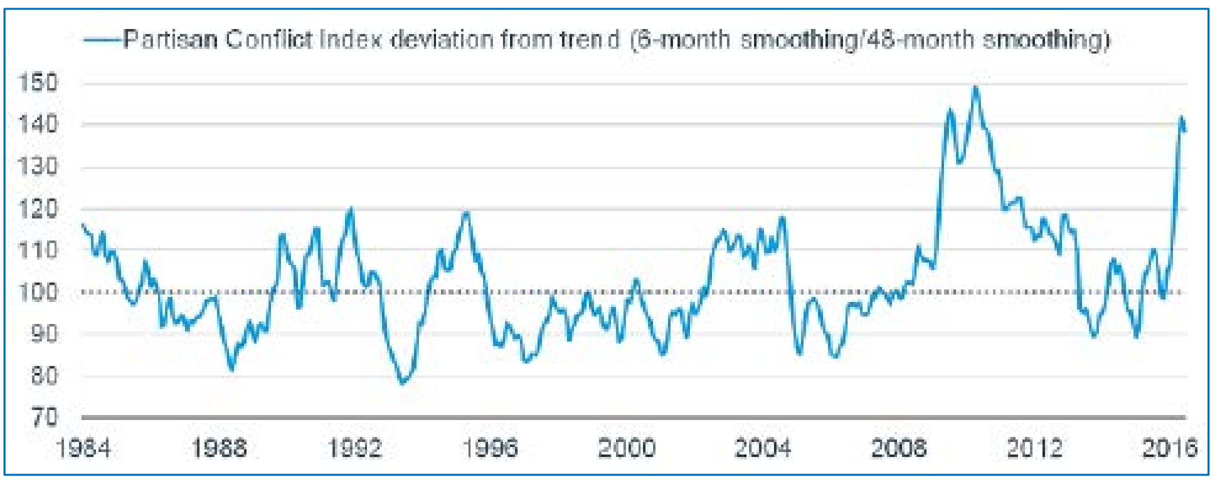
And the beat goes on…trends from the first quarter largely persisted through the second quarter.

	Q2 RETURN	YTD RETURN
Standard & Poor's 500	3.09%	9.34%
Balanced Portfolio - 60 / 40	1.93%	5.59%
Dow Jones Industrial Average	3.95%	9.35%
MSCI EAFE	6.12%	13.81%
Barclays Aggregate Bond	1.45%	2.27%
Barclays Municipal Bond	1.96%	3.57%

We said goodbye to the first half of a tumultuous, albeit rewarding, six months and the most dominant question - and concern - is about rampant United States government and monetary policy uncertainty and why it has not had a negative impact on the financial markets.

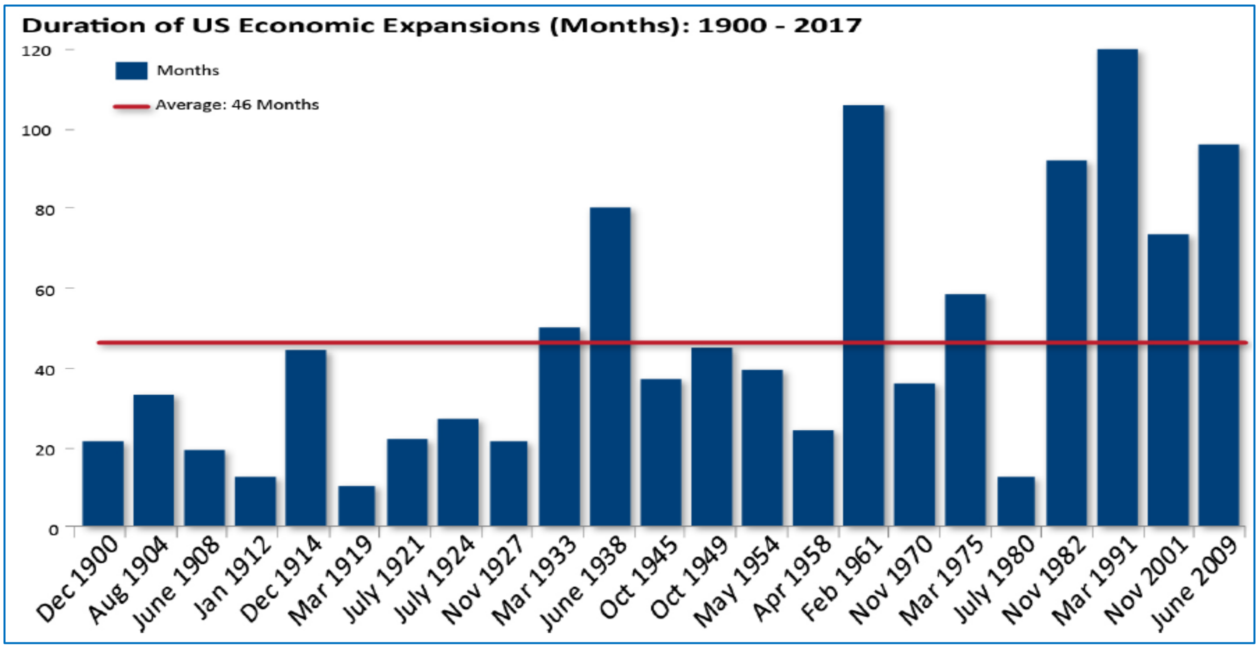
Perhaps it just hasn't had an impact yet. Or perhaps there are forces underpinning this bull market that supersede the political turmoil. No one can deny a level of partisan rancor that exceeds anything witnessed in the past several decades. But is that necessarily negative for stocks? Not historically. The chart below is a six-month smoothing of the Philadelphia Federal Reserve's "Partisan Conflict Index". The subsequent table highlights that stocks have risen faster - much faster - when partisan conflict has been elevated.



Partisan Conflict Index deviation from trend	S&P 500 annualized gain (12/31/1984-5/31/2017)
Above 100	17.10%
Below 100	0.78%

The Economy

The United States' nine-year old economic expansion is on course to rival the 10-year stretch of the 1990's, and there are presently few, if any, signs of the excesses that usually presage a recession. Although the reflationary benefits to the economy from any prospective legislative economic stimulus have been pushed back, additional stimulus at this point in the economic cycle might prove to be inflationary. Its delay may help to extend the expansion by allowing Chair Yellen to refrain from implementing a stifling level of tightening monetary policy.



With businesses still cautious to spend in the wake of uncertain Federal policy initiatives, consumers remain the primary growth engine to support further economic expansion. The weather-induced slowdown in first quarter consumer spending is likely temporary, as a healthy job market, strong consumer balance sheet and relatively high consumer confidence should yield a more favorable increase in spending patterns for the remainder of 2017.

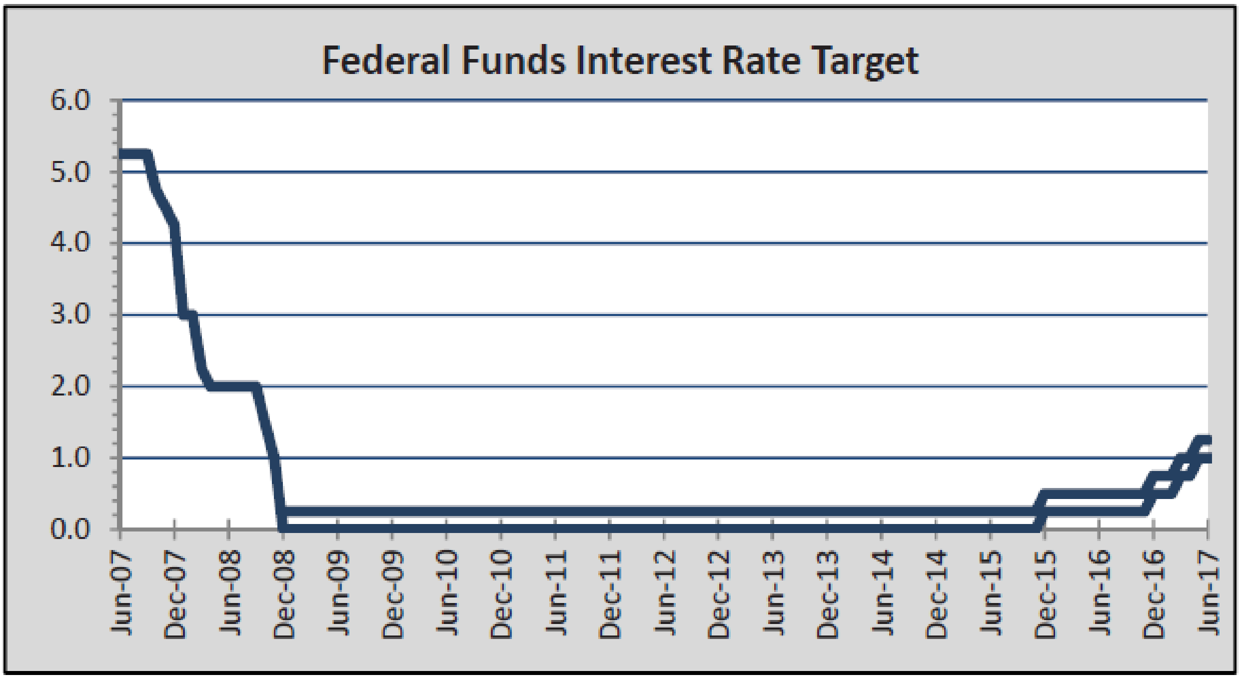
Given the pro-market election results in France and the ongoing contention surrounding the United Kingdom's decision to leave the European Union, upcoming Italian elections may shape up to be an important barometer of European unity and the outlook for global economic growth in coming months. Eurozone economic activity is firming as consumer confidence improves and the recent populist / nationalistic trends appear to be plateauing - or even beginning to recede. European Central Bank officials recently hinted at steps to reduce monetary stimulus but stressed that such moves would be gradual and cautious. Accommodative monetary policy and fiscal stimulus designed to spur inflation helped to support Japan's fifth consecutive quarter of economic growth. China has been experiencing slower economic growth (albeit from a much larger base) as it deals with excess industrial capacity left over from a debt-fueled infrastructure boom.

The Federal Reserve

On June 14th, the Federal Reserve raised the interest rate for the third consecutive quarter. Another increase is possible later this year, after the Committee normalizes its balance sheet. Through the combination of effective forward guidance and interest rate increases, we believe the Committee has done all it can to reinforce its policy bias to the global financial markets. In addition, the Fed has provided more information on how it plans to unwind its behemoth $4.5 trillion balance sheet, confirming that normalization will start in 2017; and will follow a process of reducing every quarter. Success would be if the Federal Reserve can gracefully divert the excess liquidity it has created from financial assets to the real economy.

Even with this transparency, market pricing does not reflect the Fed's guidance, suggesting a fair bit of skepticism. The reasons why markets doubt the Fed are twofold. The first is that there is uncertainty around the balancing act the Fed will strike between normalizing the balance sheet and raising the policy rate. This goes back to the debate about whether these two actions have been complements or substitutes (canceling each other out). With the run-off starting at $10B per month and growing to $50B per month, this pace should not cause market disruption and result in a substitution effect.

The second reason why markets doubt the Fed's normalization path seems to be because low inflation has continued. With an ultra-low unemployment rate, dwindling spare capacity and low productivity, higher labor cost should squeeze profit margins, eventually pushing corporations to pass on these costs via higher prices. That said, inflation has remained benign and we do not have concerns about rampant inflation in the near term.



Since the Fed began raising the fed funds rate in December 2015—since which time they've hiked four times—financial conditions have actually loosened. This is why they are likely to remain on a tightening path, notwithstanding subdued inflation. But it's also a key reason for the strength in the stock market. This strength should persist as long as financial conditions don't tighten too much.

The Financial Markets

The financial markets have continued to see strong investor interest as reflected in the sizable level of assets moving into stocks, largely through passive investment vehicles like index funds, exchange traded funds, and target date funds. Optimism around improvements to economic growth and corporate earnings through new policies and real changes in Washington has waned somewhat as little progress has been made on the legislative front. So far, 2017 has been generous to investors, with better returns from global markets helping to push the US stock market indexes to new record levels despite a growing list of skeptics within Wall Street groupthink.

Domestic stock market indexes repeatedly set new record highs during the quarter supported by a United States economy that continued to show signs of gradual improvement, or at least few signs of broad contraction. In fact, investment returns for the Standard & Poor 500 Index (S&P 500) have already exceeded the average strategist estimate for an approximate 6 percent return for all of 2017.

Over the years, **The Next Generation Wealth Perspective** has frequently discussed our belief that the "X factor" in investing is time. It is the biggest unknown, in our opinion. How long will it take to move from one stage of an economic cycle to another? How long will the Federal Reserve keep interest rates low? How long can the current bull market in stocks last? Will Congress finally provide some fiscal stimulus to the recovery? A good example of this last question is the effort underway to get President Donald J. Trump's campaign policies through Congress. We know that the Trump administration would like to repeal and replace the Affordable Care Act ("Obamacare"), reduce the tax burden on corporations and individuals, reduce regulations ("red tape") plaguing businesses, and increase spending on infrastructure, but none of these have happened yet. President Trump has been in office more than six months now, and despite his pledge to work quickly from day one it is safe to say that things have not gone as planned.

From the vantage point of the investor, the financial markets have performed well since the November election. While it could be said that the markets appear to be suggesting that investors are expecting some or all of President Trump's pro-growth agenda to eventually get the support of Congress, only time will tell. If nothing gets passed by year-end, and the markets retreat, we'll have a better idea that the Trump rally had some validity, in our opinion. If nothing passes and the markets do not sell off, perhaps the gains in the markets were more a reflection of strong corporate fundamentals. Time has a tendency to test the patience of even the most disciplined investors, but we believe history has shown that time rewards the patient investor. Understanding its role and influence on the markets can help shape performance expectations, in our opinion.

- **Economic Cycles** – From 1945 through 2009, the average US economic expansion lasted 58.4 months, or just under five years, while the average recession lasted 11.1 months, according to the National Bureau of Economic Research. Expansions have tended to last much longer than recessions.

- **Stocks, Bonds & Inflation** – From 1926 through 2016, the S&P 500, U.S. Small Stocks and U.S. Long-Term Government Bonds posted average annual total returns of 10.04 percent, 12.12 percent and 5.55 percent, respectively, according to Ibbotson Associates/Morningstar. The Consumer Price Index averaged 3 percent over the same period, according to the Bureau of Labor Statistics.

- **Bull Markets** – The current bull market in stocks is the second-longest in United States history, according to Bespoke Investment Group (3,035 days). The longest bull market spanned 4,494 days (December 4, 1987 – March 24, 2000) or four years longer than the current bull market.

- **Bear Markets, Corrections & Pullbacks** – Dating back to 1945, on average, the S&P 500 Index experienced a *pullback* (a decline of 5 percent to 9.9 percent) once a year, a *correction* (a decline of 10 percent to 19.9 percent) every 2.8 years and a *bear market* (a decline of 20 percent or more) every 4.7 years, according to Sam Stovall, Chief Investment Strategist at CFRA and S&P Global.

- **Buy & Hold Investing** – The S&P 500 Index has never failed to fully recover from a bear market in stocks, no matter how severe, according to Bespoke Investment Group. In fact, the index has gone on to set new highs.

S&P 500 Declines	Occurrences Per Year	Frequency Average	Probability of Decline Moving to Next Stage	Mean Decline
-5% or more	3.4	Every 14 weeks	32%	-10.9%
-10% or more	1.1	Every Year	45%	-19.5%
-15% or more	0.5	Every 2 years	58%	-28.2%
-20% or more	0.3	Every 3 years	N/A	-35.7%

Concluding Thoughts

We remain comfortable with the primary asset classes that comprise our investment portfolios. Domestic stock valuations are at reasonable levels, and constructive improvement in corporate earnings growth and economic conditions should be favorable for rising stock prices. International stocks are now contributing meaningfully to portfolio performance following several years of disappointing results. Even bonds are adding incremental value as interest rates have been stubborn to move higher.

It is appropriate to reiterate our focus on maintaining a disciplined long-term positive perspective on the global financial markets. Preference should be placed on meaningful and purposeful strategic allocations to client portfolios and modest adjustments from time to time as needs arise or conditions change. With relatively reasonable market expectations, diversified portfolios should continue to provide investors an appropriate balance of risk and return.

Respectfully yours,

David

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Macro Summary

- The US economy is likely to improve as a result of pro-growth policies despite initial stumbles;
- The economy is 7.5 years into economic expansion. Leading indicators suggest continued growth between 2.5 – 3.0 percent;
- The global interest rates trend is higher as Central Banks shift their stance;
- Headline unemployment reached a 17-year low in May; job creation remains robust;
- Housing demand is strong but a tight 4.3 month supply is driving prices and outstripping income growth;
- National Federation of Independent Business (NFIB) says optimism remained near a 43-year high, but respondents say they need lower taxes and simplified tax code;
- The Federal Reserve's annual stress test of 34 banks marked the first time in the past seven years that they did not object to any of the banks' capital plans;
- The secular bull market for stock prices is intact as valuations are reasonable;
- Virtual currency Bitcoin's price more than tripled from the start of the year to $3018;
- The risks to out strategies are: rising interest rates, margin debt, geopolitical uncertainty, European elections, and corporate earnings; and
- History indicates presidents keep approximately 60 percent of their promises (source: FiveThirtyEight).