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KUMMER FINANCIAL STRATEGIES, INC.

Helping You Create Financial Independence

January 27th, 2017

Weekly Market Update

Stocks returned to their record ways this past week, eking out modest gains as a new Presidency got underway. The S&P 500 Index rose 1.0%, were fractionally lower on the week while the Dow Jones Industrial Average gained 1.3%, the Nasdaq Composite added 1.9% and the Russell 2000 Index of small-cap stocks advanced 1.4%. Outside of the U.S., equity markets were higher. A proxy for developed international markets, the iShares MSCI EAFE exchange-traded fund added 1.0% and a proxy for emerging markets, the iShares MSCI Emerging Markets exchange-traded fund, rose 2.9% on the week.

The yield on the 10-year U.S. Treasury rose early in the week but settled off its highs during the week to close only 1 basis point higher at 2.47%. The 2-year U.S. Treasury yield rose 3 basis points to 1.22%. Oil prices added 1.5% on the week with gold losing 1.4%. The S&P GSCI, which measures the returns on a basket of commodities, fell 0.5%.

Like children in the backseat of the car asking “are we there yet”, over and over again media pundits finally got to dawn their Dow-20,000 hats this past week as the Dow Jones Industrial Average hit and finished above 20,000 for the first time in history. Stocks started the week on a sour note, however, as President Trump issued an executive order removing the U.S. from the Trans-Pacific Partnership trade agreement while setting his sights on the North American Free Trade Agreement. Nervousness over global trade eased a bit on Tuesday as Trump issued an executive order to revive the Dakota Access and Keystone XL oil pipelines. Earnings news was relatively upbeat heading into Wednesday when the Dow closed above the elusive 20,000 level for the first time. Both the S&P 500 and Nasdaq Composite also hit record highs on Wednesday. Equity markets slipped Thursday into Friday on some mixed earnings reports and disappointing U.S. GDP numbers.

While focus seemed to be on the first few days of the Trump Presidency, there was a mixed bag of economic reports. Existing home sales softened a little at the end of the year amid higher mortgage rates and still tight inventories. New home sales slumped in December, falling to its slowest pace in ten months. Despite the softer readings, the overall uptrend remains intact while headwinds may be increasing. U.S. economic growth slowed more than expected during the fourth quarter. The first estimate of GDP showed 1.9% annualized growth during the last three months of 2016. For the year, the U.S. economy grew 1.6%, its slowest calendar-year pace since 2011. The slower-than-expected read on the fourth quarter GDP does not concern us too much, given more forward looking indicators, such as sentiment and business activity, suggesting a pickup in economic growth in the coming months. Durable goods orders were mixed with a key proxy for business spending picking up nicely in December. Lastly, the University of Michigan’s consumer sentiment index improved to its highest level in 13 years. Next week we enter the peak of the earnings season and we have a full economic calendar. Personal income and spending, pending home sales, various business and manufacturing

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activity gauges and employment numbers for January are on the docket. We also get some inflation and productivity data and the Federal Reserve has a monetary policy meeting. We believe the Fed is unlikely to raise rates at this meeting, but we are looking for signs of a possible increase at its March meeting. We think the Fed is likely to move two or three times this year.

Market participants displayed both nervousness and optimism this past week as Donald Trump hit the ground running on his agenda with several executive orders, some of which could result in greater friction between the U.S. and its trading partners. While it's still too early to know how much of the Trump/Republican agenda will be implemented, or how quickly, it does appear Trump is off to a brisk and unconventional start. This may take some getting used to and the accompanying policy uncertainty may serve to add a little more volatility across financial markets. While volatility remains relatively low, we continue to expect it to pick up in the coming months for several reasons. The Fed could lift interest rates sooner and more quickly than the market expects, earnings expectations for the coming quarters may be a little optimistic and valuations remain stretched. In addition, political uncertainty in Europe with a number of key elections this year could disrupt the upward momentum in global equity prices. Couple this with some sentiment readings near extreme levels, and we think the market is vulnerable for a pullback. Nevertheless, we continue to favor risk assets given what we see as a low risk of a recession unfolding over the near term. Barring any political or geopolitical shock, the U.S. economy should continue to grow at a modest pace with inflation picking up only moderately. As always, we continue to look for opportunities to shift our dynamic weightings as the environment dictates.

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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