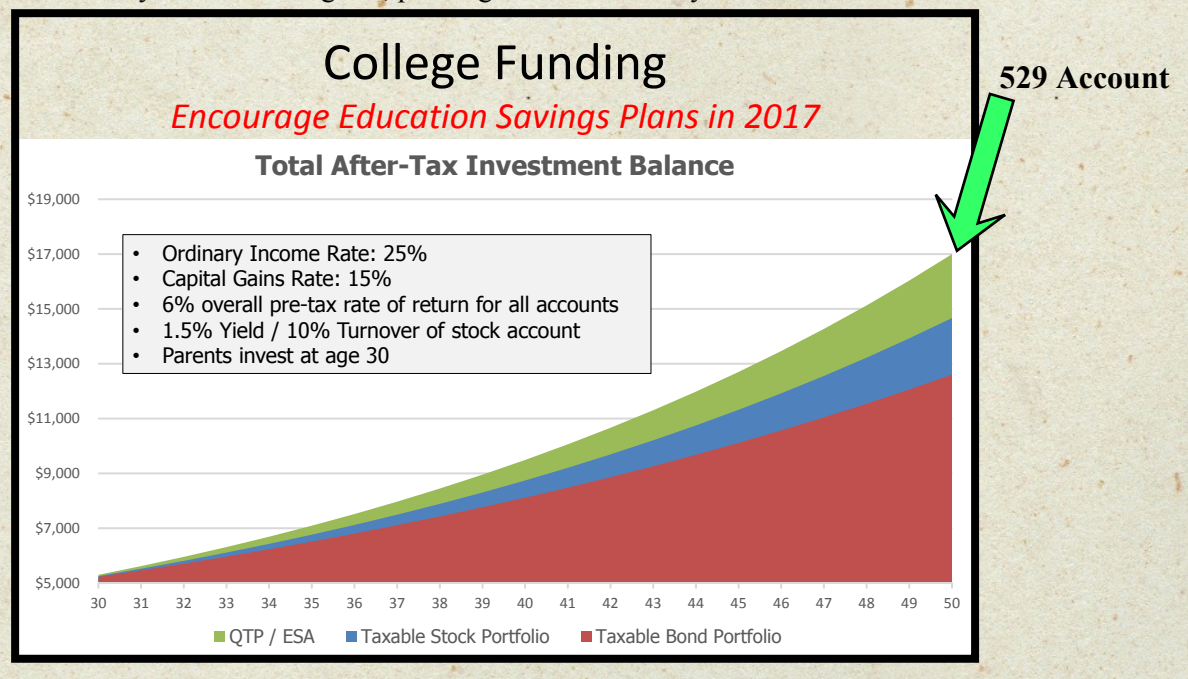
The adjustments we made during the last few months of 2016 are yielding good results. A more balanced allocation between value/growth/international/dividends within the Dynamic Portfolio is paying off. It is not a coincidence that the best performing stocks in the Dynamic Portfolio during the first quarter of the year were: Philip Morris (24%), Apple (24%), Alibaba (22%), and Netflix (20%).

With the exception of only 4 stocks, all other securities now are paying good dividends. As we mentioned recently, we strongly believe that when these dividends are re-invested into their stocks, over the long-term they will prove to be a very successful strategy. At the beginning of next quarter, we will also rebalance the whole Dynamic Portfolio; this means we will be taking some gains off the table from those companies that enjoyed a nice run-up, and will be adding more shares toward those companies that might have suffered a setback in the last 6 to 9 months.

Final Thoughts ...Did You Know?

Have you put off starting or funding a college saving plan? Maybe it is time to reconsider. The benefits to saving for college in a 529 plan are significant. All things being equal, assets available can be much higher if invested in a tax advantaged 529 account vs. a taxable stock or bond account. As you can see in the chart below, your balance can be 23-50% HIGHER after 20 years by using the benefits of the 529 features.

We provide an excellent solution for your education goals, please give us a call today!



Thank you for continuing to put your trust in our firm.

All the best,

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