JOHANSON FINANCIAL ADVISORS

History in the Making

January 2017

In This Letter

- 2017 Predictions

Contact Us

http://www.johansonfinancial.com

info@johansonfinancial.com

Someday our grandchildren may read about the year 2016 and some of the geo-political events that shocked many. How will the Brexit vote turn out? How will a non-politician, Donald Trump, do in the White House? History will certainly look back on 2016 as an interesting year.

After investors experienced a flat 2015, 2016 was a nice surprise. We forecasted a year ago that our plow horse economy would continue without a recession. We also felt like we might see some wage inflation with a tight labor force, which is now also taking shape. We proposed volatility would take hold, and it certainly did last January.

"…like any pilot, we know your current location and your ultimate objective. Before stepping into the plane, we look at weather reports to prepare ourselves…"

The stock market overcame its worst start ever to post its best year since 2013. Now, investors are leaning towards optimistic feelings fueled by an improving economy and hopes of business friendly policies from the new administration. The S&P 500 gained 9.5% for the year, the tech heavy NASDAQ up 7.5%, while the Dow Jones Industrial Average increased 13.4%.

Investors with assets in International investments were generally flat. The large foreign MSCI EAFE index managed a slight gain of 1.4%.

The 10 Year Treasury Note closed the year at 2.446% up from 2.273% at December 31, 2015. This up-tick in interest rates marked the second consecutive year of price declines for the bond market.

In 2016, we overcame two huge hurdles:

- The shocking U.K. Brexit vote to leave the European Union.
- Political outsider, Donald Trump, winning the Presidency.

These two jaw-dropping events surprised the media and the world with the markets advancing upwards. Most pundits predicted chaos in the markets, yet investors liked what they saw. The markets rose after each surprise.

2017 Predictions

As we consider turning the chapter on another year, we sit down and contemplate the investment themes for 2017 and beyond and try to predict a year out. The process includes what is likely to happen, what if it all goes wrong, and "what if" scenarios in which everything goes right.

One thing is certain. Most predictions will be proved wrong when we look back a year from now. The challenges of predicting the future include the "surprise" events that no one really sees. These one-off black swan events can turn hope to worry as well as worry to exuberance.
Having said that, once again it's that time for predictions for 2017.

2016 may prove to be an inflection point for markets and maybe for management styles as well. It is pretty clear 2016 was the year that growth finally gave up the throne to value. For the last several years, investors have been crowded into a handful of stocks still exhibiting secular growth and willing to pay almost anything for the privilege. While we believe most of the FANG stocks (**F**acebook, **A**mazon, **N**etflix, and Alphabet (**G**oogle)) will perform well, we doubt it will be to the exclusion of all others.

- 2017 may find financials, health care, and technology leading the way.
- Top line revenue may increase for corporations in 2017.
- Lower unemployment rates may create wage inflation which is good for consumers.
- Lead by consumer sentiment, we see stocks increasing over bonds.

We approach the challenge of your portfolio's asset allocation as follows: like any pilot, we know your current location and your ultimate objective. Before stepping into the plane, we look at weather reports to prepare ourselves, but know, full well, that a forecast is just that – a forecast. It does not guarantee clear skies and a smooth flight. With your ultimate objectives and goals squarely in our sights, we modify and change course.

We encourage you to try to focus less on political news and recognize that long-term stock prices generally follow corporate earnings. This should be the focus of 2017. The growth in corporate earnings should continue to swell as the new administration plans corporate tax cuts, infrastructure spending, and regulation easing.

As is usual with all years, 2017 will may present us with a few worries: interest rate hikes, a China hard landing, protectionism, and worldwide terror, among other issues. Any stock market declines should be met by buying opportunities.

We as a company are focused on working as hard as we can for you to get the best investment outcome dependent on your individual goals and situation. As a Fiduciary, we place your interest above our own. That is a high standard, but one we aspire to.

Let's all make 2017 a year to remember and be sure we spend our lives wisely. I recently read an anonymous quote from someone on the definition of Hell: The last day you have on earth, the person you became will meet the person you could have become.

Wishing a healthy and happy New Year to you and yours…

Thank you for your confidence and trust. We look forward to an exciting 2017 and hope to see you soon.