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Financial Advisors

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QUARTERLY PERFORMANCE REVIEW SECOND QUARTER 2017

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Dear Client:

We have enclosed your second quarter 2017 Portfolio Performance Report. Please review the materials and insert them behind the green "Performance" tab in your "Planbook."

This table presents the 2017 second quarter returns of the benchmarks for selected asset classes.

Asset Class Returns

Asset Class	2nd Qtr 2017	YTD 2017	Benchmark Index
Domestic Fixed Income	0.94%	1.73%	Barclays Intermediate Gov't / Corp Bond
Domestic Inflation Protected	-0.40%	0.85%	Barclays TIPS Index
International Fixed Income	0.55%	0.17%	JP Morgan – Global Gov't - Non US (hedged)
Domestic Equity (Large)	3.09%	9.34%	S&P 500 with Dividends
Domestic Equity (Large Value)	1.34%	4.66%	Russell 1000 Value Index
Domestic Equity (Small)	2.46%	4.99%	Russell 2000
Domestic Equity (Small Value)	0.67%	0.54%	Russell 2000 Value
International Equity	6.12%	13.81%	MSCI EAFE Equity Index with Dividends
Real Estate	2.27%	4.88%	FTSE NAREIT Equity
Precious Metals	-0.21%	8.41%	Gold
Natural Resources	-3.47%	-5.40%	Dow Jones UBS Commodity Index

Portfolio performance for the second quarter of 2017 was led by both US large cap and international equity asset classes. Two of the more well-known market indexes for US large cap stocks are the Dow Jones and the S&P 500. The Dow Jones has set 39 new record closing highs since the 2016 presidential election. The S&P 500 has set 6 new record closing highs. This raises the question from many investors, and many of our clients, about how these new highs in one asset class (US large cap) might impact their investment strategy.

Sources: Dow Jones; www.thebalance.com / S&P 500; Wikipedia

US Spending Patterns

The Bureau of Labor Statistics reports that expenditures on food, housing, and transportation are the three largest components of most US household spending. For low income households, up to 70 percent are in these three categories. For high income households, about 55 percent.

- *Source: News Release Bureau of Labor Statistics: April 19, 2017, Consumer Expenditures Midyear Update*

We believe it is important to remember that US large cap equities are just one of the asset classes that are part of a diversified portfolio. Even though this asset class may get the largest and loudest media headlines other asset classes, like US small cap equities, International equities, US bonds, International bonds, real estate, natural resources, and some selected alternatives, are often part of a long-term composite portfolio. We believe the purpose and benefit of structuring investment portfolios using multiple asset classes is to lower risk by "not putting all our eggs in one basket."

We offer this perspective on the S&P 500, which is one of the most watched indicators of the stock market. Since it is so common to hear the update on how this index is moving up or down every day, it is natural for investors to believe their individual portfolio is also moving up and down just like the index. We believe diversification helps protect your portfolio from large losses due to a correction in one asset class, like large cap stocks represented by the S&P 500.

The S&P 500, just like all asset classes, has "average annual returns" that factor in the normal ebb and flow of daily variations that occur between new record highs and corrections (defined as a drop of 10 percent or more from its most recent 52-week high). Corrections are considered an adjustment due to an overvaluation. Since the peak of the S&P 500 in October of 2007 (almost 10 years ago and prior to the financial crisis in 2008), the S&P 500 is up 91.2 percent, or an average of a little over 7 percent per year. Over the last 20 years, the average has been about 7.7 percent.
Source: JP Morgan Guide to the Markets, June 30, 2017, Page 8

Predicting when a correction will happen in any world market or any specific asset class is not possible. One indicator that is watched for US stocks is the average Forward Price to Earnings ratio (PE). The Forward PE is one measure used by market analysts and investors to assess how much they are willing to pay for a stock right now (price), based upon how much profit (earnings) they expect the company to produce in the next 12 months.

As of the end of the second quarter, the Forward PE ratio for the S&P 500 was 17.5. This is slightly higher than the 25-year average of 16 (highest was 27.2 and lowest was 10.3). A Forward PE ratio higher than long-term averages may signal that this class of investments is becoming overvalued. One historical perspective of note is a look back at the "tech bubble." In March 2000 the S&P 500 Forward PE ratio was 27.2. A correction occurred and the Forward PE ratio fell to 14.1 in about 31 months.
Source: JP Morgan Guide to the Markets, June 30, 2017, Pages 4 & 5

Quotable Quotes

"Far more money has been lost by investors trying to anticipate corrections, than lost in the corrections themselves."

- Peter Lynch

Welcome

RPJ is pleased to announce that John Wolff has joined the firm this spring. John is a graduate of JMU and has previously worked in the insurance industry. He is an associate planner working with Charlie Rembert and Liz Clough.

Although these are interesting statistics, they are not necessarily predictive of what will happen in the future. As stated previously, sometimes overvaluation can lead to a correction. However, there are also many other factors that contribute to market behavior. Another market correction could occur at any time.

We believe long-term investors are reaping the benefits of asset classes like the Dow and the S&P 500 reaching new record highs. We also believe that adjustments will inevitably occur. History has shown that when you average positive returns with negative returns over long periods of time, the positive is quite often the winner!

Our investment philosophy continues to advocate participation in the markets with a globally diversified portfolio as a prudent strategy for the long journey. We welcome your comments and value the relationship we have with each of you. Stay safe and enjoy the summer!

Regards,

Rembert Pendleton Jackson

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Historical performance results for investment indices and/or categories have been provided for general comparison purposes only, and generally do not reflect the deduction of transaction and/or custodial charges, the deduction of an investment management fee, nor the impact of taxes, the incurrence of which would have the effect of decreasing historical performance results. It should not be assumed that your account holdings correspond directly to any comparative indices. An investor may not directly invest in an index.

RPJ Investment Advisory Services

If you know of an individual, family, small business or nonprofit organization that is considering using the services of an investment advisor, we would consider it a privilege to have the opportunity to speak with them about our knowledge and services. For more information about our firm and our services, please visit our website or give us a call.

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