

Quarterly Market Review

Fourth Quarter 2016

Q4

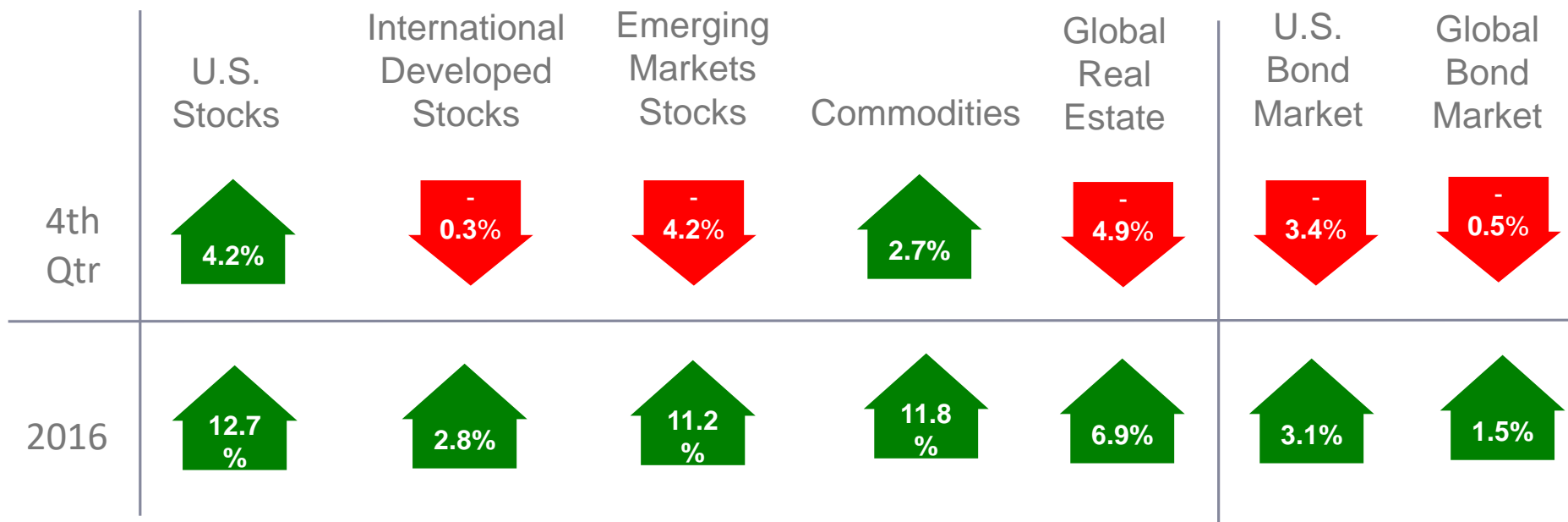


By the Numbers: 4th Quarter & 2016 Index Returns



Every year has its fair share of surprises. Many are welcome, some are not, and most don't make sense without days, months, or even years of hindsight. We are pleased to report that 2016 was a good year for the capital markets, particularly in light of its five biggest surprises (to be detailed on the following pages in chronological order).

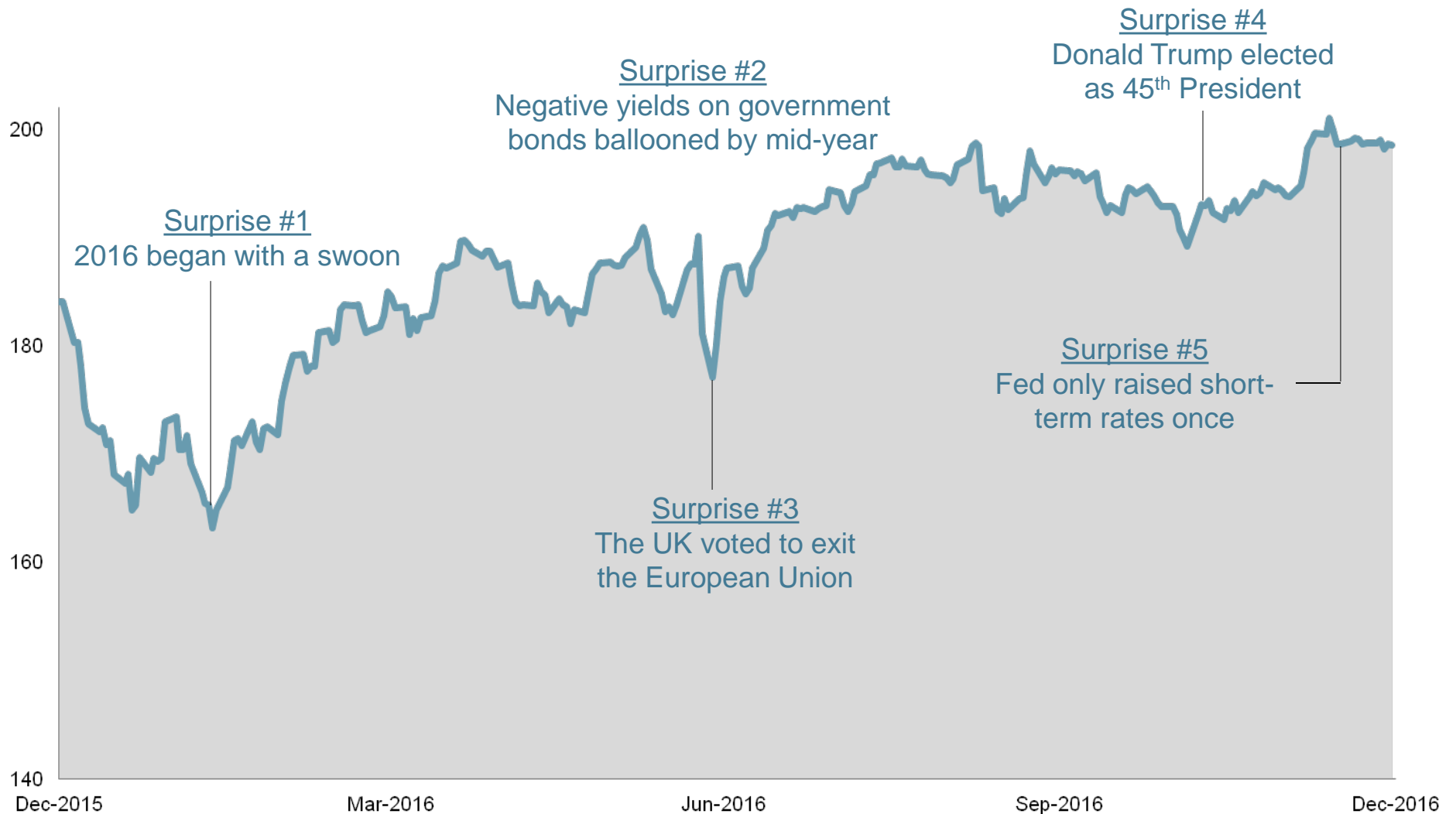
Before we address the specifics, here is a summary of how the major asset classes ended the 4th quarter and the year:



Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Market segment (index representation) as follows: US Stock Market (Russell 3000 Index), Commodities (Bloomberg Commodity Index), International Developed Stocks (MSCI World ex USA Index [net div.]), Emerging Markets (MSCI Emerging Markets Index [net div.]), Global Real Estate (S&P Global REIT Index), US Bond Market (Barclays US Govt./Credit), and Global Bond ex US Market (Citigroup WGBI ex USA 1-5 Years [Hedged to USD]). The S&P data are provided by Standard & Poor's Index Services Group. Frank Russell Company is the source and owner of the trademarks, service marks, and copyrights related to the Russell Indexes. MSCI data © MSCI 2016, all rights reserved. Bloomberg Barclays data provided by Bloomberg. Citigroup bond indices © 2016 by Citigroup.

World Stock Market Performance

MSCI All Country World Index with the four biggest surprises of 2016



These headlines are not offered to explain market returns. Instead, they serve as a reminder that investors should view daily events from a long-term perspective and avoid making investment decisions based solely on the news.

Graph Source: MSCI ACWI Index [net div.]. MSCI data © MSCI 2017, all rights reserved.

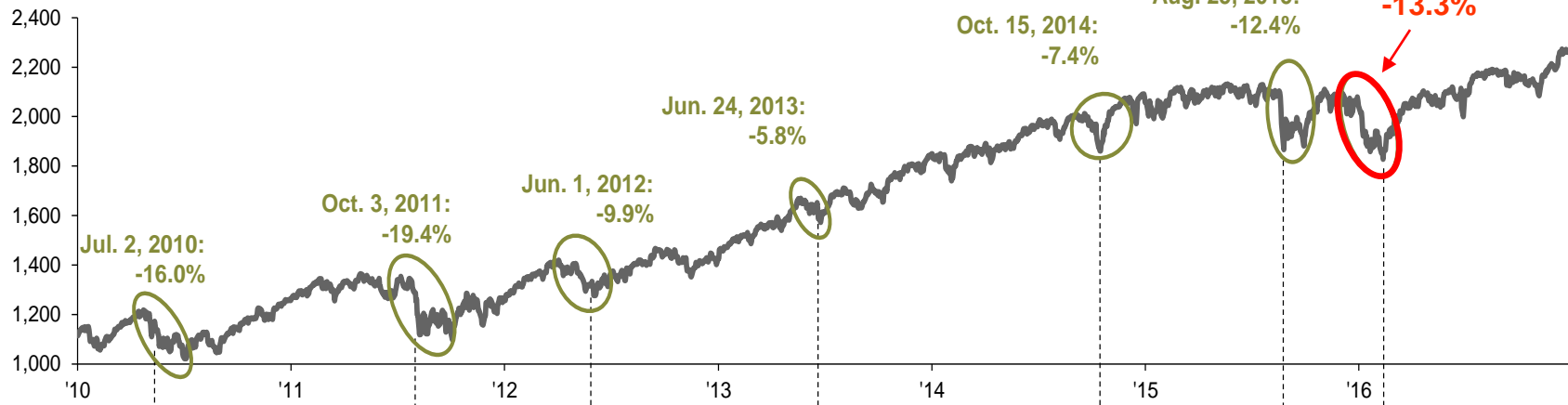
It is not possible to invest directly in an index. Performance does not reflect the expenses associated with management of an actual portfolio. Past performance is not a guarantee of future results.

Surprise #1 – The new year began with a swoon



Major pullbacks during current market cycle

S&P 500 Price Index



The merrymaker's hangover continued well beyond New Year's Eve 2016, as the S&P 500 retreated 13.3% between January 4th and February 11th. The culprits included:

- Oil sinking to \$26/barrel
- Japan adopting negative interest rates
- Fed curtailing rate hikes
- Fears of recession
- Worries over China

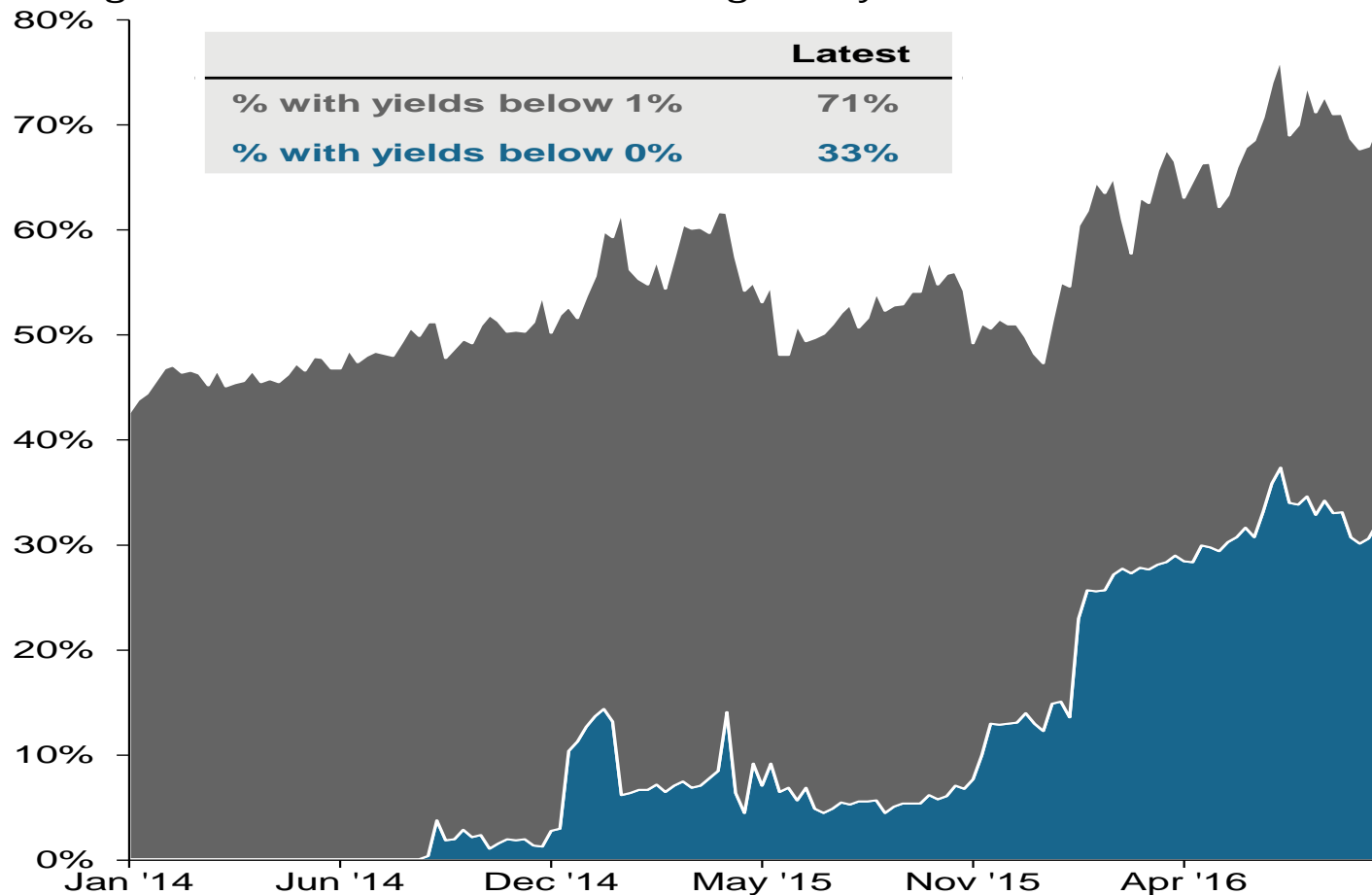
Surprise #2 - Negative yields on govt. bonds ballooned



Nearly a decade of aggressive rate cuts by global central banks led to over one-third of government bonds experiencing negative yields by mid-year. Translation: investors were willing to pay certain governments to just hold their money for them. This phenomenon first appeared in the fall of 2014, gained steam during 2016, and is showing signs of waning as interest rates trend higher.

Government bonds with low or negative yields

% of government bond index with negative yields



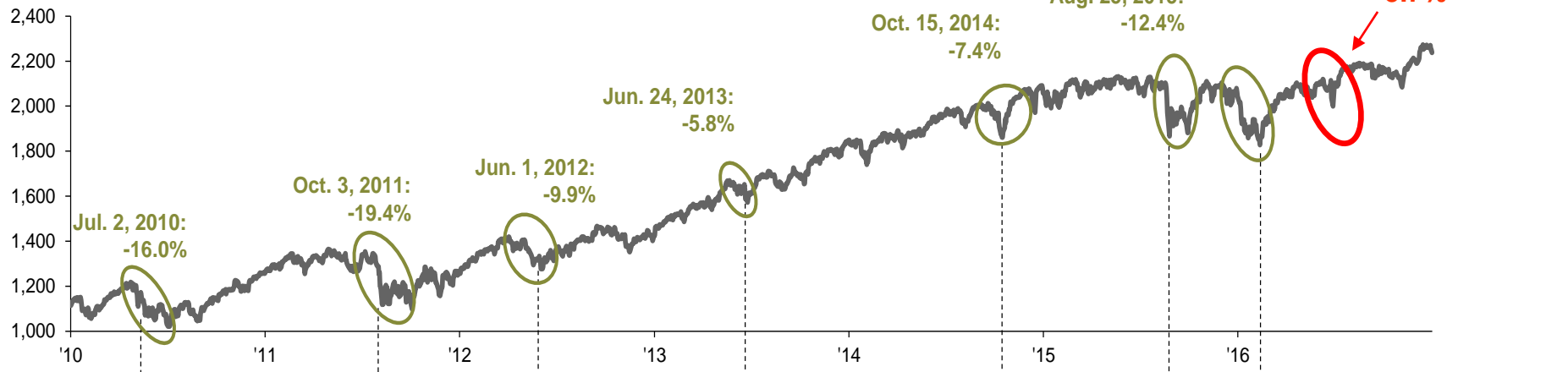
Source: Bank of America/Merrill Lynch, JPM's *Guide to the Markets*

Government bond index is the BofA/ML Global Government Bond Index, which includes investment grade sovereign debt denominated in issuer's domestic currency. The index includes all euro members, the US, Japan, Canada, Australia, New Zealand, Switzerland, Norway and Sweden.

Surprise #3 – UK voted to exit the European Union

Major pullbacks during current market cycle

S&P 500 Price Index



Just when Europe was back on its feet following the 2011 sovereign debt crisis, the region wobbled again as UK voters elected to exit the EU in June. Qualms over immigration, British sovereignty, and globalization cost David Cameron his job as Prime Minister and ushered in a new period of uncertainty regarding the UK's relationship with the Continent. Similar ideology recently ousted Italy's prime minister and will influence upcoming elections in Germany, France, and the Netherlands.



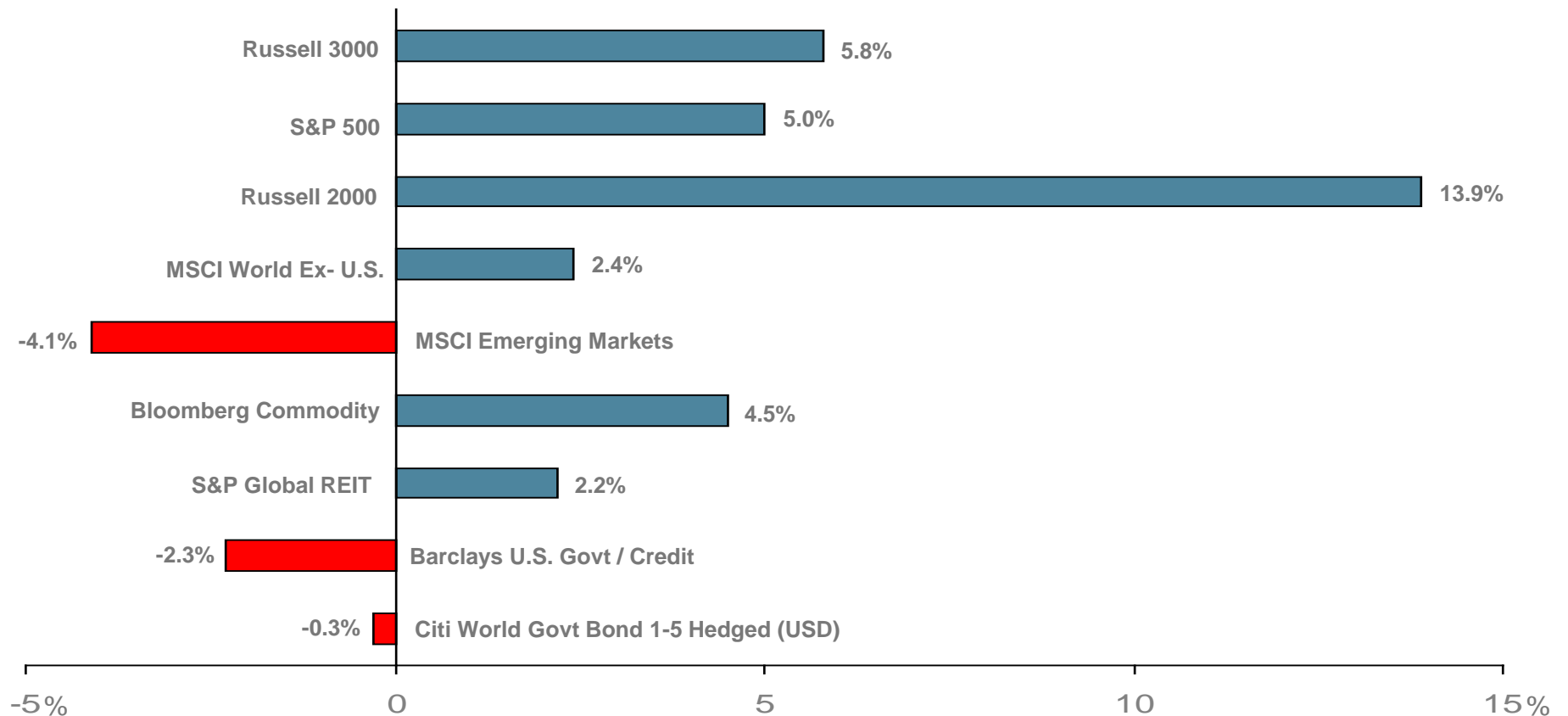
July 4th, 2017
Lake Tahoe, USA

Surprise #4 – Donald Trump elected as 45th President



This year's surge of populist and nationalist sentiment helped Trump win the presidential election, perhaps the biggest surprise of the year. With expectations for less regulation, lower taxes, and increased spending, the equity markets rallied impressively with small cap stocks leading the way, while bond markets braced for inflation and higher rates.

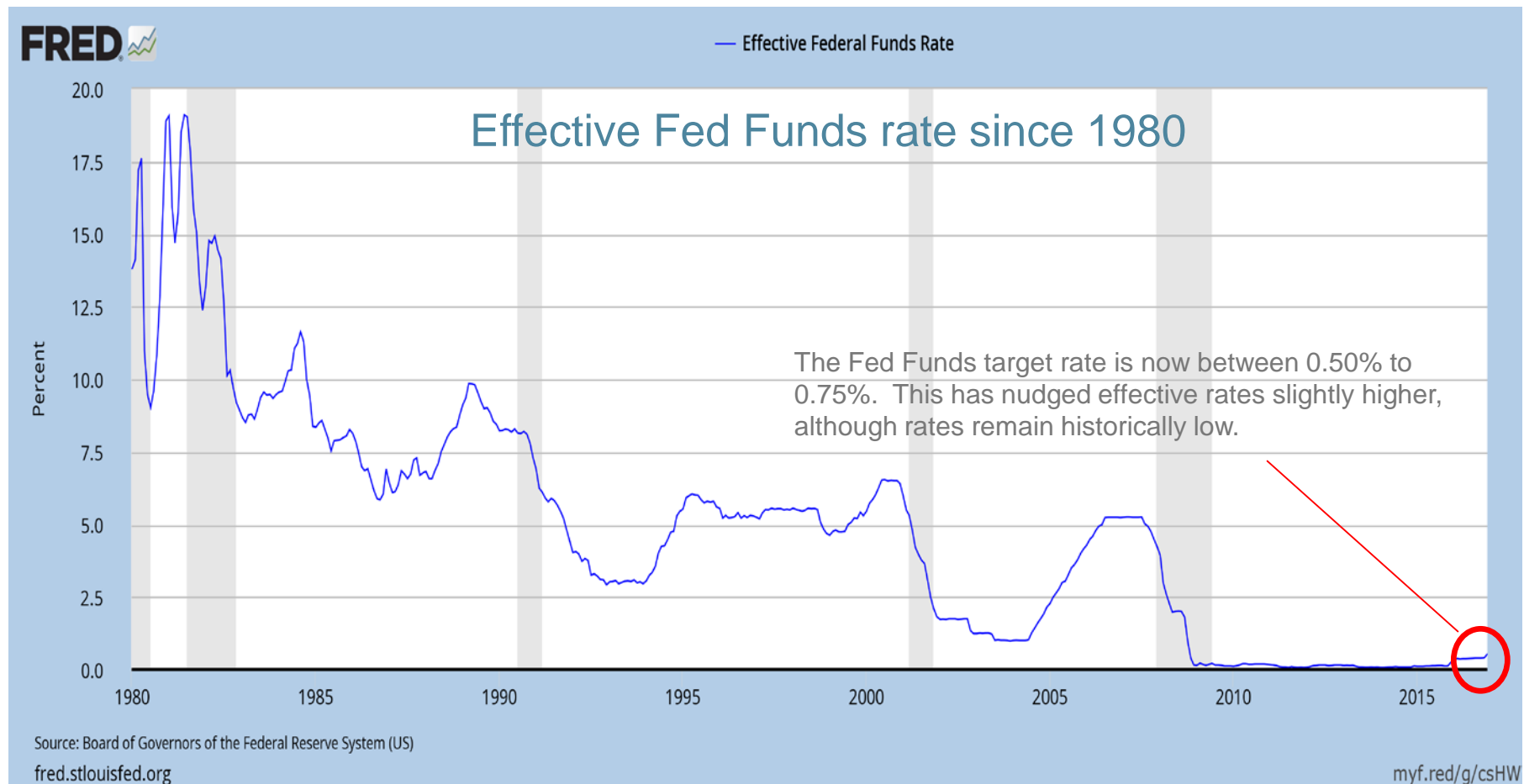
Index Performance from Election to Year-End



Surprise #5 – The Fed only raised short-term rates once



In December 2015, the Fed raised rates for the first time in more than nine years. Few expected it would take another eight Fed meetings and 365 calendar days to nudge the benchmark rate up once more, least of all Fed officials. They had projected four 0.25% point hikes for 2016. With three hikes forecasted for 2017, we will see if they can improve on their batting average.



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