Guiding you towards your financial goals

AMERICAN RETIREMENT & Investment Strategies, LLC

3rd Quarter 2017

A LOOK AT THE FIRST HALF of 2017

Hard to believe but now that the mid year has passed, it is time for us to focus on where the global economy, equities and fixed income are headed for the remainder of the year. To that end, we continue to see momentum building up in the U.S., Europe, Asia and the emerging markets, accelerating an economic activity that started globally over the past 12 to 18 months. Yet for the first time in a long time, we are starting to see some risks, specifically, the prospect of the U.S. Federal Reserve tightening monetary policy more aggressively than needed. We don't believe it will happen, but the market might perceive this as a threat and react with a spike in volatility creating the conditions for a market correction.

For us as investors, it's important that we don't get too carried away by these mini-cycles in economic activity (or even corrections in the market), but keep focusing on the longer term economic expansion in which they can occur, and the fundamentals that are driving that. As Janet Yellen said, "expansions don't die of old age" rather what causes expansions to come to an end are excesses or imbalances that build up in the system that need to be corrected. They can come in a variety of forms. For example inventory excesses happened in the '50s and the '60s; or inflation excesses as in the '70s and the '80s; and there can be financial excesses, which is what we saw with the internet and the housing bubble last two decades.

Currently, all the economic data suggest that in the U.S. we've had a "goldilocks" economy; that is, not too hot, not too cold. We've had enough economic growth to prolong the expansion, but we haven't had inflation yet that usually comes from strong growing periods. And that's been a good environment for equities, with earnings growth accompanied by expanding valuation. Some argue that U.S. stocks seem at relatively high valuations, especially when compared to non-U.S. markets. In reality if we look at the U.S. market sector by sector, it's not so clear. The technology sector has for sure driven a lot of the valuation growth. But if we look at industrials, consumer staples and other sectors relative to the rest of the world — the valuations are more comparable. So the U.S. as a whole is more expensive but, in part, driven because of the rapid growth in technology.

Outside the U.S., in particular the financial sector remains quite cheap. We're finally starting to see conditions — for example, in Europe — where the banks could do better. The economic growth is picking up, inflation is no longer negative, the conditions seem ripe for the financial sector to do better there than it has over the last several years, and we could see some catch-up there. We remain very bullish also with emerging markets as well, with China and India heading the front. The investments we have selected for your portfolios reflect those areas in the world and are paying off very nicely.

Obviously a big focus for us is to see where interest rates will end up in the short to medium timeframe. Although the Federal Reserve has already raised rates this year, we do see fairly low interest rates for quite some time, especially in absence of inflation. We could have a low interest-rate scenario for years to come. And this could be very good news for equities and fixed income in general.

Within the fixed income world, we continue to favor convertible securities coupled with floating rates and "treasury inflation-protected securities" (TIPS). We also see emerging market bonds offering the most attractive value in fixed income for global bond investors who seek potential total returns. Overall, we think the long-term Treasury rates will remain low for the foreseeable future and send a message to the Fed to proceed with caution.

The Dynamic Portfolio

The more balanced allocation between value/growth/international/dividends within the Dynamic Portfolio has returned +10.2% for the first six months of the year. The best performing stocks reflecting this new balance were Alibaba (BABA) boasting a +60% gain, followed by Philip Morris (PM) with +30%, Apple (AAPL) +25%, Visa (V) +20% and Netflix (NFLX) +19%. The worst performers were Chevron (CVX) with a -9%, Exxon Mobil (XOM) at -8% and Intel (INTC) with -3%.

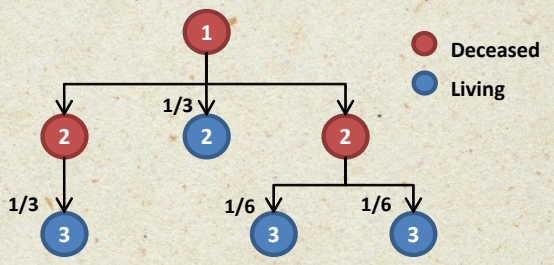
With the beginning of second part of the year we have already started our rebalancing process eliminating both Toyota (TM) and Verizon (VZ). These two companies will be replaced by Biogen (BIIB) and Lockheed Martin (LMT). In addition we will be taking some profits from Alibaba and redistribute those into other companies.

Final Thoughts ...Did You Know?

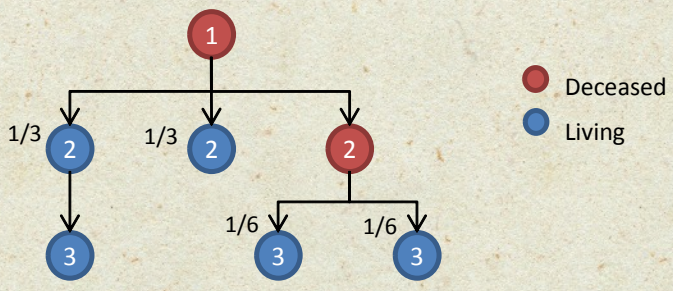
There is more to consider than just naming a beneficiary for your IRAs. How the assets will be allocated must be determined as well. There are two general types of asset distribution, **Per Stirpes and Per Capita.** The charts below give you a general description of their differences. However, they can be modified, so please consult an estate attorney prior to making your decision.

As always, please contact us if you would like more information.

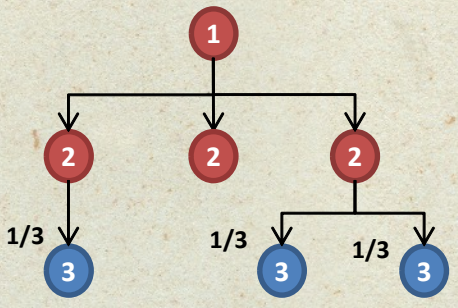
Strict Per Stirpes – each branch of the family receives an equal share



Per Capita by Representation – splits the number of shares equal to the number of descendants in the first surviving generation



Per Capita by Representation - Now consider if none of the children survive



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

All the best,

Joseph M Grella, CFP ®

(E) joeg@investinaris.com

(P) 978-283-1011

William D'Annibale

(E) billd@investinaris.com

(P) 508-533-7370

Your Financial Advisors