

SECOND QUARTER 2017

Beyond the Benchmark



AldrichSM WEALTH LP

QUARTERLY MARKET SNAPSHOT

	VALUE	CORE	GROWTH
Large	1.34%	3.09%	4.67%
Medium	1.37%	2.70%	4.21%
Small	0.67%	2.46%	4.39%

This matrix illustrates U.S. equity benchmarks provided by Russell with the exception of Large Core, which is the S&P 500 Index.

	VALUE	CORE	GROWTH
Global	2.85%	4.27%	5.72%
Non US	4.78%	6.12%	7.52%
EM	3.17%	6.27%	9.44%

This matrix illustrates international equity benchmarks provided by MSCI.

	SHORT	INTER	LONG
Gov	0.20%	1.17%	3.93%
Corp	0.59%	2.54%	4.94%
Hi-Yield	1.85%	2.17%	3.61%

This matrix illustrates the fixed income benchmarks provided by Barclays and B of A Merrill Lynch.

Executive Summary

The second quarter saw continued strong performance in the domestic equity markets. U.S. stock markets were led by the tech-heavy Nasdaq Composite index, which enjoyed its best first half of the year since 2009. Investor optimism about Trump administration policy changes — regarding lower taxes, fewer regulations and increased infrastructure spending, in particular — contributed to equities' strong performance during the first quarter. As the prospects for sweeping policy changes anytime soon have dimmed, strong corporate earnings and rising consumer confidence have stepped in to continue driving markets higher. And while the Federal Reserve continued its rate hike campaign with a 0.25% boost in the Federal Funds rate in June, the 10-year U.S. Treasury moved in the opposite direction, falling from 2.40% to 2.30% during the quarter. Meanwhile, international stocks have begun to turn around after several years of underperformance. For the second consecutive quarter, both developed and emerging market equities outperformed their U.S. counterparts.

Domestic Equities

All three of the major U.S. stock market indices posted strong gains during the second quarter. The Nasdaq Composite index rose 4.2% in the quarter and 14.7% in the first half of the year — its largest gain during this time since 2009. Meanwhile, the S&P 500 rose 3.1% in the second quarter and 9.3% in the first half of the year while the Dow Jones Industrial Average rose 4.0% in the second quarter and 9.4% in the first half of the year. Once again, large cap stocks outperformed small cap stocks, due primarily to the strength of such big-name companies as Apple, Facebook and Amazon and the Healthcare and Technology sectors in general. Growth stocks outperformed value stocks due primarily to faster earnings growth among growth sectors relative to value and better-than-expected top-line revenue growth.

Technology has been the best-performing sector through the first half of the year, with stocks up 17.23% so far in 2017. Large-cap biotechnology companies primarily drove the gains in the Healthcare sector. Financial stocks have also enjoyed a strong first half of the year, up 6.88% so far in 2017. However, most of the gains came in June after they got a boost when all 34 of the nation's largest banks passed the Federal Reserve's stress tests as well as the news that most banks plan to raise dividends and purchase shares in order to return billions of dollars in cash to investors.

On the opposite side of the spectrum, the worst-performing sectors of the U.S. equity market so far this year have been Energy and Telecommunications. The Energy sector is down 12.6% so far this year as oil and gas companies continue to get hammered by low oil and gas prices, which is pressuring the companies' earnings outlook. Also, the Energy sector currently trades at the highest forward 12-month price-earnings ratio of any sector. Meanwhile, the Telecommunications sector — which includes wireless service and Internet access providers like AT&T, Verizon and Sprint — is down 10.7% so far this year. Telecom is being hurt by falling rates for wireless service and the resulting lower earnings. In fact, not a single telecommunications

company beat its earnings estimate last quarter, and Telecom was the only sector to report earnings and revenue declines in the first quarter.

Small cap and mid-cap stocks underperformed large cap stocks not only during the second quarter but for the first half of the year, with similar sector performance across asset classes. The U.S. dollar fell against most currencies during the quarter, which boosted large cap domestic stocks but didn't help many small and mid-cap stocks, which tend to be more domestically focused. Large cap domestic companies faced a rising U.S. dollar for several years. This generally reduces profits on foreign sales and makes U.S. companies less competitive unless they are willing to cut prices, which lowers profits. The decline of the U.S. dollar was welcomed by these companies and contributed to higher profits from foreign sales.



International Equities

International stocks outperformed domestic stocks for the second consecutive quarter, rising 6.12% during the quarter as measured by the MSCI EAFE. Once again, Europe was the primary driver of this strong performance, as nearly 62% of the companies in the STOXX 600 index beat their earnings estimates, which is well above the average beat ratio of 54%. Also, earnings were more than 10% above estimates — this is well above the 4% long-term average.

European stocks were driven largely by surging consumer confidence during the second quarter, which reached its highest level in nearly a decade. Also, the Eurozone manufacturing index rose in June to its highest level since February 2011. Manufacturing optimism about the year ahead also hit a record high in June when the European Central Bank (ECB) left interest rates unchanged and didn't mention any additional rate cuts. Finally, the victory of Emmanuel Macron in the French elections makes France's departure from the European Union (EU) increasingly unlikely. This reduced political uncertainty in the Eurozone and calmed nerves across the globe while helping strengthen the Euro. A defeat of the anti-establishment party in Italy also helped increase confidence that the EU was stabilizing rather than weakening.

Japanese stocks outperformed domestic stocks during the second quarter, rising more than 5% on the heels of solid first-quarter economic growth. This marked the fifth consecutive quarter of growth — Japan's longest stretch since 2006. Faster exports, driven by a lower Yen, and increased consumer spending are both contributing to solid growth in Japan. It appears the aggressive bond buying by the Japanese central bank in 2016 to fuel faster economic growth is paying dividends in 2017.

Equity returns in emerging markets cooled somewhat after the first quarter's rapid rise but still exceeded returns of most equity indices across the globe. The MSCI EM index, a measure of emerging market equity performance, rose 6.3% during the second quarter, with Asia the primary driver of positive performance. Chinese stocks were up 10.6% during the second quarter and 24.9% during the first half of the year while India's stocks rose a mere 2.9% in the second quarter but are still up 20.5% for the first half of the year. Asia is experiencing an earnings recovery and Asian stocks are attractively priced in general relative to most global equities. The combination of improving earnings growth and relatively low valuations continues to support rising stock prices in Asia. Conversely, returns in Latin America and Russia were negative during the second quarter, as falling oil and gas prices contributed to double-digit losses for both Russian and Brazilian markets.



Fixed Income

On June 14, the Federal Reserve raised the Federal Funds rate by 0.25%, its second quarter-point rate hike so far this year in an effort to keep the economy from overheating. This move was widely expected by the markets, which have priced in the likelihood of one more quarter-point increase in September for a total of three rate hikes in 2017. However, while the Federal Funds rate is going up, long-term interest rates are moving in the opposite direction; the 10-year U.S. Treasury fell from 2.40% to 2.30% during the second quarter. This is somewhat unusual and indicates that, with inflation remaining below the Fed's target of 2.0%, investors don't think interest rates are likely rise. Lower than expected inflation helped reduce longer-term interest rates late in the second quarter.

Increased bond purchases by China also helped to keep a lid on bond prices and push yields lower. Falling yields helped boost prices of traditional bonds and contributed to a solid return of 1.52% for the Barclays Universal Bond Index during the second quarter. Shorter duration bonds didn't perform as well because they are less sensitive to interest rate movements, and shorter term rates actually moved higher. High-yield bonds had another strong quarter as yield spreads — or the incremental return investors demand for holding riskier bonds — declined and prices rose. Treasury Inflation Protected Securities (or TIPS), meanwhile, lagged behind as inflation declined while floating rate bank loans posted modest gains as investors questioned whether the Fed might slow down its rate hiking campaign.

Economy

Growth in the U.S. economy as measured by changes in the Gross Domestic Product (GDP) slowed to 1.4% during the first quarter after hitting 2.1% during the fourth quarter of last year. This was the slowest GDP growth rate since the second quarter of 2016. However, it's worth noting that GDP growth during the first quarter of the year tends to underperform in comparison to the rest of the year due to data calculation issues. Consumer spending during the quarter rose by 1.1%, the slowest pace of growth since the second quarter of 2013. Forecasts call for growth approaching 2.0% in the subsequent quarters of 2017.

The unemployment rate fell to a 16-year low of 4.3% in May, despite the fact that job growth slowed. This occurred because 429,000 people dropped out of the workforce altogether, which has the effect of lowering the unemployment rate even when job growth is slowing. On the positive side, a broader measure of unemployment, which includes those who want to work but have given up searching for a job and those working part-time but want to work full-time, fell to 8.4% in May, its lowest level in nearly a decade. If job growth continues at its current level the unemployment rate could drop to 4.0% by year-end, which would mark the lowest rate since the 1970's.

Market Outlook

Building a globally diversified investment portfolio with a good mix of international, emerging market and domestic equities has historically been a prudent investing strategy. However, international and emerging market stocks have been a hard sell the past few years as they have underperformed domestic stocks due to a double-dip recession in Europe and ongoing economic struggles in Japan and many emerging market nations. In fact, international earnings fell every year between 2011 and 2016.

However, we believe that international and emerging market stocks have bottomed out and are now poised to outperform. Domestic stocks have led the way globally for several years, but rising interest rates, sub

2.0% growth and an economy nearing full employment could contribute to slower earnings growth for domestic stocks. Also, valuations of international and emerging market stocks are generally attractive compared to U.S. stocks. There appears to be a strong economic recovery taking hold across the globe, and this is providing opportunities to increase exposure to countries and regions that have lagged domestic equity returns for several years. We will continue to look for opportunities to increase international exposure if global economic growth continues to strengthen.

If long-term interest rates start to rise along with short-term rates, fixed-income investments will become less attractive in comparison to equities. Although inflation declined late in the second quarter, with an unemployment rate heading towards 4.0%, it is hard to imagine that wage inflation won't increase as employers try to attract and retain skilled workers. The U.S. dollar has weakened this year, and this should contribute to higher inflation as the cost of imported goods rises. The likelihood of higher inflation and a Fed that seems determined to reduce the money supply to avoid creating asset bubbles should put upward pressure on longer-term interest rates as the recovery continues to mature. Given this outlook, we continue to emphasize shorter duration bonds and floating rate bonds, which generally outperform when interest rates rise.

We continue to overweigh growth stocks relative to value stocks due to the strength of earnings within the growth sectors. Earnings growth remains better than expected while large companies have plenty of cash on hand. There's not a lot of nervousness among investors in the current environment, so faster growing companies are being rewarded in comparison to dividend-paying companies that usually outperform during times of investor anxiousness.



All's Fair in Love and Debt

A Journey Through Student Debt



WRITTEN BY

STEPHEN NELSON

Specializing in financial planning and investment management. He has passed the Series 7, 63, and 65 securities licensing exams and is currently working toward his CFP® certification.

In the summer of 2015, my wife and I had just tied the knot and embarked on this exciting journey in somewhat of an unconventional way: living in her grandparents' backyard. Living in our grandparents' guest cottage had its pitfalls, from being awoken nightly by their raccoon-hunting dog to discovering Grandpa's ritual of doing laps in short swim trunks in his pool (the things I wish I could un-see).

We made this unorthodox decision after I graduated with my master's in finance and \$26,000 in student debt. With a wedding a month away, here I was "blessing" my bride with something that typically lasts a lifetime, and, in this case, it wasn't a good thing.

This predicament is all too common in the lives of post-graduates today. Student debt has surpassed \$1.3 trillion and is the second highest source of household debt behind mortgages. Forty percent of student borrowers aren't making payments, and one in six is in default. Unfortunately, it is not only millennials who carry this weight. The government has garnished \$1.1 billion of Social Security wages to pay student loans since 2001, according to the Government Accountability Office. Student debt will stick with you well into adulthood, and filing for bankruptcy doesn't even get you out of paying back a federal student loan.

Here we were, faced with the decision to either progress with a monthly payment plan and pay it off over time or dig our feet in, live with the grandparents and knock it out as fast as we could.

Being a finance guy, I had to run a few numbers. A \$26,000 student loan with an interest rate of 6.8% paid off over 10 years resulted in a monthly payment of about \$300. It's a good chunk of money, but it was doable each month. However, we would also fork over an additional \$9,900 in interest, turning the original amount of \$26,000 into \$35,900 when it was all said and done. On the flipside, paying off the loan as fast as we could would result in the loss of excess monthly spending power. There would be no Instagram pictures of weekend getaways or an apartment to ourselves. It's what economists call opportunity cost.

For us, the clear answer was to put up with the unconventional living arrangement, forgo some discretionary spending and pay off the debt more quickly. Through this journey, here are some of the invaluable things we have learned.

The Importance of a Plan

Once my wife and I made the decision to be all in, our plan was simple. Every single dollar beyond our monthly bills and groceries went toward the student debt. Bear Bryant, the revered University of Alabama football coach, once said, "Have a plan. Follow a plan, and you'll be surprised how successful you can be. Most people don't have a plan. That's why it's easy to beat most folks."

To avoid carrying student debt well into adulthood, we had to plan out where our income would go each month. By establishing a budget, we were able to see where our

money was going, cut things out and redirect them toward our goal. A habit of budgeting is essential for anyone trying to pay off debt, invest, or save for a vacation.

Learn to Say No in Order to Say Yes

I am not one to say no to people. I usually try everything in my power to say yes, even if it is inefficient or an added burden. My breakthrough came when I was reminded of a quote by Stephen Covey, author of “The 7 Habits of Highly Effective People.” He said, “You have to decide what your highest priorities are and have the courage – pleasantly, smilingly, nonapologetically, to say ‘no’ to other things. And the way you do that is by having a bigger ‘yes’ burning inside. The enemy of the ‘best’ is often the ‘good.’”

My wife and I had to make a decision for each dollar we earned at our respective jobs. In order to say yes to our

goal of paying off our student loan, we had to say no to living on our own, movies at the theater, eating out, new clothes and birthday gifts for each other. None of these are inherently bad things, but they were luxuries we couldn’t afford. Something had to give, so we chose one over the other. We figured the sooner we got rid of this loan, the sooner we could do all of those other fun things.

Life Isn’t Made in the Abundance of Possessions

When your self-imposed entertainment budget is limited, you find ways to make great memories without spending a lot of money. We had the opportunity to spend time with family, especially our aging grandparents. By literally being in their backyard, we could pop in for a chat about politics or projects going on in the area, and maybe steal a fresh cookie from the jar. We will cherish those moments forever.

By staying vigilant and focused, we paid off all the debt in six months. I realize how fortunate we were to have the option of a place to live that allowed us to save as much as we did. Most people don’t have that opportunity, so we were grateful. However, it was not exactly the life we dreamed of as newlyweds. We had to learn the discipline of sticking to a plan even when outside pressures made us want to cave. We had to learn to say no for the immediate future in order to say yes to something bigger – being rid of student debt. We were even lucky enough to discover new joy and memories along the way. Whatever your goal may be, I hope you find the perseverance to achieve it.

STEPHEN NELSON WEALTH ASSOCIATE

Stephen’s experience prior to joining the firm includes investment management, financial planning and advising. He aims to educate, serve and strategize to meet clients’ financial objectives, while always upholding a fiduciary standard. Stephen graduated from Southern Methodist University with a bachelor’s degree in Finance.





What the New Fiduciary Rule Means to You

By Neil Plein, CPFA

Quite a bit of media attention recently has been directed toward the release of a new fiduciary rule by the Department of Labor. The rule, which went into a preliminary state of effect on June 9th (it is scheduled to be in full effect on January 1st, 2018), is significant in that it impacts virtually all firms in the financial services industry. The rule requires all financial professionals who work with retirement plans or provide retirement planning advice to legally and ethically meet the Fiduciary Standard of care. So why is this rule capturing so much attention and how does it impact the service you receive from Aldrich Wealth?

Most investors do not realize that two standards of care exist in the financial services industry. The Fiduciary Standard, which is adhered to by Registered Investment Advisors (such as Aldrich Wealth), requires that advisors always act exclusively in the best interest of their clients. The suitability standard, on the other hand, which is adhered to by broker-dealers, does not require that advisors act exclusively in the best interest of their clients. Rather, it only requires that recommendations be suitable, based on the client's personal situation. An investment recommendation may be considered suitable, but it doesn't have to be the best option or the least expensive choice. Therefore, under this standard, the likelihood for conflicting advice is much higher. As

long as the recommendation is considered suitable, the individual giving that recommendation can also position themselves to benefit financially — and they don't have to disclose this to their client.

The fiduciary rule changes this by requiring that everyone in the financial services industry to adhere to a Fiduciary Standard when giving advice or making a recommendation that impacts a retirement account (such as an IRA, 401k, etc.). As you can imagine, there are many organizations in the financial services industry that are lobbying against the rule because if it's passed, it will ultimately reduce commissions and other fees as well as increase the level of compliance cost associated with implementation and monitoring. Although we don't know whether the rule will be fully or partially adopted or fail to be adopted at all, it is at least encouraging that the publicity has increased investor awareness of the differences in how financial professionals are compensated and has helped arm investors with better information to advocate for themselves and enhance their clients' understanding of the relationship they have with their financial advisor.

At Aldrich Wealth, acting exclusively in the best interest of our clients is at the core of who we are and what we do. We don't receive any compensation based on the investments or products we recommend. Our investment strategies are driven exclusively by our research and our desire to provide clients with the most cost-effective and beneficial investment options available. Provided the rule proceeds as planned (a recent presidential memorandum may result in the rule being repealed), we expect the impact to be very minimal on our operations and how we manage clients' money. In fact, we fully support the rule and believe investors everywhere will be better served if it's passed.



NEIL PLEIN, CPFA
RETIREMENT PLAN
CONSULTANT

Neil is a Certified Plan Fiduciary Advisor and Accredited Investment Fiduciary® who acts as the quarterback of a retirement plan. He guides employers through the overall plan

management with the knowledge to do a deep dive into any aspect of plan operation. He has been quoted on investment and retirement plan matters in Bloomberg Businessweek, Barron's, Investor's Business Daily, PLANSPONSOR Magazine, CNBC and other industry publications. Neil was named as one of NAPA's 2017 Young Guns: Top 75 under 40.

Aldrich Locations

ANCHORAGE

907.522.2130

CARLSBAD

760.431.8440

ESCONDIDO

760.746.1560

PORTLAND

503.620.4489

SALEM

503.585.7774

SAN DIEGO

619.810.4940

SEATTLE

425.633.3207

About Aldrich Wealth

Aldrich Wealth LP is an investment advisor registered with the U.S. Securities and Exchange Commission. Aldrich Wealth provides wealth management services where it is appropriately registered or exempt from registration and only after clients have entered into an Investment Advisory Agreement confirming the terms of the client relationship, and have been provided a copy of Aldrich Wealth ADV Part 2A brochure document. The information contained in this document is provided for informational purposes only, is not complete, and does not contain material information about making investments in securities including important disclosures and risk factors. Under no circumstances does the information in this document represent a recommendation to buy or sell stocks, bonds, mutual funds, exchange traded funds (ETF's), other securities or investment products.

Recognized as Financial Times Top 300 Financial Advisors

The 2015 Financial Times Top 300 Registered Investment Advisors is an independent listing produced by the Financial Times (June, 2015). The FT 300 is based on data gathered from RIA firms, regulatory disclosures, and the FT's research. Applications were solicited from more than 2,000 independent RIA firms that had \$300 million or more in assets. The 630 RIA firms that applied were then graded on six criteria: AUM; AUM growth rate; years in existence; advanced industry credentials; online accessibility; and compliance records. To make sure the list was relevant to Financial Times readers, the paper required that no more than 75% of a practice's assets be institutional. Only those who completed an application were considered. Neither the RIA firms nor their employees pay a fee to The Financial Times in exchange for inclusion in the FT 300. This is the second annual FT 300 list, produced independently by the FT in collaboration with Ignites Research, a subsidiary of the FT that provides business intelligence on the investment management industry.

Recognized Five Star Professional's "Five Star Wealth Managers"

Five Star Professional, as a third-party research firm, identified pre-qualified award candidates based on industry data and contacted all identified broker dealers, Registered Investment Advisor firms and FINRA-registered representatives in the Portland area to gather wealth manager nominations. Award candidates were then evaluated against 10 objective eligibility and evaluation criteria: 1) Credentialed as an investment advisory representative (IAR), a FINRA-registered representative, a CPA or a licensed attorney; 2) Actively employed as a credentialed professional in the financial services industry for a minimum of five years; 3) Favorable regulatory and complaint history review; 4) Fulfilled their firm review based on internal firm standards; 5) Accepting new clients; 6) One year client retention rate; 7) Five-year client retention rate; 8) Non-institutionalized discretionary and/or nondiscretionary client assets administered; 9) Number of client households served; 10) Educational and professional designations. 1,107 wealth managers in the Portland area were considered for the award. 224 were named 2015 Five Star Wealth Managers which represents approximately 21 percent of the total award candidates of the area. Wealth managers do not pay a fee to be considered or placed on the final list of 2015 Five Star Wealth Managers. The Five Star award is not indicative of the wealth manager's future performance. For more information on the Five Star Wealth Manager program and the research/selection methodology, go to www.fivestarpromotional.com/wmsummaryandresearch.pdf. To view AKT Wealth Advisors, LP award document, go to <http://www.pageturnpro.com/Five-Star-Professional/64888-PORWM15-Heather-Wonderly/puredefault.html>.

The technical information in this newsletter is necessarily brief. No final conclusion on these topics should be drawn without further review and consultation. Please be advised that, based on current IRS rules and standards, the information contained herein is not intended to be used, nor can it be used, for the avoidance of any tax penalty assessed by the IRS.



Alaska | California | Oregon | Washington

wealthadvisors.com