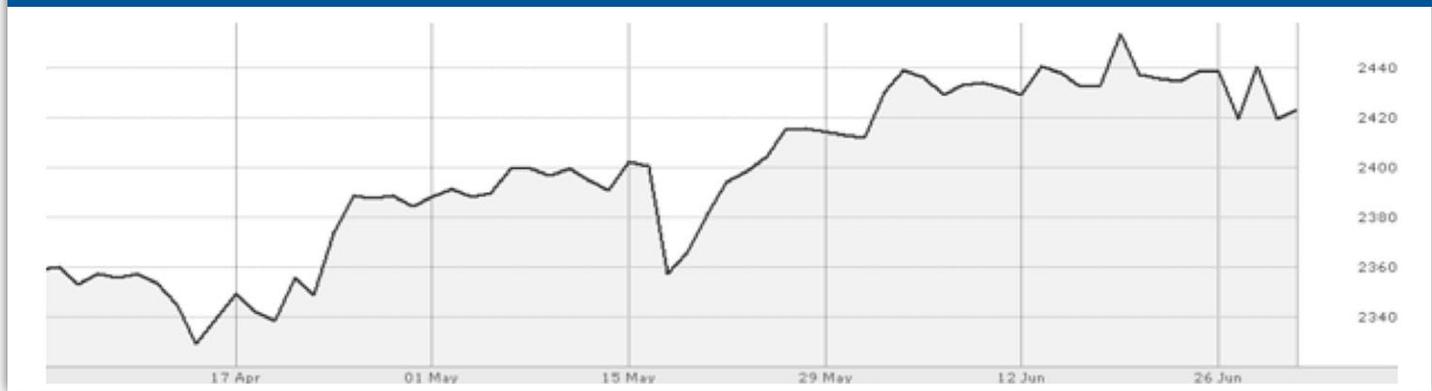


Second Quarter 2017 Update

The S&P 500 continued its upward trend in the second quarter, finishing the quarter up 2.57% (see the chart below). Low volatility has been the theme of the quarter, with only one 1% down day (May 17th) and only one 1% up day (April 24th). The CBOE Market Volatility index finished at 11.18, nearly half of its historical average.

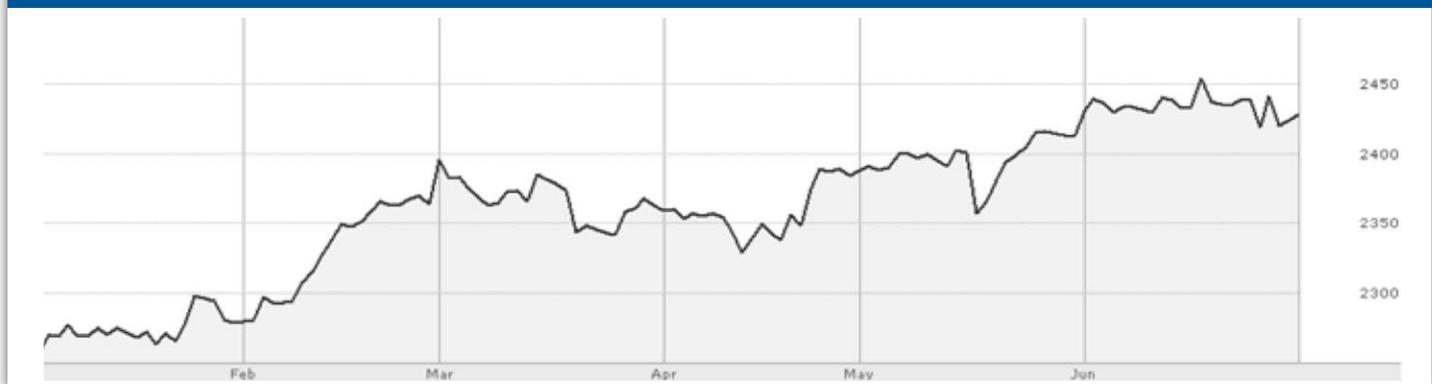
S&P 500 – Second Quarter 2017 Chart



Source: TD Ameritrade, Polaris Greystone Financial Group

The second quarter's increase brings the S&P 500's price return up to 8.24% for the year (chart below). The majority of the performance in the S&P 500 was driven by growth oriented stocks, although that stalled in June. Historically, these types of trends, especially at the extremes we experienced, don't continue.

S&P 500 – YTD 2017 Chart



Source: TD Ameritrade, Polaris Greystone Financial Group

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Highlights From the Quarter

- The Russell 1000 (large-cap) Growth index outperformed the Russell 1000 Value index by almost 10.5% in the first half of the year. This is the second largest performance margin since 1979, when this statistic began being tracked.
- The Russell 1000 (large-cap) was up 3.20% for the quarter, whereas the Russell 2000 (small-cap) gained 2.46%. The Russell 1000 has almost doubled the performance of the Russell 2000 for the year, up 9.79% and 4.99% respectively.
- Health care and industrials were the two best performing sectors for the quarter and were up 6.65% and 4.16% respectively. Information technology remained the top sector for the year (4th place for the quarter), up over 16% in the first half of 2017.
- The two worst performing sectors were telecommunication services and energy, dropping 8.14% and 7.02% respectively for the quarter. This added to their first quarter losses, dragging both sectors into double digit losses for the year.
- The MSCI All Country World Index (ACWI) was up 2.46% for the quarter, for a 7.77% gain for the first half of the year. This is the second best first half of a year in the twenty-first century (only 2013 was better)!
- Emerging markets stole the show, up 6.56% for the quarter and 14.84% for the first half of the year.
- The Bloomberg Barclays Aggregate Bond index gained 1.45% for the quarter, raising it to 2.27% for the year.
- The S&P Goldman Sachs Commodity Index dropped 4.08% during the quarter, pushing the index down 6.49% for the first half of 2017.
- Gold dropped slightly for the quarter, down 0.55%, but has finished the first half up 7.93% despite that loss.
- The U.S. dollar dropped 4.89% during the second quarter, adding to its first quarter loss, pushing it down 6.49%.

Fed Raises Rates, Again

The Federal Reserve continued to fulfill its promise to normalize rates by raising rates by 25 basis points or .25% in June. Rates now sit in a range between 1% and 1.25%. As seen in the chart to the right, these rates are still at historically low levels.

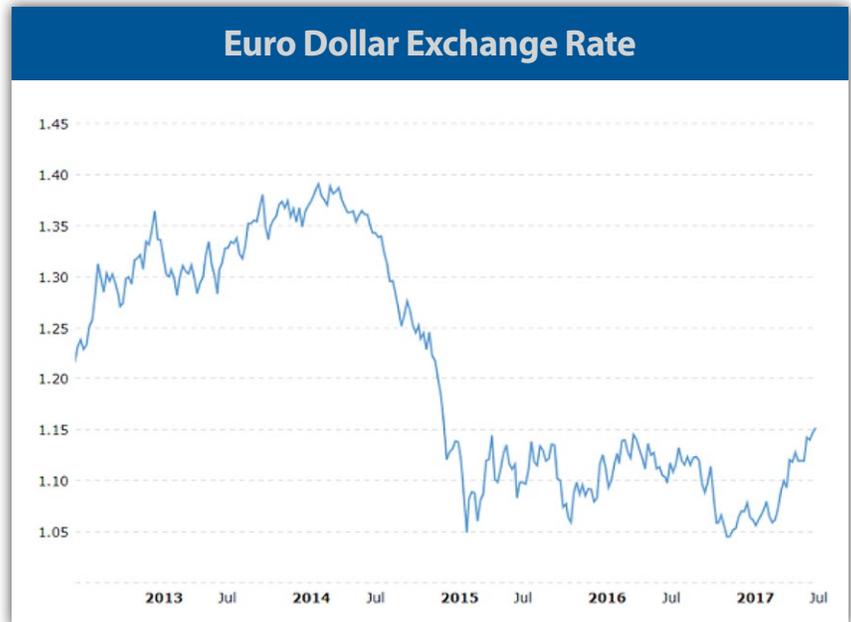


Source: Macrotrends.net

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U.S. Dollar drops

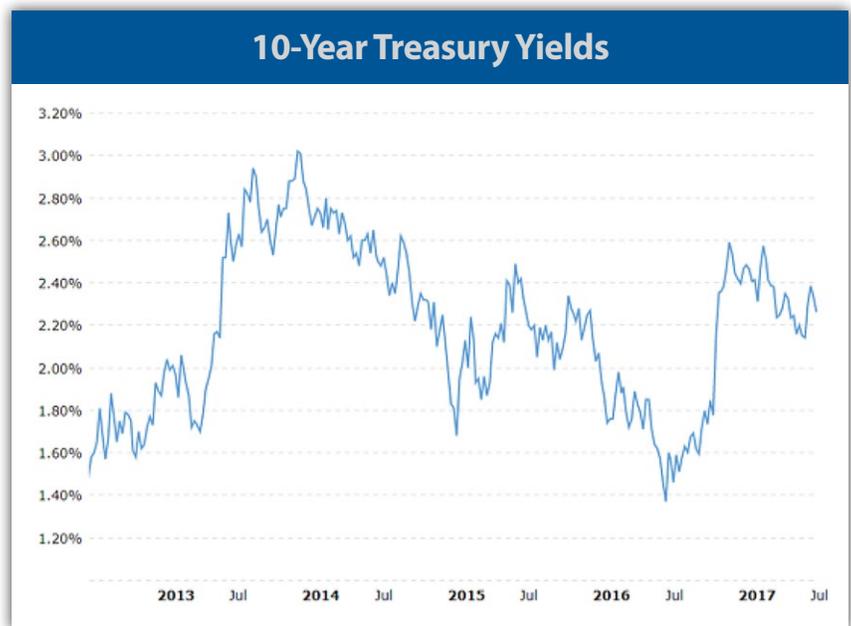
The euro extended its strength to the dollar throughout the quarter. The euro was at €1.04 to \$1.00 in December, and is now trading at €1.15 to \$1.00, as seen in the chart to the right. The dollar's strength in days past was a headwind for corporate earnings, as U.S. products became more expensive for foreign consumers. Any continued weakness in the dollar may lower foreign investor's appetite for U.S. Treasuries.



Source: Macrotrends.net

Bond Rates Still Dropped

Despite seeing an increase in fed fund rates and a weaker dollar, the 10-Year Treasury saw yields drop. Typically, yields would rise as the Federal Reserve increased rates, forcing bond values down. A weak dollar could also induce foreign selling, forcing prices down and consequently yields up. This has not happened thus far, as foreign investors continued to pour money into our higher yielding sovereign debt. Even as I write this report the 10-Year German Bund is yielding only 0.55% and the Japanese 10-Year Bond is yielding 0.08%. This is a great improvement over the negative yield from last year. Even the risky Italian 10-Year Bond is yielding 2.19%. The major question is how long will foreign investors stick with domestic bonds if they continue to lose value due to the drop in the dollar.

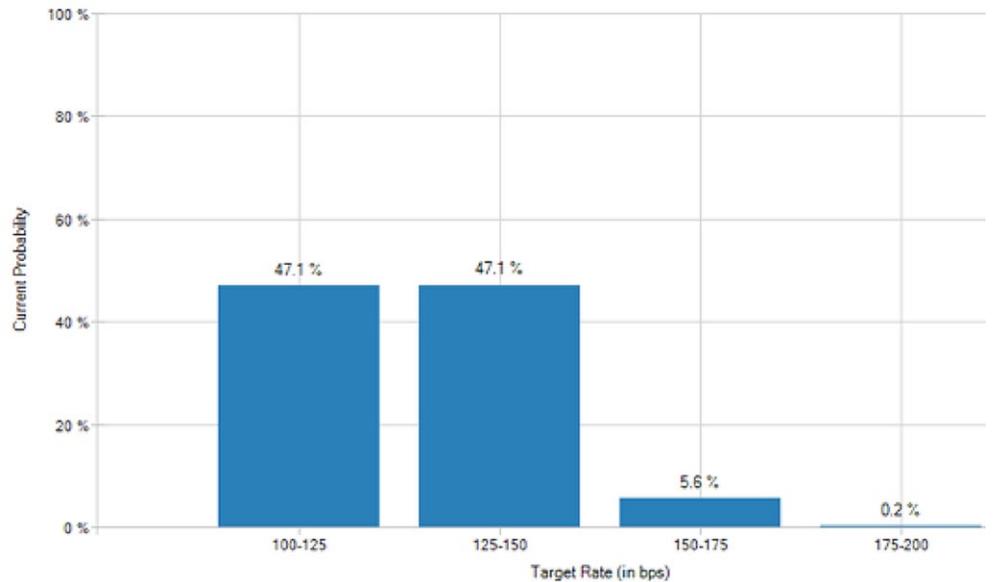


Source: Macrotrends.net

More Fed Action to Come

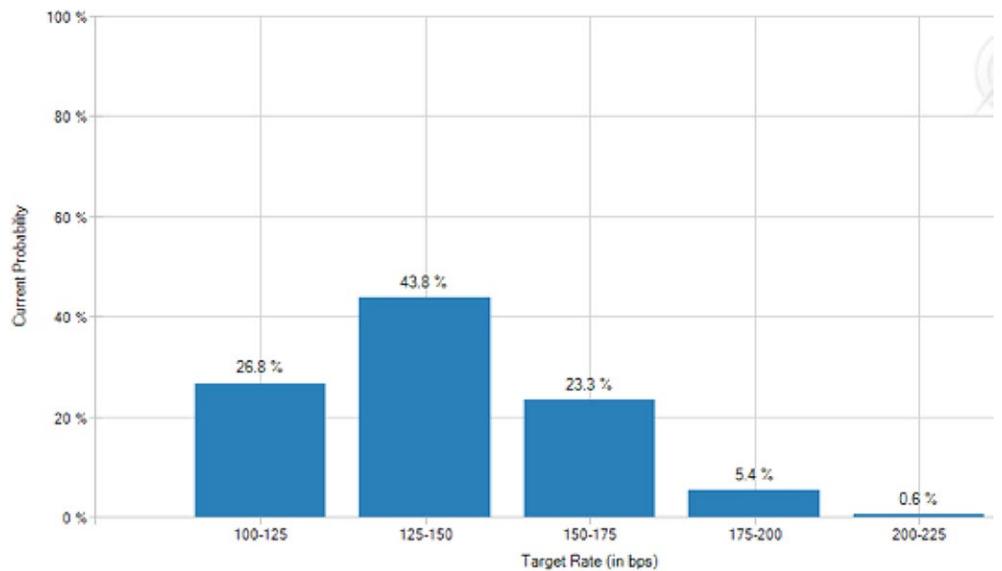
Fed futures indicate a 50/50 chance of one additional 25 basis point increase before the end of the year (the chart to the right), with only a 26.8% chance of the Fed leaving rates alone over the next 12 months (second chart).

Current Target Rate Probabilities for Dec. 13, 2017 Fed Meeting



Source: CME Group

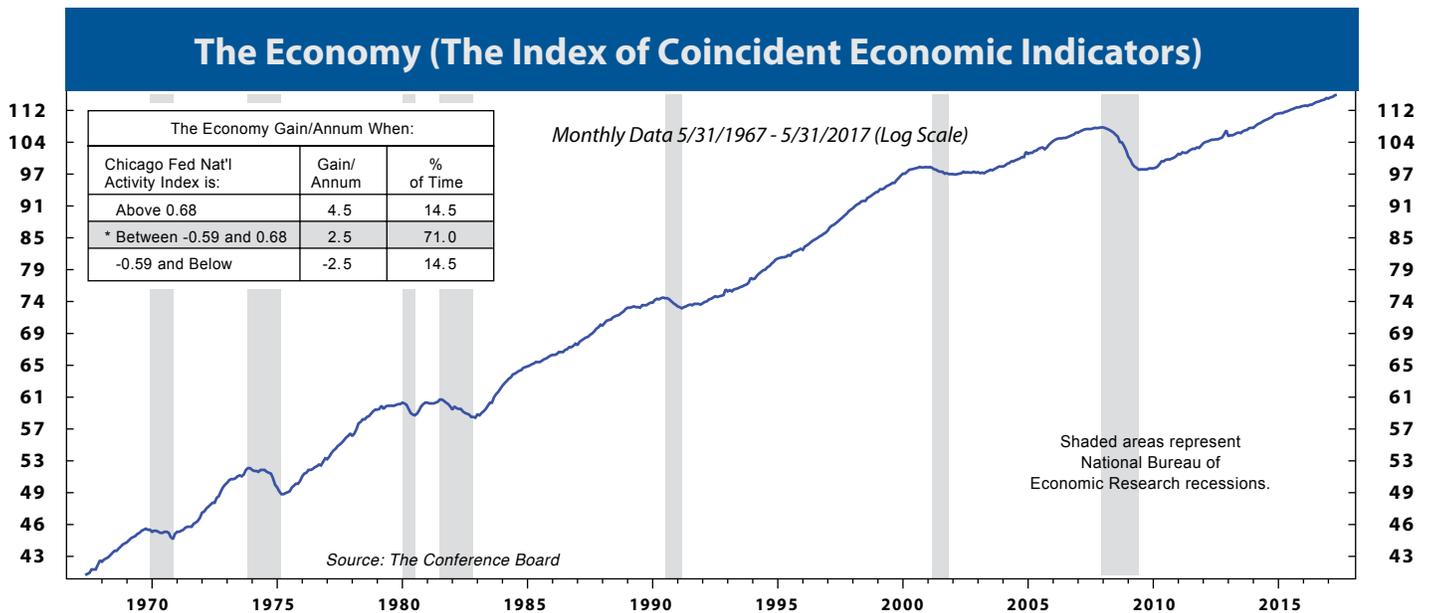
Current Target Rate Probabilities for June 13, 2018 Fed Meeting



Source: CME Group

The U.S. Economy

The U.S. economy continues to plug along providing moderate growth. A zero rating in the bottom half of the chart below indicates average historical growth. While not exciting, the U.S. economy continues its moderate climb in the right direction.

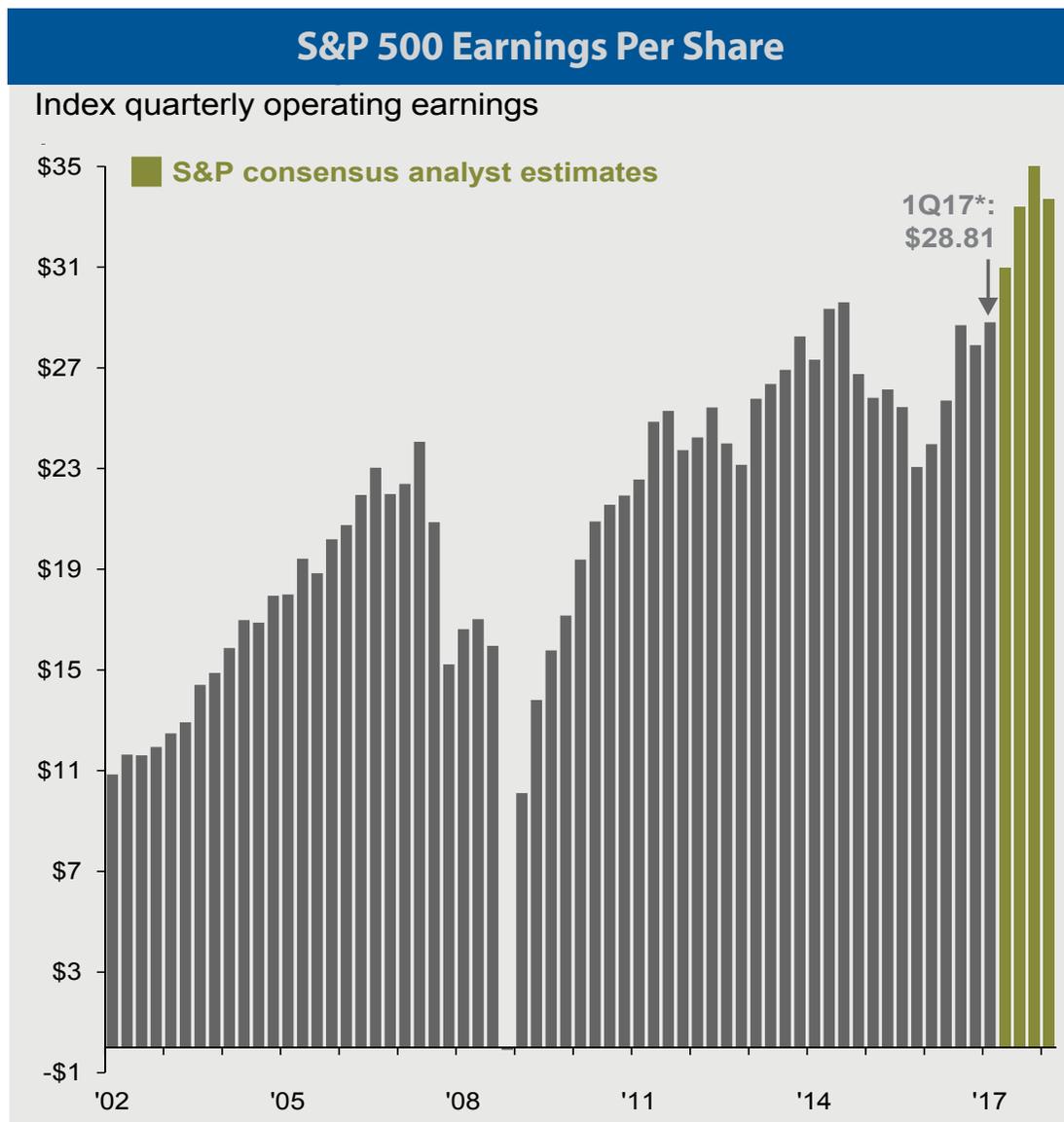


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Earnings Continue to Improve

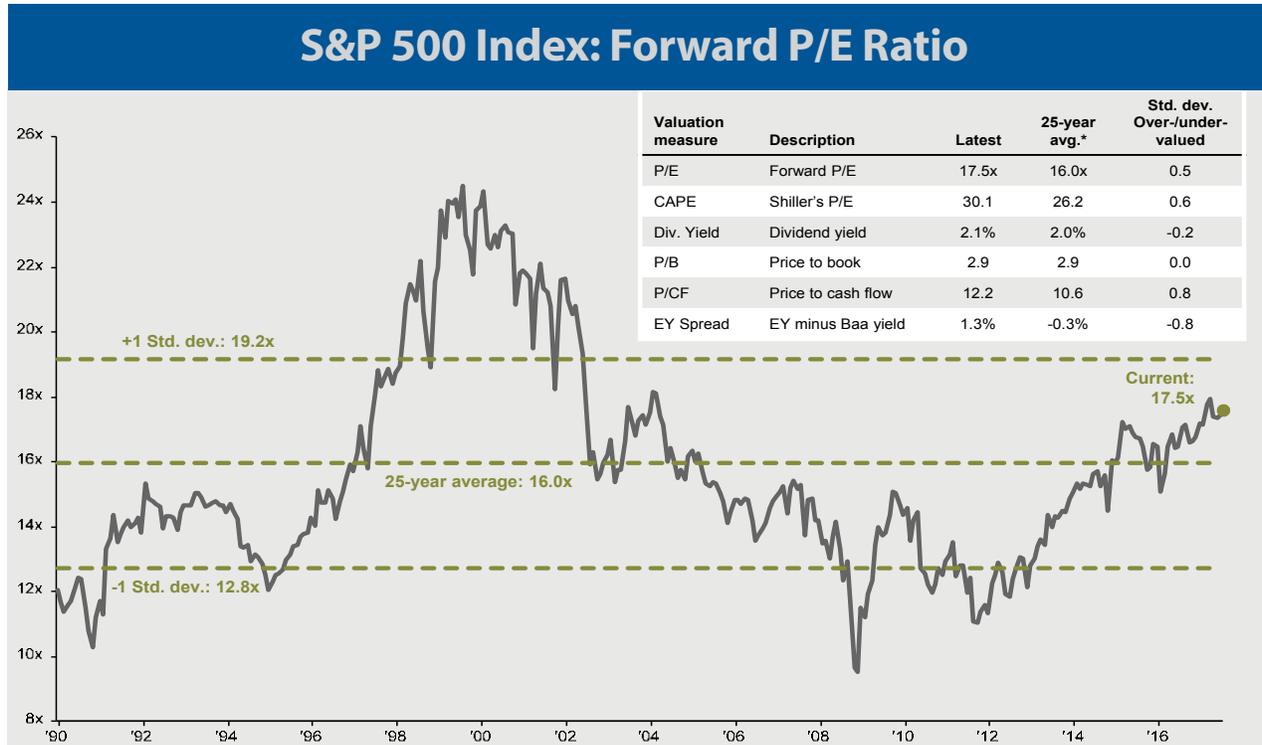
Last quarter's earnings, for S&P 500 companies, came in almost exactly where they were predicted. Future earnings expectations point toward record earnings, as we finally seem to be coming out of our earnings recession.



Source: Compustat, FactSet, Standard & Poor's. JPMorgan Asset Management. Data as of 06/2017.

Valuations Improve Slightly

Valuations for the S&P 500 improved slightly as earnings growth outpaced market performance. Some valuation measures show the S&P 500 as being slightly over valued, while others show it properly or even slightly undervalued.



Source: FactSet, FRB, IBES, Robert Shiller, Standard & Poor's, J.P. Morgan Asset Management. Data as of 06/30/2017.

Putting It All Together

Geopolitical issues have been plastered all over the media in recent months. As we have discussed many times in days past, most geopolitical storms have little or no long-term impacts on the markets. They typically create short-term sentiment shifts, causing emotional investors to flee the markets at exactly the wrong time. While we don't summarily dismiss all geopolitical issues as being insignificant, we just want to reiterate that most are nothing more than headlines. We will continue to manage our portfolios in a clinical and disciplined manner, not reacting to the "noise" of the media but rather shifting our allocations using substantiated fundamental and technical research.

If the future earnings expectations are correct, which we have no reason to feel otherwise, we will see record earnings in the S&P 500 for several quarters to come. It appears that our six quarter earnings recession is over and we should see significant increases in earnings and, as such, upward momentum in the stock market. A weakening dollar, although double edged, should further help this cause. We are very bullish about the stock market and would use any pullback as a buying opportunity.



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The global economy continues to improve and valuations abroad are cheaper than here at home. We continue to see opportunity in the international markets and will be continuing to invest more of our assets abroad.

Our biggest concern still remains with the long-term and intermediate-term fixed income market. The bond market has continued to elongate its game of musical chairs, defying typical price deterioration during a rising interest rate environment. At the end of 2013 the 10-Year Treasury was yielding a little over 3%. Since that time, the Federal Reserve has raised rates from 0% to 1%. Historically, a 1% increase in rates has caused an 8.6% loss for the 10-Year Treasury. Foreign demand for our sovereign debt has been the only thing that has propped up prices. This unusual demand has pushed prices up, and the yield for the 10-Year Treasury down to 2.27%. This is highly unusual.

Yields will begin going up, forcing prices down. It is not a question of if, but rather when. The Federal Reserve has already declared that they wish to have their target rate at 3.00% over the next few years. The 10-Year Treasury is only yielding 2.27%. Mathematically, this 3% increase in rates (from 0% to 3%) should cause a 25%+ loss in the 10-Year Treasury.

It is likely that sometime in the near future, as sovereign debt in major countries normalize, foreign investors will lose their appetite for U.S. bonds. Fed moves and normalized foreign debt will cause the music to stop in our bond market game of musical chairs. Bond prices will tumble, causing significant losses in the "conservative" portion of an investor's portfolio.

We encourage you to speak with your Polaris Greystone wealth advisor to have them reevaluate if you are properly positioned for our current market environment. We are happy to run (or rerun) your personalized financial plan and make sure that you are well positioned to accomplish your long-term financial goals. We look forward to hearing from you.

As always, I welcome your questions and comments.



Sincerely,

Jeffrey J. Powell

Managing Partner