FINITY GROUP, LLC

4380 SW Macadam Avenue •Suite 245 • Portland, OR 97239

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Second Quarter Market Update

International markets, measured by the MSCI EAFE index, continued their outperformance in the second quarter, ending up 6.1%. While behind international markets, domestic markets, measured by the S&P 500, still had a strong showing, ending the period up 3.1%, translating into YTD gains of 9.3%, which is in line with its 15-year annual average return. Fixed income markets, measured by the Barclay's Aggregate Index, again had modest gains and ended up 1.45%, While risks remain on the investment landscape, markets once again proved their resiliency and rewarded disciplined investors.

Up, Up and Away…

Domestic equity markets appear to have channeled their inner Superman. At this point, the bull market cycle in the S&P 500 since the 2008 recession, is easily the second-longest bull market period since World War II and shows no real signs of slowing down. According to Factset, through July 21, 2017, approximately 19% of the S&P 500 constituents have reported their second quarter results, and of them, 77% have beaten sales estimates and 73% have beaten their earnings estimates. While still early in the earning season (when companies report their performance figures) and with the majority of the S&P 500 left to report, the initial indication is very fundamentally strong and impressive. We would remind investors that these are the figures that are most important and worthy of attention. It seems we have more and more "noise" in our financial news media that can create a negative connotation of where markets are headed or cause unnecessary stress, but if you look beyond the headlines there are fundamental reasons to remain optimistic.

While we remain optimistic in the direction of markets, it is not without some caution. There is no denying that the S&P 500 is trading above its historical price to earnings ratio, a common way to evaluate the price of stocks. Currently, the market is trading around 18x its forward P/E, compared to the 10-year average of 14x. According to Factset, analysts are projecting approximately 8% growth in earnings over the next 12 months. It appears the market will need this continued growth to maintain this trajectory, but if we can maintain the momentum outlined above we feel this should be attainable.

For many investors in the capital accumulation stage, these types of markets create a dilemma of where to allocate on-going savings. As always, we would encourage long-term investors to rebalance back to their originally agreed-upon asset allocation, which is designed for their goals and time horizons with their risk tolerances in mind. That said, in a globally-diversified portfolio, two areas that may be underweight at this point are fixed income and domestic value stocks. Both play an important role in a portfolio. Fixed income, while facing a rising interest rate environment, still plays an important role in any well-balanced portfolio. These types of investments have historically had much lower volatility than their equity counterparts and can perform well in bear markets. For example, in 2008, fixed income, measured by the Barclays US Aggregate bond index, was up 5.2% while the S&P 500 index was down 37%, creating an opportune time for disciplined investors to sell some of their fixed income positions and increase their equity holdings back closer to their targeted allocations. Since the market lows of 2008, these investors have been rewarded, as outside of 2011, domestic equities have outperformed fixed income each year. While it can be emotionally difficult to buy stocks when others are selling, it is important to do so, and a reminder of why being diversified is important even when YTD it is only up 2.3% relative to the S&P 500 which is up 9.4%.

As mentioned earlier, international markets had another good quarter and outpaced domestic markets, ending the period up 6.1%. While one of the better performing asset classes year to date, we expect continued strong earnings growth in both the developed and the emerging side of international markets, which should translate to continued stock appreciation.

We are always ready to assist you and answer any questions regarding this newsletter or anything else that may come up. If any changes to your situation have occurred, please contact us at your convenience.

	Closing Price: 3/31/2017	Closing Price: 6/30/2017	Q2 2017 Return %	CY 2017 Return
S&P 500 TR USD	2362.72	2,423.41	3.09%	9.34%
MSCI EAFE NR USD	1802.11	1,883.19	6.12%	13.81%
Barclays US Aggregate Bond TR	1992.51	2,021.31	1.45%	2.27%

Written by Finity Group

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