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Dear Valued Investor,

As summer winds down, vacations come to a close, and kids head back to school, the calendar is relatively quiet in terms of major market events. Earnings season for corporate America—which was a good one—is behind us. No rate hike is expected at the next Federal Reserve policy meeting in September, and global monetary policy officials are unlikely to change course at their annual symposium in Wyoming on August 24. Key economic data for August is still a few weeks away. And while expectations are high for a strong back-to-school shopping season, there has been little to get excited about as performance of retail stocks has lagged.

Although the calendar is fairly quiet, some of the most volatile markets have come in August and September, so we must remain watchful for risks. The volatility around escalating tensions with North Korea earlier this month provided an example of how geopolitics can weigh on markets. But historically, the business cycle has been a much more common cause of lasting downturns than geopolitics. LPL Research took a look back at some of the more notable events in recent decades which revealed that the stock market has generally shrugged off these events fairly quickly. In one of the more recent cases where geopolitical events coincided with a larger market decline, the 1990–1991 recession was underway when Iraq invaded Kuwait in 1990. Every event is different and no one knows which crises will escalate and which will be contained, though history provides a reassuring guide amidst some troubling headlines.

Turning to fundamentals, the backdrop for the markets looks good. Strong July retail sales data suggested consumer spending may have picked up some speed as the third quarter began. More than 200,000 jobs were created in July—as has been the case in three of the past four months. The official unemployment rate, at 4.3%, is at its lowest level since the financial crisis. The U.S. manufacturing sector continues to expand. Corporate America just delivered two consecutive quarters of double-digit year-over-year earnings gains for the first time since 2011. Credit market indicators remain healthy, with only some small pockets of weakness in the oil patch due to lower oil prices. And overseas, economic growth has picked up some in Europe and Japan, the outlook for China's economy has firmed, and earnings growth has improved broadly across developed international and emerging markets.

The bottom line is the fundamental backdrop for the markets appears to remain solid. So while it may be prudent at this time to take a little risk off the table with the S&P 500 Index at all-time highs, geopolitical risks elevated, and potential near-term positive catalysts scarce, the economic expansion and the bull market for stocks may be poised to continue well into 2018 and likely beyond.

As always, please contact me with any questions you may have.

Sincerely,

Michael W. Jowdy, CFP®

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The information in this letter has been prepared from data believed to be reliable, but no representation is being made as to its accuracy and completeness.

Economic forecasts set forth may not develop as predicted.

Investing in stock includes numerous specific risks including: the fluctuation of dividend, loss of principal and potential illiquidity of the investment in a falling market.

The S&P 500 Index is a capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

This research material has been prepared by LPL Financial LLC.