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KUMMER FINANCIAL STRATEGIES, INC.

Helping You Create Financial Independence

January 13th, 2016

Weekly Market Update

Volatile oil prices, strength in technology stocks and the beginning of Republican governance highlighted a relatively flat week for equity prices. The S&P 500 Index closed 0.1% lower and the Dow Jones Industrial Average lost 0.4% while the Nasdaq Composite rose 1.0% and the Russell 2000 Index of small-cap stocks added 0.3%. Outside of the U.S., equity markets were higher. A proxy for developed international markets, the iShares MSCI EAFE exchange-traded fund added 0.9% and a proxy for emerging markets, the iShares MSCI Emerging Markets exchange-traded fund, gained 2.1% on the week.

The yield on the 10-year U.S. Treasury fell 4 basis points to 2.38% while the 2-year U.S. Treasury yield edged 1 basis point lower to 1.20%. Oil prices fell 2.2% on the week with gold finishing up 2.1%. The S&P GSCI, which measures the returns on a basket of commodities, was off by 0.4%.

A rally in technology stocks failed to push broader indices higher to start the week as oil prices declined on growing concerns over OPEC sticking to its agreed upon output cuts. This theme continued into Tuesday. On Wednesday, markets ended a choppy trading session higher despite weakness in healthcare stocks stemming from President-elect Donald Trump's first post-election press conference in which he mentioned his concern over high pharmaceutical prices. Market participants were looking for a little clarity on some key policy issues and got very little. The disappointment carried over to Thursday, where stocks worldwide traded near this year's lows before closing little changed on the day. On Friday, markets in the U.S. eked out a gain as the earnings season kicked off with a few large banks announcing mixed results. The Nasdaq Composite inched to a new all-time high to close out the week.

Economic data released this past week was somewhat mixed. In keeping with the rising optimism trend, the NFIB Small Business Optimism Index saw its largest surge on record in December, hitting its highest level in 12 years. If history is any indication, this suggests we could see a near-term boost in economic growth. Wholesale inventories rose the most in two years in November, which is somewhat reflective of the pickup in growth we've seen towards the end of last year. Retail sales grew at a slower pace than expected in December, but compared to a year ago, momentum in consumer spending has improved. Meanwhile, the University of Michigan's preliminary sentiment reading held relatively steady from November's 13-year high. This potentially bodes well for consumer spending trends over the next few months. Lastly, producer prices rose slightly more than expected in December, suggesting a pickup in inflation as 2016 ended. Next week, markets will be closed on Monday for Martin Luther King Day. In addition, the fourth quarter earnings seasons begins to ramp up, the European Central Bank has a policy meeting and we get several key economic releases out of the U.S that include a couple of regional manufacturing gauges, the Fed's Beige Book, industrial production data, consumer inflation and some housing permits and starts.

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As the earnings season begins to unfold and we move closer to Donald Trump's inauguration as the 45th President of the United States, market sentiment remains relatively high, making the U.S. equity market somewhat vulnerable to a near-term pullback in our view. The consensus earnings growth for all of 2016 is expected to come in around 8.3% when the fourth quarter reporting season is complete. If this happens, it will mark the first time since the first quarter of 2015 that the trailing 12-month difference in earnings was positive. The improving earnings picture and signs that the U.S. and global economies are accelerating have played a key part in the recent run up in equity prices. So too has optimism over a potential boost to growth given some of the agenda items Trump and the Republicans have announced. While equity-market volatility has not yet picked up as we expected, we still believe it could given elevated valuations, ambiguity surrounding the pace of Fed rate hikes and uncertainty around how effective a Trump/Republican Congress will govern. It is an ambitious agenda and continued gridlock in Washington could serve to disappoint markets. In addition, Europe has a few key elections in the coming months that could shake up markets if the anti-establishment theme of 2016 continues. Potential banking problems in Italy as well as China's debt levels are other risks on our radar. Despite these risks, we think there is a low risk of a recession unfolding over the next several months and barring a political or geopolitical shock, the U.S. economy should continue to grow at a modest pace with inflation picking up only moderately. We continue to believe the backdrop for risk assets remains favorable and will look for occasions to shift our dynamic weightings as opportunities and risks emerge. For more information on our economic outlook and asset allocation update, please visit our website.

Regardless of the market's near-term direction, it is important to remember that setting the appropriate strategic asset allocation for your circumstances and risk preferences are important steps to executing your financial plan. If you would like to discuss your asset allocation, time horizon, or risk tolerance please contact us at 303-470-1209 and we would be happy to address your concerns. We are here to assist you, your friends, family or in any way we can.

Disclosures:

- Kummer Financial Strategies, Inc. is an independently registered investment advisor.
- Investors should be aware of risk when investing, including potential loss of principal.
- Past performance is not a guarantee of future results. Rebalancing, asset allocation or alternative strategies may or may not produce positive results. Thank you.

[1] Performance, economic, and market statistics were provided by Yahoo Finance and Ned Davis Research.

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