



Capital Advantage Market Outlook for 2017

Agenda



Ian Castille, CFP® – Senior Financial Advisor

- Introduction
- Economic Opportunities for 2017

Donna Zinman, MBA, CRPC® – Executive Vice President

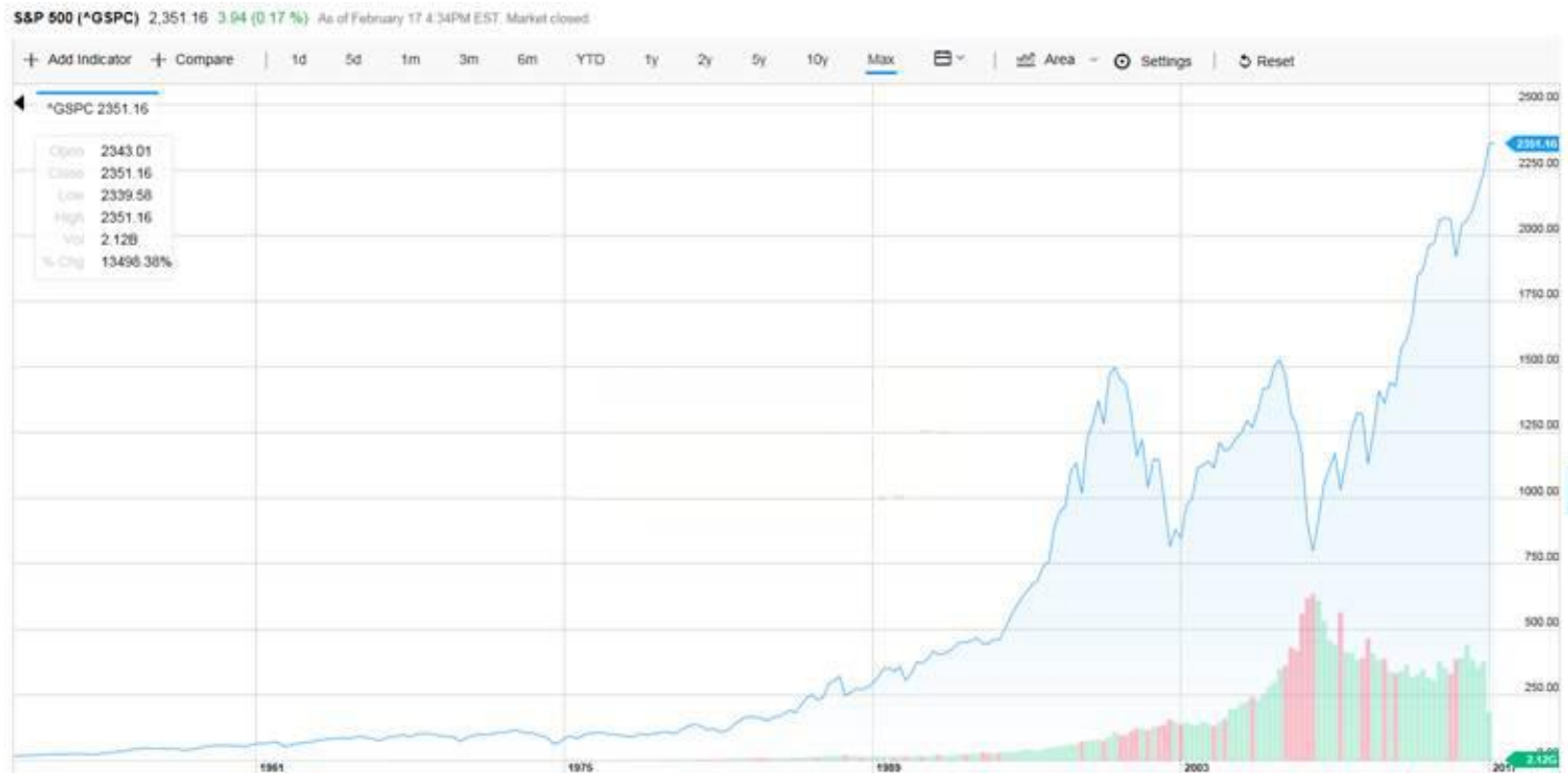
- Economic Risks for 2017
- Economic Uncertainties for 2017

Ian Castille, CFP® – Senior Financial Advisor

- Capital Advantage Investment Strategy for 2017
- Conclusion and Q & A



In order to understand where we are, it's helpful to look at how we got here.



Source: S&P 500, February 17, 2017

Capital Advantage Market Outlook for 2017

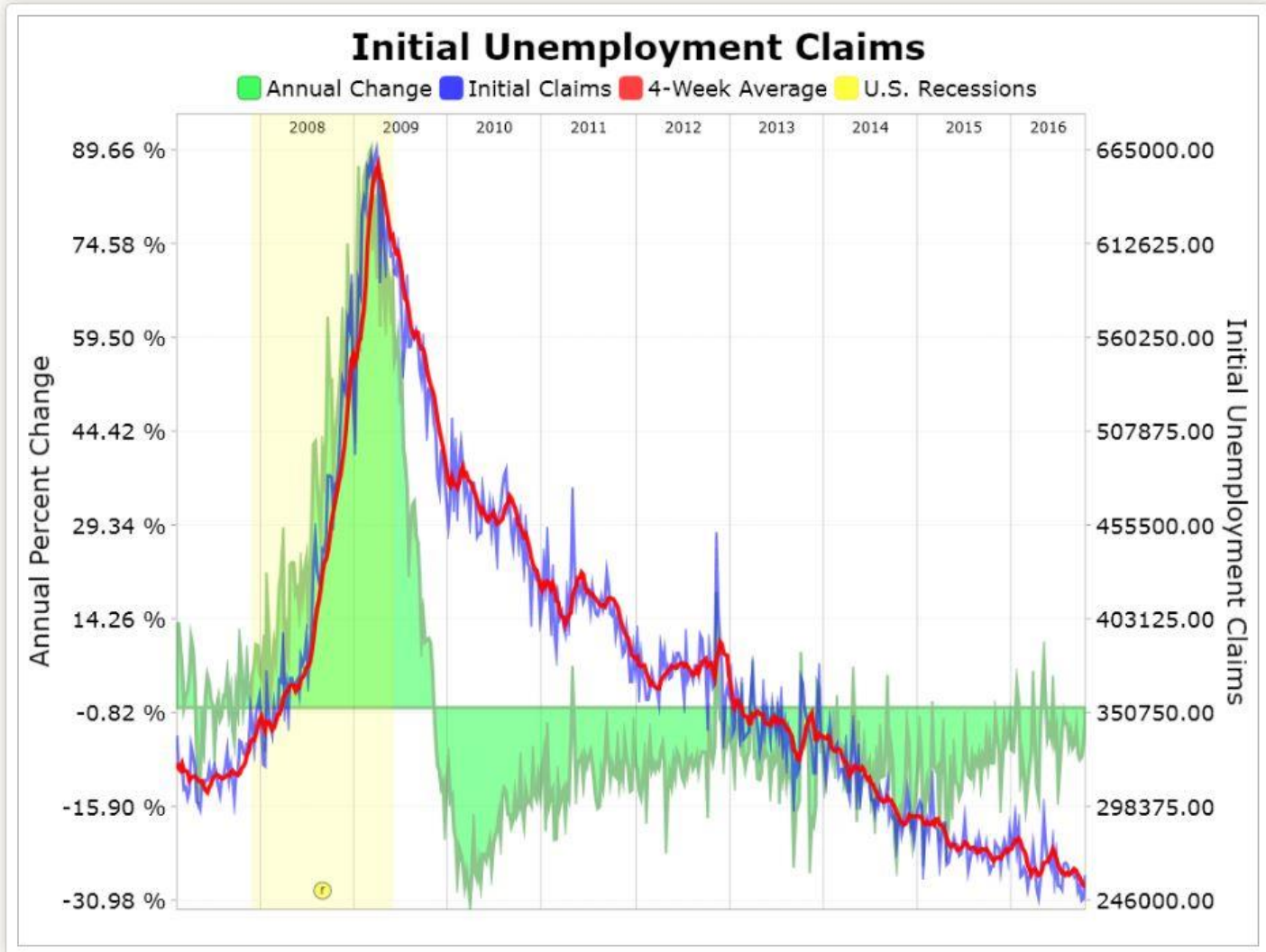


Opportunities



Economic Opportunities

Decrease in Unemployment Claims



Economic Opportunities

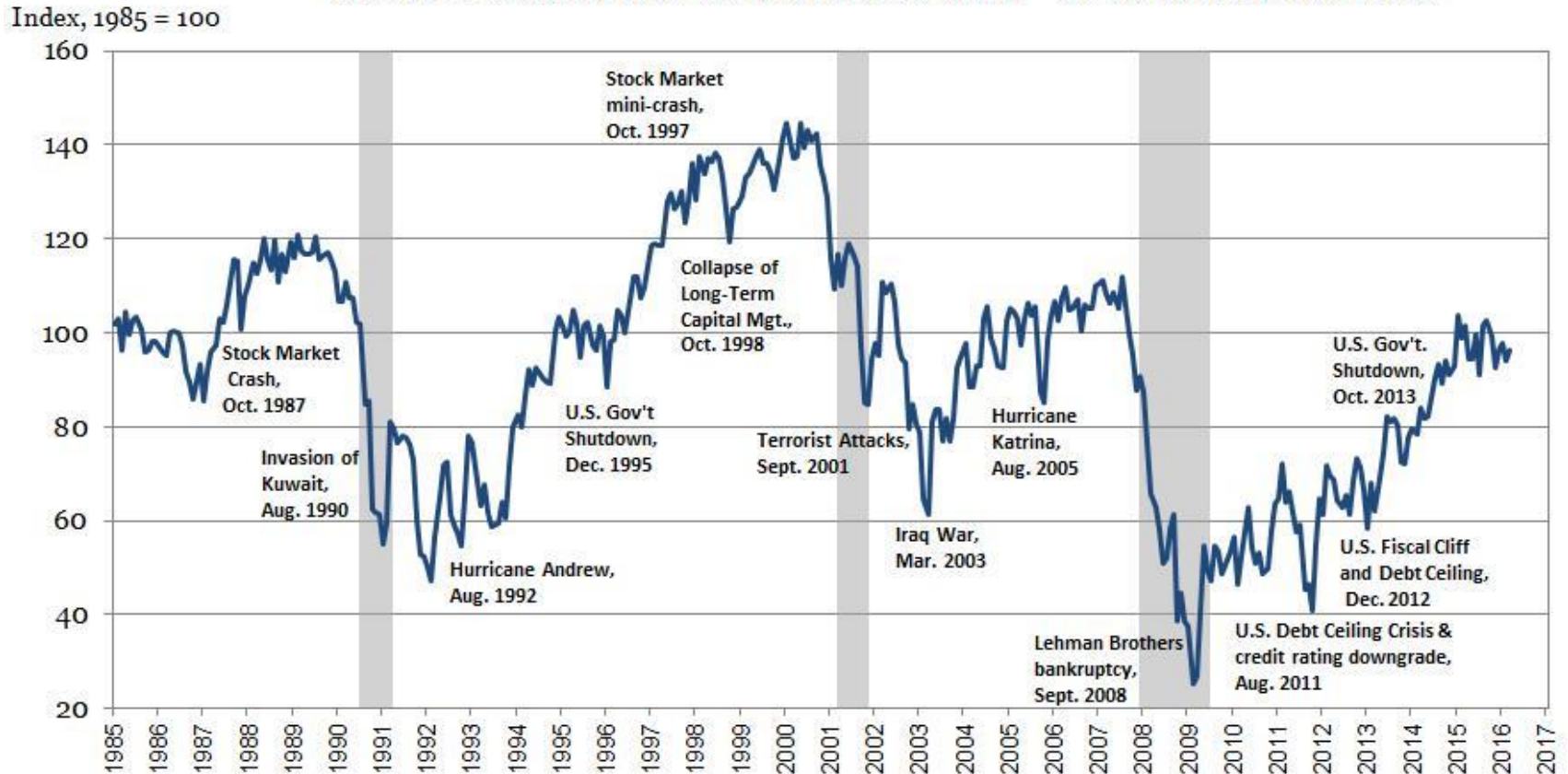
Wage Growth



Economic Opportunities

Increase in Consumer Optimism

Chart 1: Consumer Confidence Index® & Historical Shocks



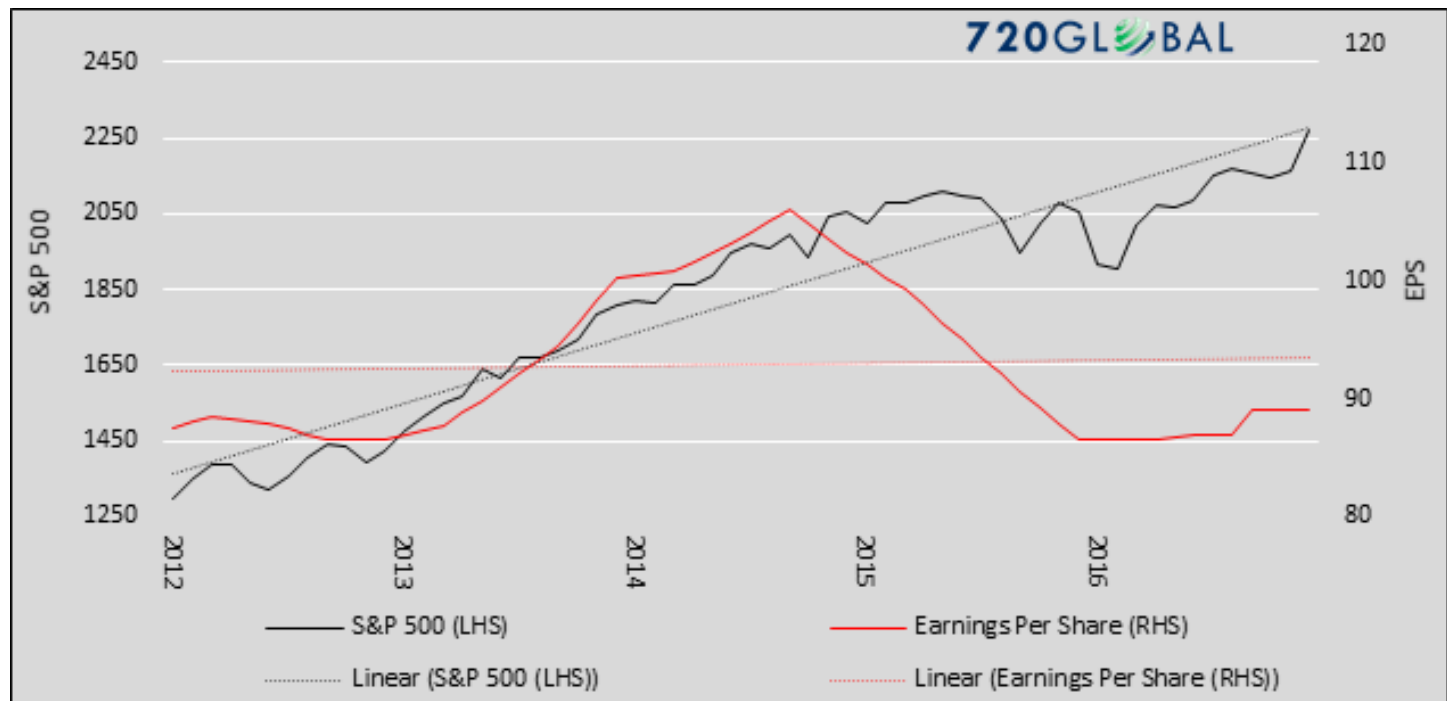
*Shaded areas represent periods of recession.

Sources: The Conference Board; Nielsen; TNS; NBER

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Economic Opportunities

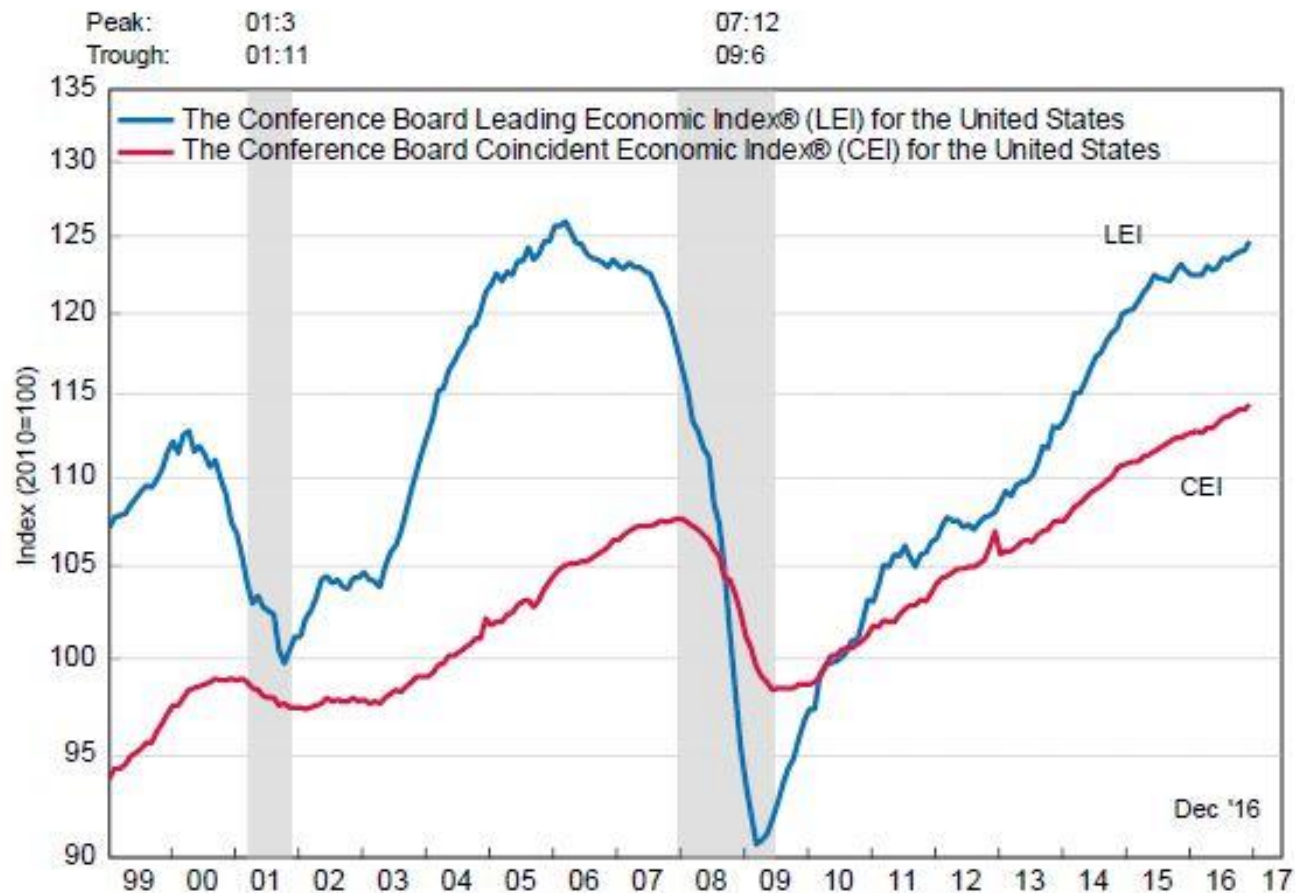
Corporate Earnings Growth



Economic Opportunities

Leading Economic Indicators

The Conference Board Leading Economic Index® (LEI) for the U.S. Increased in December



Latest LEI Trough March 2009, Latest CEI Trough June 2009

Shaded areas represent recessions as determined by the NBER Business Cycle Dating Committee.

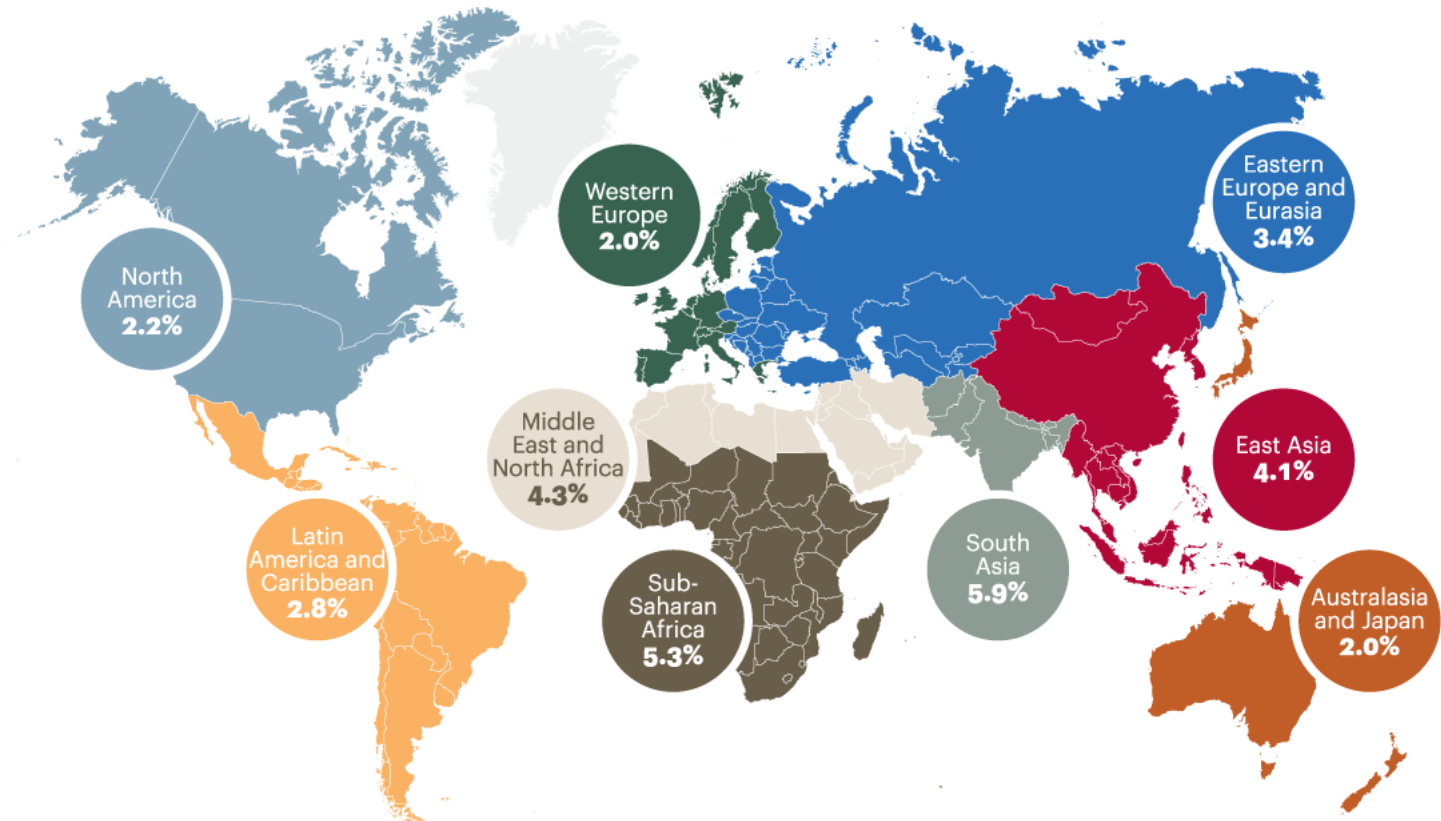
Source: The Conference Board

Economic Opportunities

Global GDP Forecast

Real GDP growth

%, 2016–2020 annual average



Notes: GDP figures are the unweighted average of the forecast annual growth rates of the economies within each region between 2016 and 2020. GDP growth is measured at constant prices.

Sources: International Monetary Fund World Economic Outlook (October 2015 and January 2016); A.T. Kearney analysis

Economic Opportunities

International Valuations and Monetary Policy

	S&P 500 (US)	MSCI EAFE (Developed International)	MSCI Emerging Markets
P/E Ratio	24.18	19.94	14.95

Capital Advantage Market Outlook for 2017



Opportunities: Positive Economic Data

- Decrease in unemployment claims
- Wage growth
- Increase in business and consumer optimism
- Corporate earnings growth
- Leading economic indicators
- Global GDP Forecast
- International valuations and monetary policy

Economic data points to low probability of US recession in 2017.

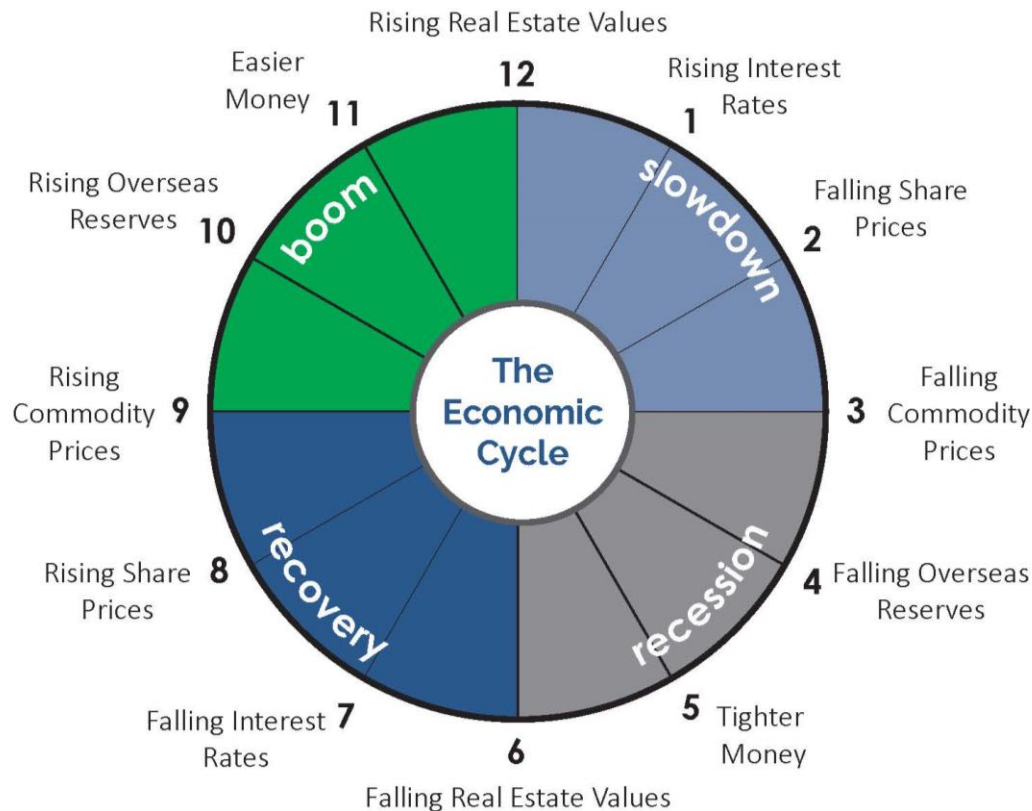


Risks

Economic Risk Factors

Market Cycle Long in the Tooth

Market Volatility: What Investors Should Know



Market Volatility Statistics

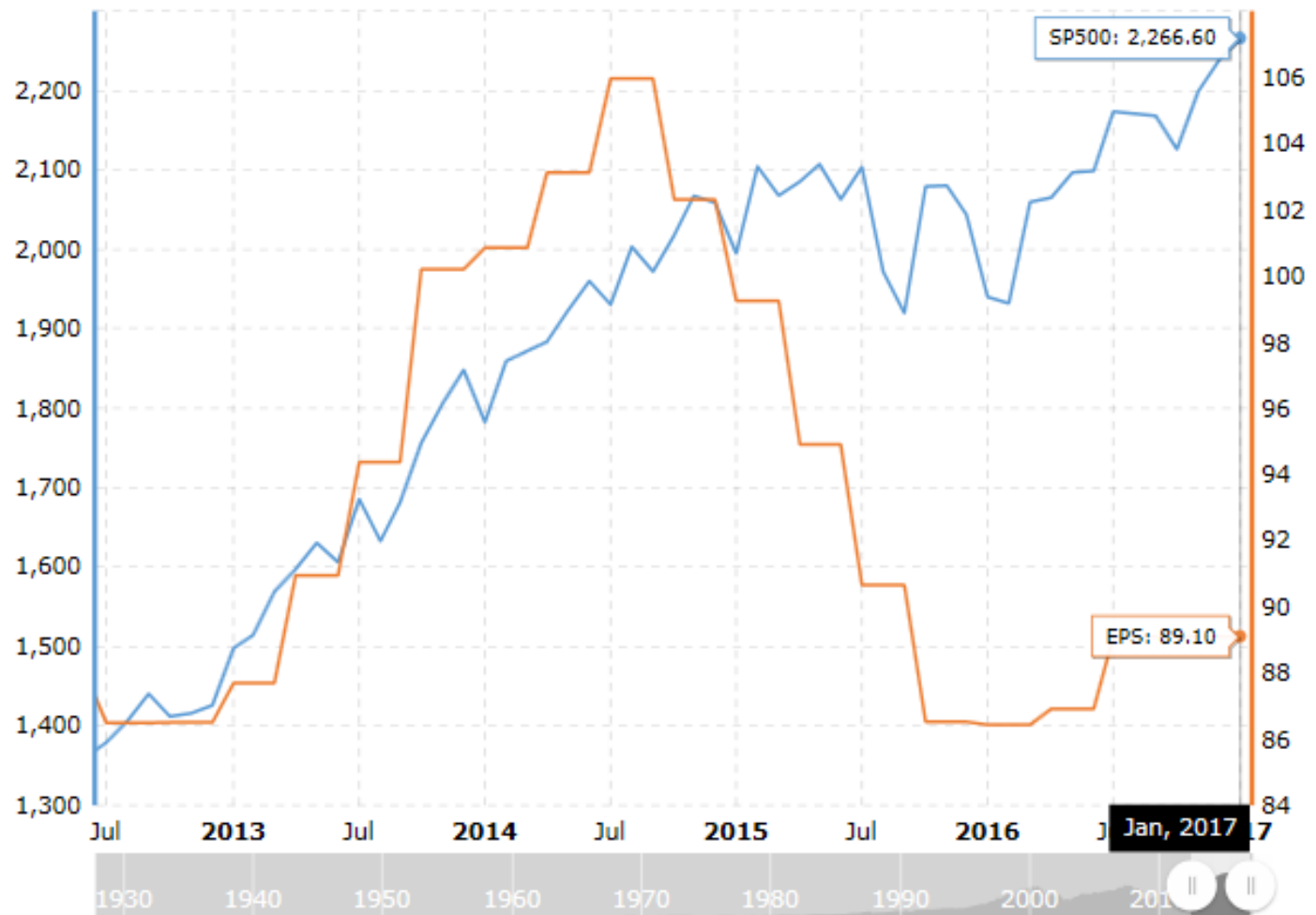
- The S&P 500 has been down 34% of the time and up 66% of the time. ¹
- On average every two years, the stock market has corrected or had a recessionary downturn. ²
- The average correction is 13.7%. In the last 36 years, there have been 12 corrections. ²
- The average market downturn in a recession is 33.4%. In the last 36 years, there have been 7 of these downturns. ²
- The average recovery time from a correction is 4 months. The average recovery time from a recessionary downturn is 2.11 years. ²

1. LizAnn Sonders, Chief Investment Strategist of Charles Schwab & Co., Inc. "2016 Outlook Webcast", 2/2/2016
2. Vanguard Article 1/28/2016 "Corrections and Bear Markets: What does Vanguard Think?"

Economic Risk Factors

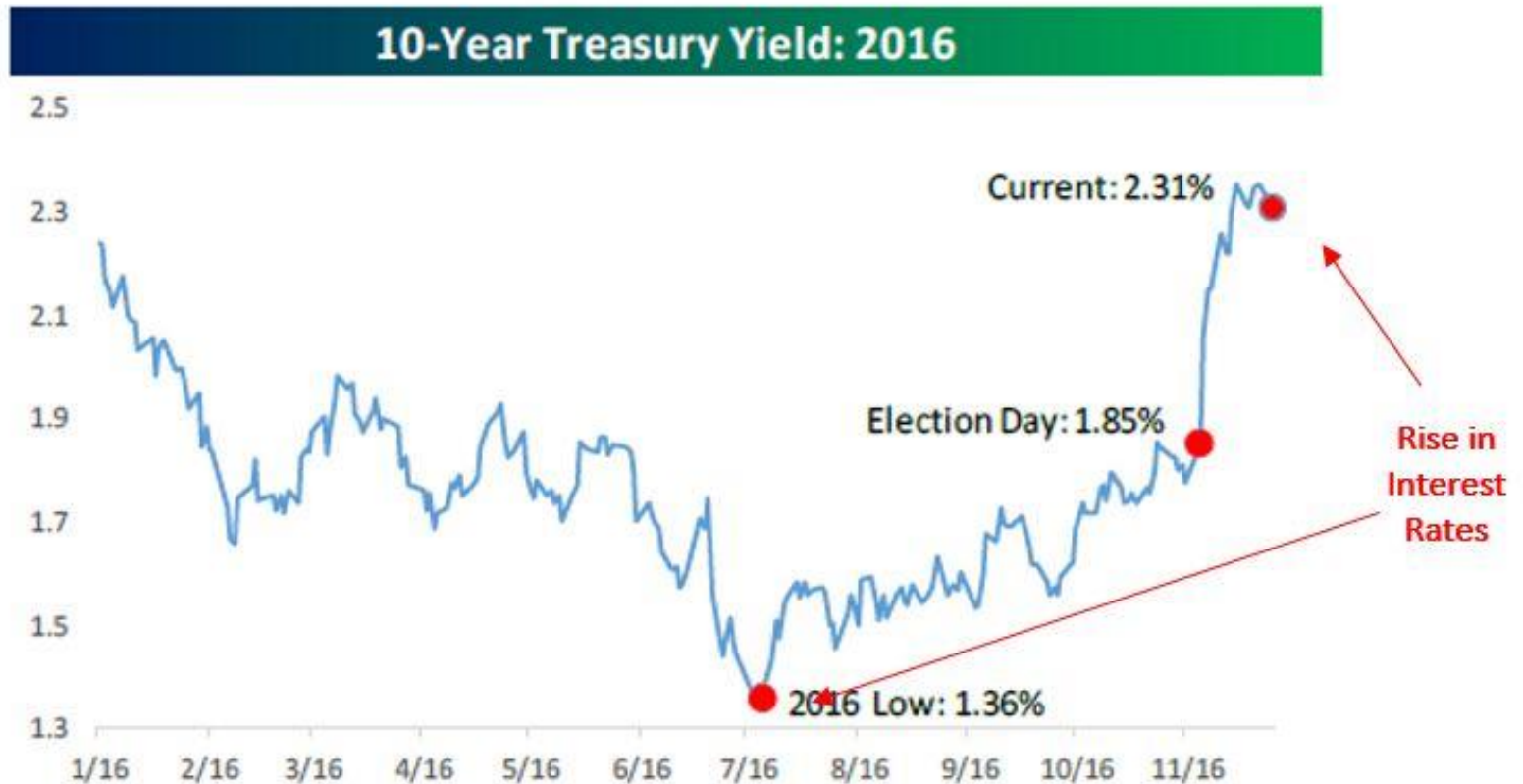
Elevated US Equity Valuations

S&P 500 Price versus Earnings Chart



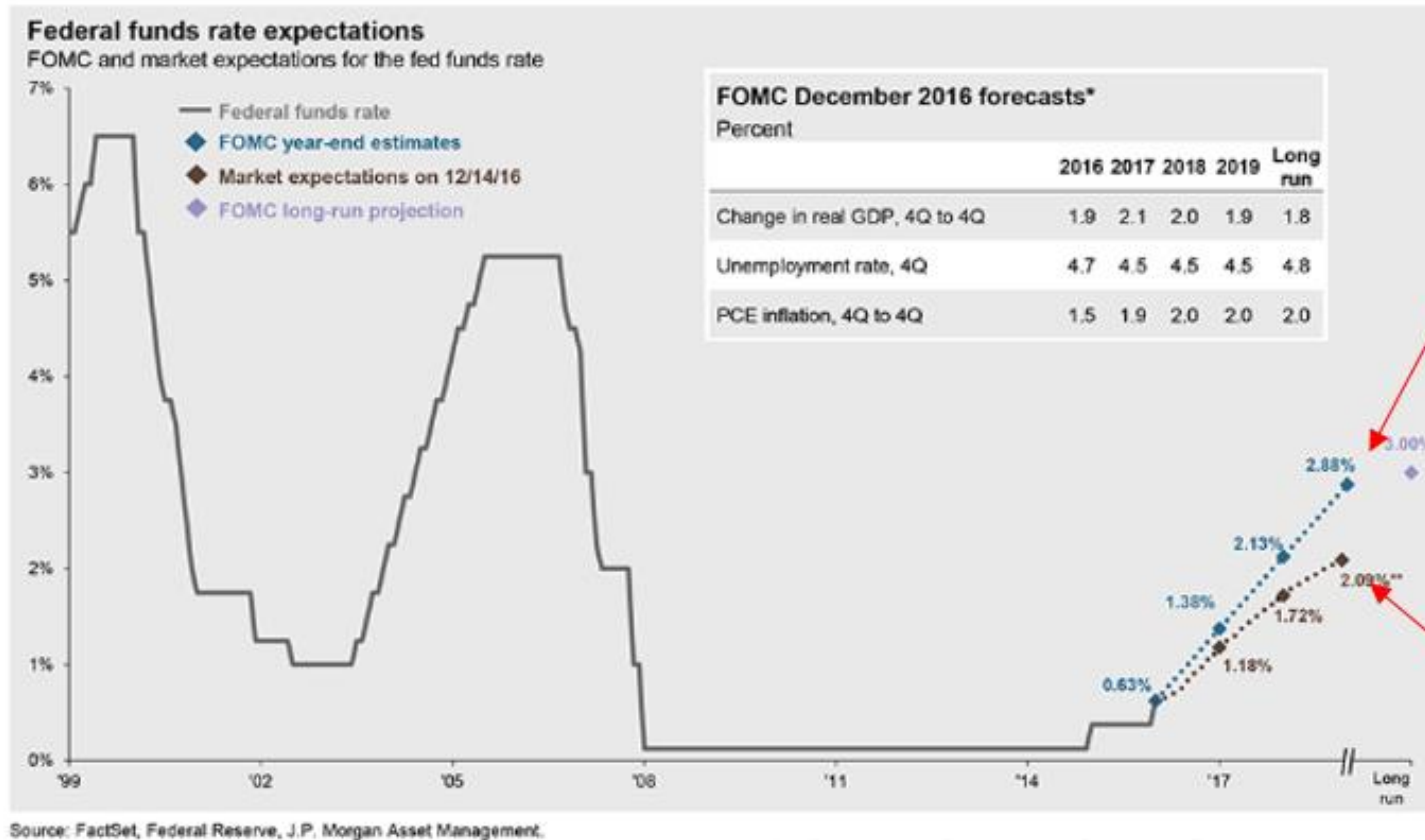
Economic Risk Factors

Rising Interest Rates



Economic Risk Factors

Rising Interest Rates

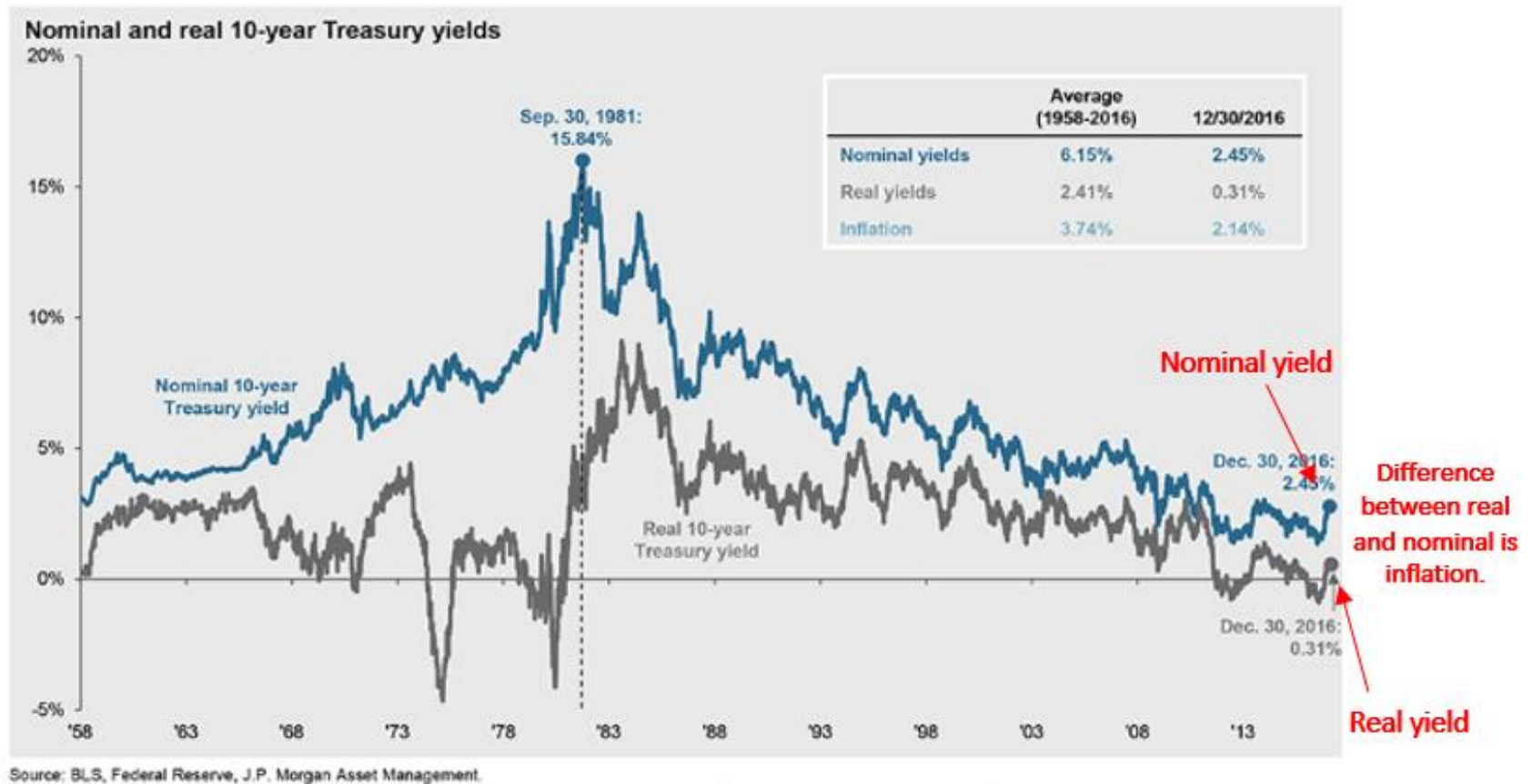


Fed Rate
Predictions
per 2017

Market Rate
Predictions
per 2017

Economic Risk Factors

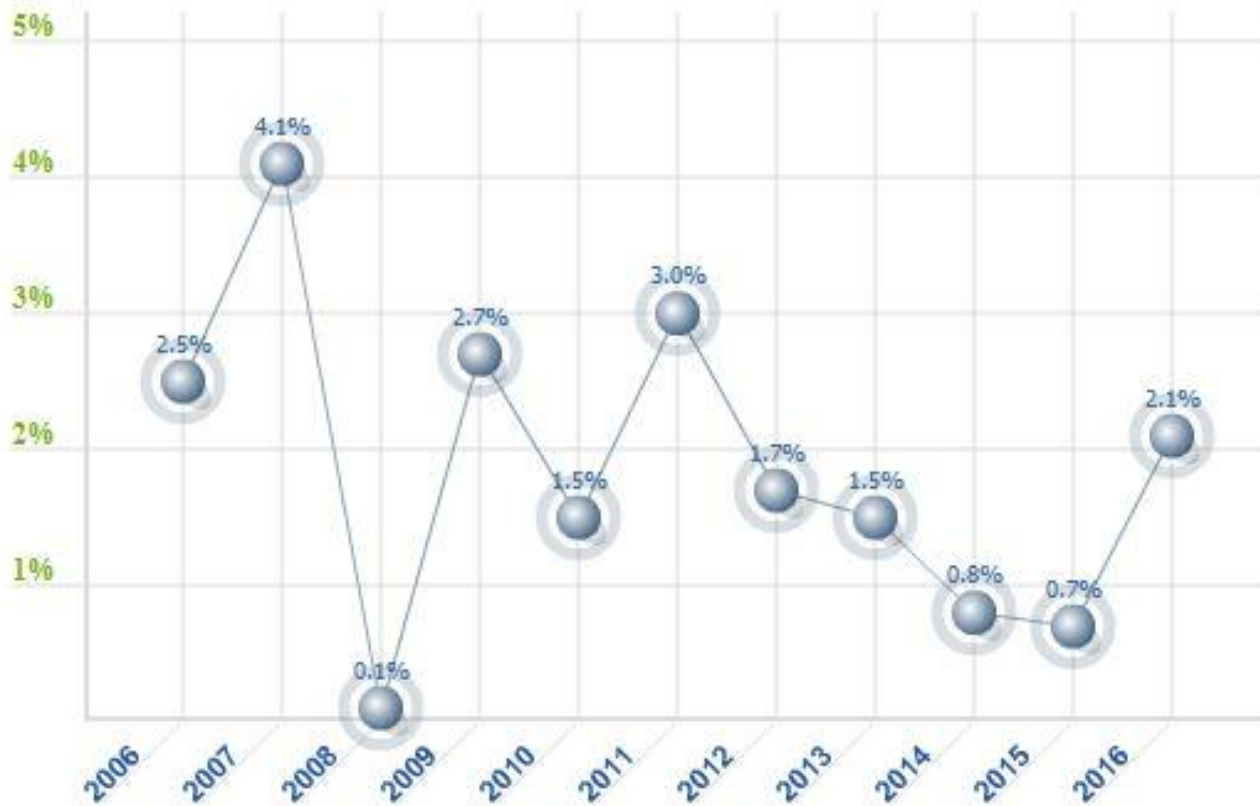
Rising Interest Rates



Economic Risk Factors

Rising Inflation

Inflation Rates Graph (2006-2016)



Economic Risk Factors

US Dollar Strength

US Dollar Index (DXY) – 5 Year History



Capital Advantage Market Outlook 2017



Risks:

- Market cycle long in the tooth
- Elevated US equity and US bond valuations
- Rising interest rates
- Rising inflation
- US Dollar strength

In the short term, we believe the opportunities outweigh the risks.



Capital Advantage Market Outlook for 2017



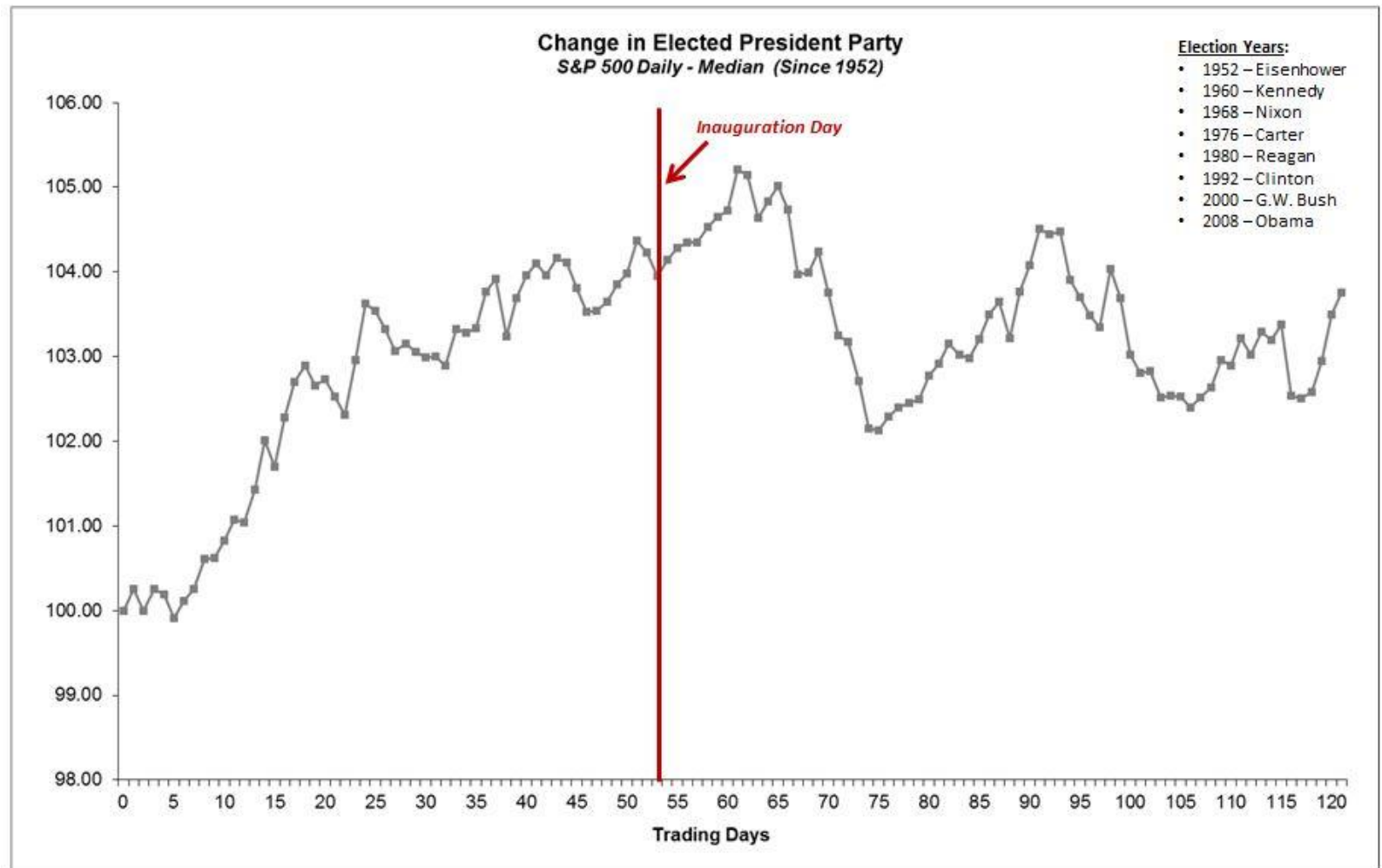
Uncertainties



Economic Uncertainties

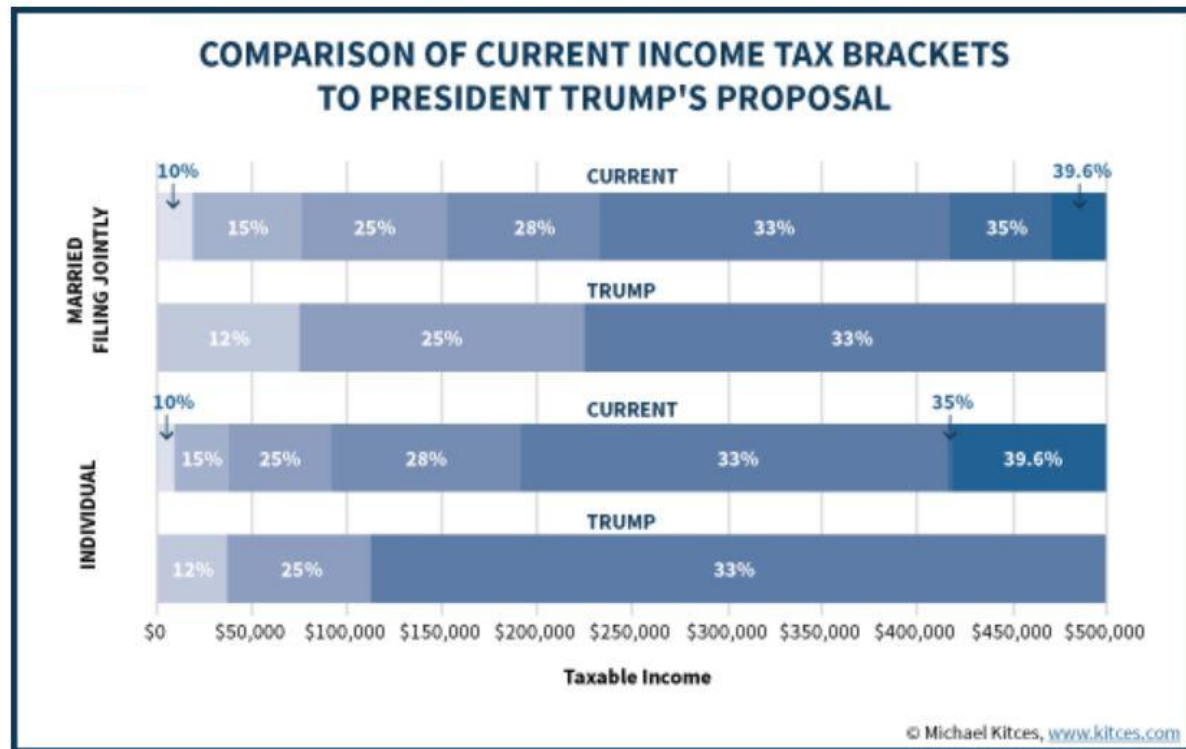
New Administration in the White House and Change of Political Party in Power

Change in Elected President Party



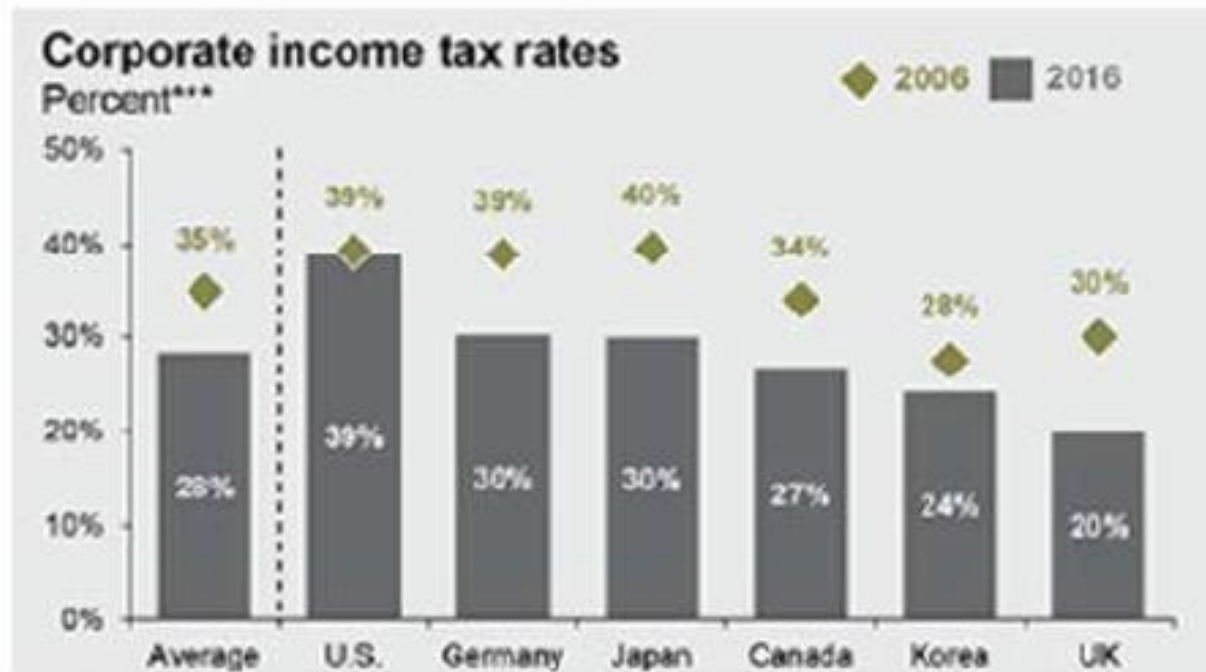
Economic Uncertainties

Tax Reform



Economic Uncertainties

Tax Reform



Source: Compustat, FactSet, Standard & Poor's, J.P. Morgan Asset Management, (Top right) Federal Reserve, S&P 500 individual company 10k filings

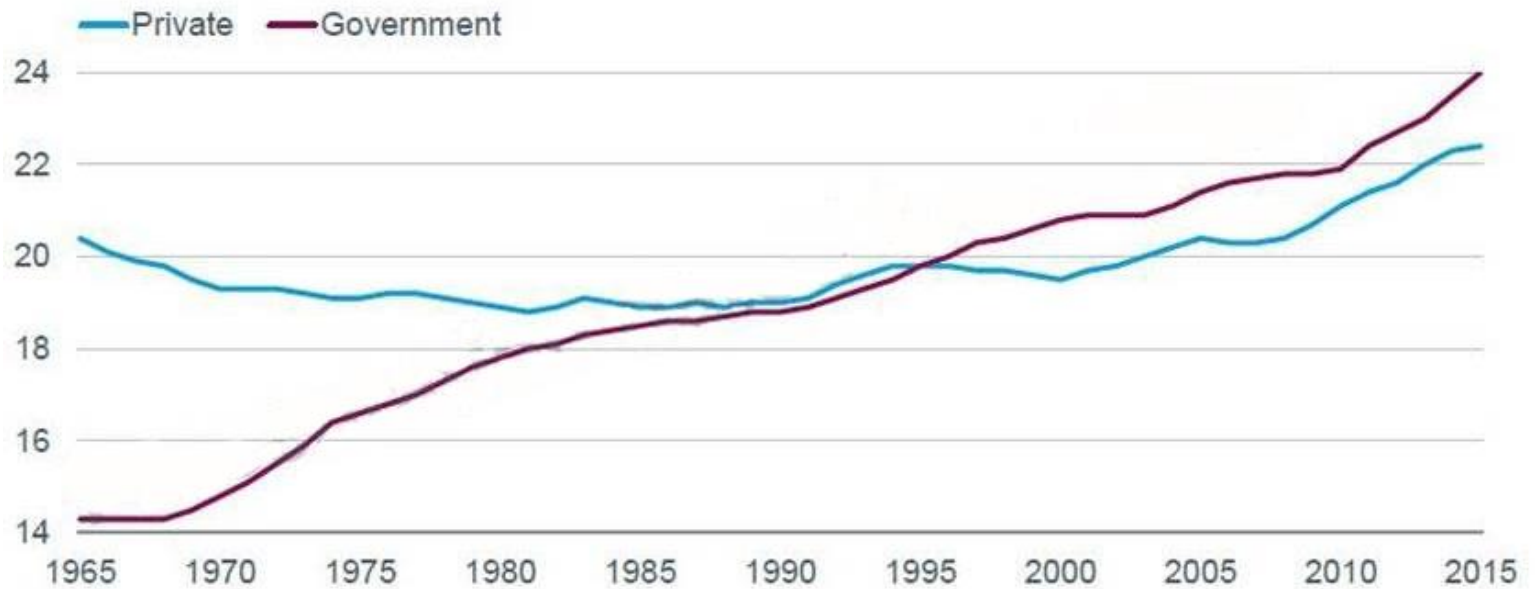
Economic Uncertainties

Infrastructure Spending

Oroville Dam



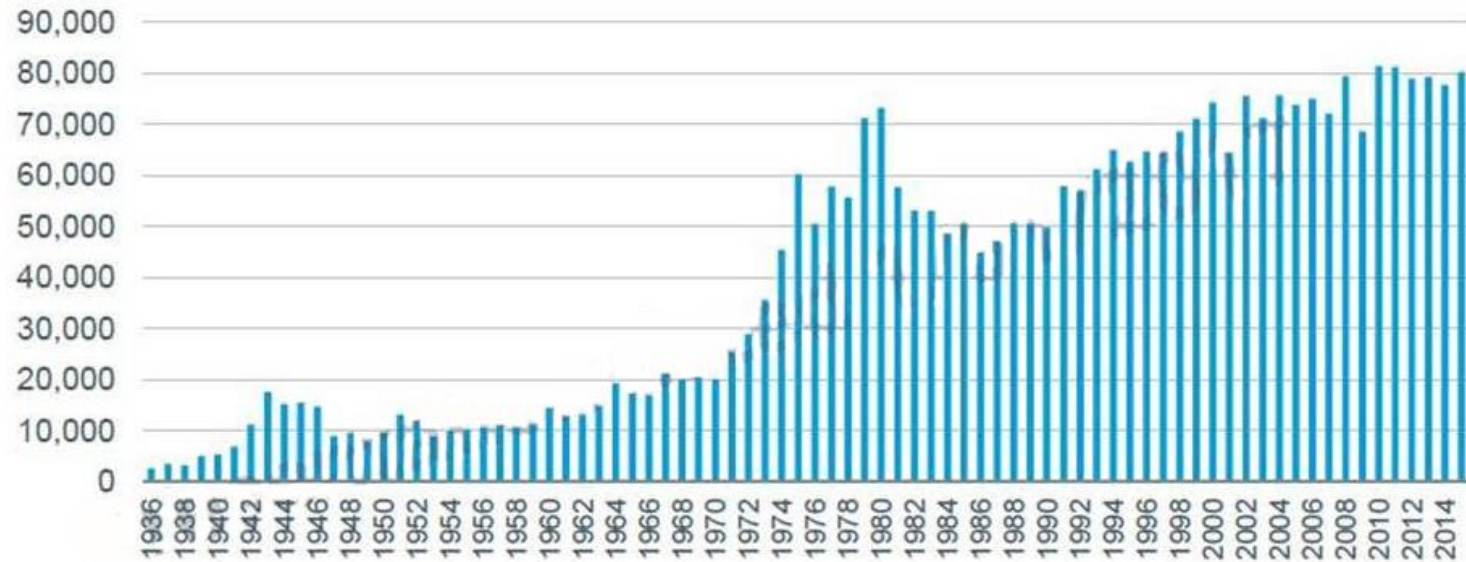
Average Age of Fixed Assets (in years)



Economic Uncertainties

Regulatory Reform

Number of pages published in Federal Register



- President Obama has issued 145 “midnight” regulations with a cost of >\$21b since the election
- They include 31 economically significant regulations costing >\$100m each.
- Since the election, >21m hours of final federal paperwork requirements have been published (most in a generation).

Economic Uncertainties

Potential Protectionist/Pro-Tariff Agenda



Impact of Productivity, Trade and Domestic Demand for Manufactured Goods

(2000-2010)

Sector	Production change per work	Actual job losses	Job Loss Share		Job Gain Share
			Trade	Productivity	Domestic demand
All manufacturing	67.5%	5,647,700	13.4%	87.8%	1.2%
Durable goods manufacturing	82.9%	3,737,200	12.3%	88.2%	0.5%
Nondurable goods manufacturing	48.5%	1,190,500	12.3%	90.0%	2.3%

Source: "The Myth and the Reality of Manufacturing in America." Michael J. Hicks and Srikant Devaraj, Ball State University, June 2015

Economic Uncertainties

Potential \$6 trillion add to US Debt



Capital Advantage Market Outlook for 2017



Uncertainties:

- New administration in the White House and change of political party in power
- Tax reform
- Infrastructure spending
- Regulatory reform
- Potential protectionist/pro-tariff agenda
- Potential 6 trillion dollar add to debt over 10 year

Will the positives of the pro-growth strategy outweigh the negatives of US debt increase and trade war?



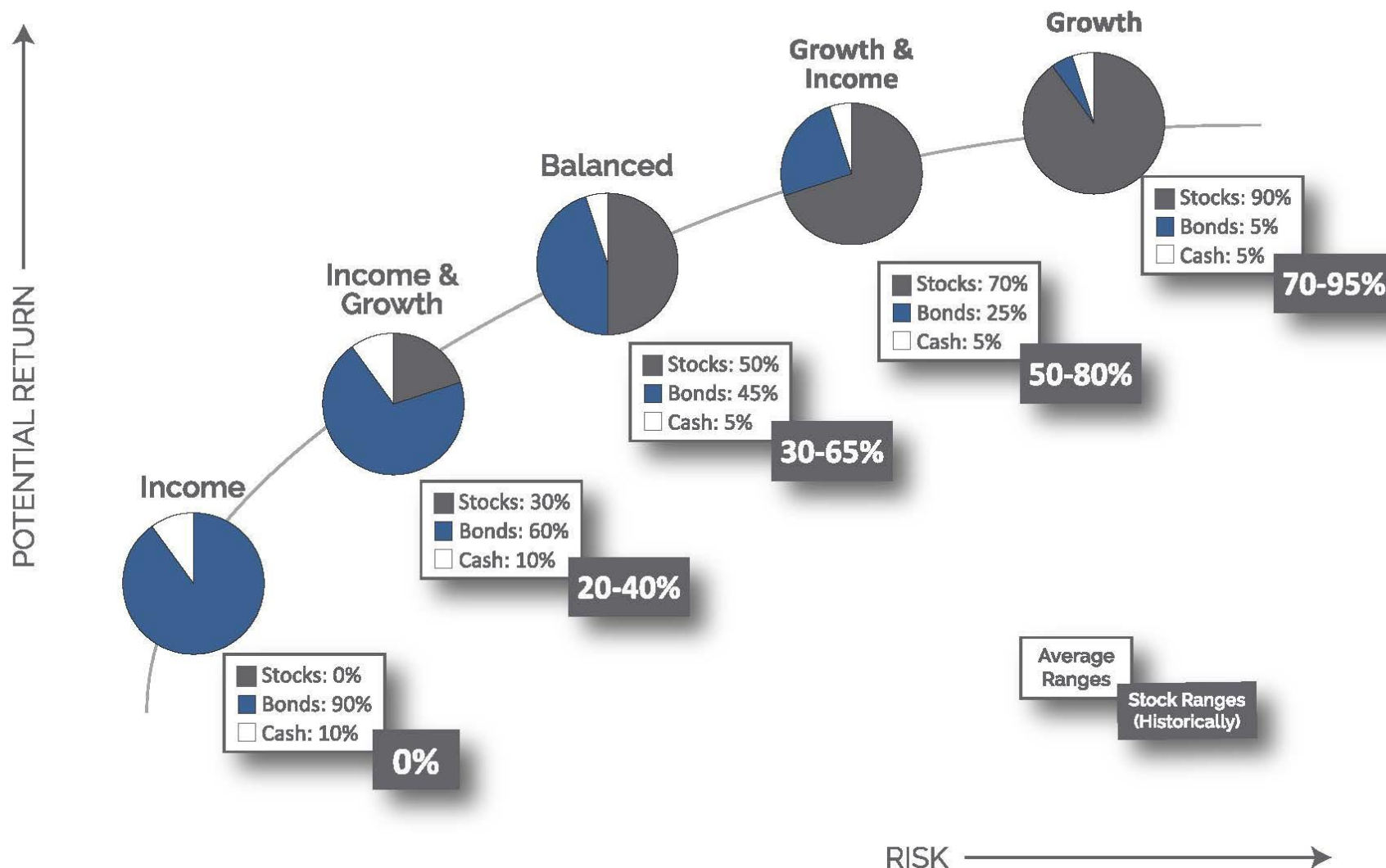
Capital Advantage Market Outlook Summary



- We are cautiously hopeful
- Global economic growth and no recession for 2017
- High equity and bond market volatility
- Rising interest rates and inflation



Investing: Asset Allocation



Asset allocation does not assure profit or protect against loss in declining markets. As with any type of portfolio structuring, attempting to reduce risk and increase return could, at certain times, unintentionally reduce returns. Capital Advantage, Inc. may allocate portfolios outside target ranges as deemed necessary. Please see **Important Disclosure Information**.

Capital Advantage Current Investment Strategy



Neutral weight:

- Equities

Overweight:

- Short maturity bonds
- US large cap value equities
- International equities

Underweight:

- US small and mid-cap equities
- Growth equities
- Long maturity bonds
- Money markets



Conclusion



Questions?

Thank you for joining us.



Important: Disclosure Information



Past performance may not be indicative of future results. Different types of investments involve varying degrees of risk. Therefore, it should not be assumed that future performance of any specific investment or investment strategy (including the investments and/or investment strategies recommended and/or undertaken by Capital Advantage, Inc.), or any non-investment related services, will be profitable, equal any historical performance level(s), be suitable for your portfolio or individual situation, or prove successful. Capital Advantage, Inc. is neither a law firm nor accounting firm, and no portion of its services should be construed as legal or accounting advice. Please remember that it remains your responsibility to advise Capital Advantage, Inc., in writing, if there are any changes in your personal/financial situation or investment objectives for the purpose of reviewing/evaluating/revising our previous recommendations and/or services, or if you would like to impose, add, or to modify any reasonable restrictions to our investment advisory services. A copy of our current written disclosure statement discussing our advisory services and fees is available upon request. **Please Note:** The scope of the services to be provided depends upon the terms of the engagement. **Please Also Note:** Fixed income markets are currently at historically low interest rates. Although bonds have historically presented less principal risk than stocks, a rise in interest rates from the current historic lows will have an adverse impact on bond principal. The scope of the services to be provided depends upon the needs of the client and the terms of the engagement.