SIGNATURE INVESTMENT ADVISORS
A subsidiary of Signature Estate & Investment Advisors, LLC®

4TH QUARTER 2017 VOL 10, ISSUE 4 WWW.SIGNATUREIA.COM

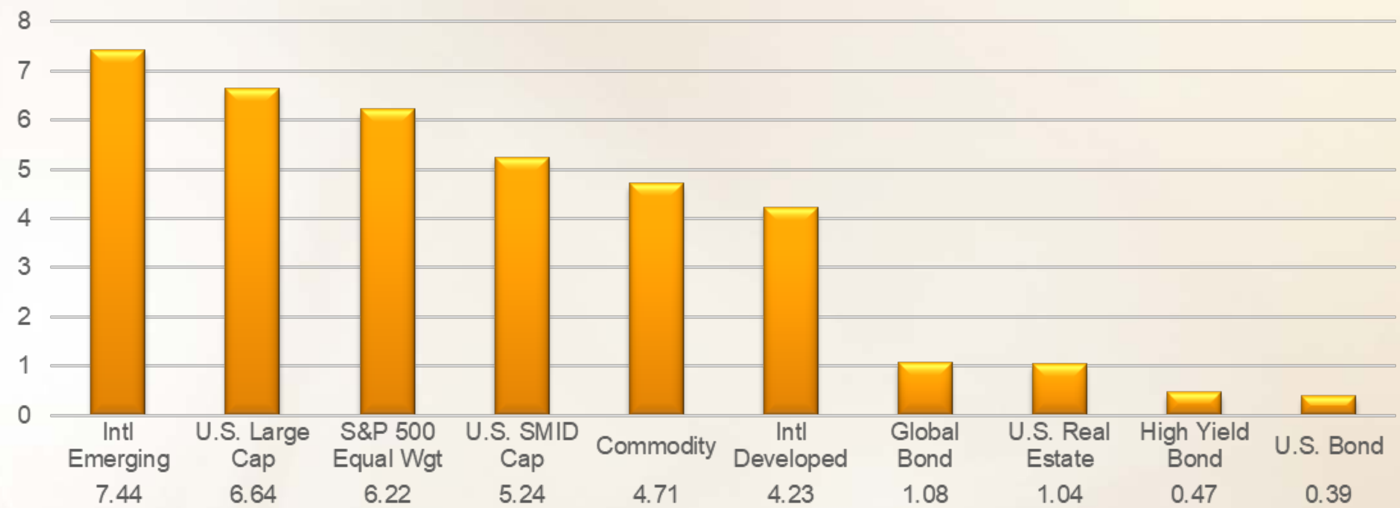
SIA

INSIGHTS

A QUARTERLY NEWSLETTER BRINGING YOU FINANCIAL INSIGHTS

2017 Q4 Insights: “Tastes Great, Less Filling”

2017 Q4 Index Returns as of 12/31/17



INVESTMENT COMMITTEE MEMBERS	YEARS OF EXPERIENCE
Brian D. Holmes, MS, CFP®, CMFC, AIF® President, CEO	33
Mark E. Copeland, CFP®, AIF® Senior Partner	28
Paul Taghibagi, CFP®, AIF® Senior Partner	27
Gary K. Liska, MS, CFP®, AIF®, CMFC, AAMS® Senior Partner, CFO	22
Vince A. DiLeva, MS, CFP®, AIF® Senior Partner	21
Theodore E. Saade, CFP®, CMFC, AIF® Senior Partner	22
Deron T. McCoy, CFA®, CAIA, CFP®, AIF® Chief Investment Officer	22
Andrew Lin Strategic Development	13
Howard Chen, AIF®, CMFC Director Of Investment Services	7
David L. Johnson, CFP®, AIF® Senior Associate	20
Matthew Kim Relationship Manager	18
Terence E. Da Cunha, CFP®, AIF® Partner	27

What a year!

Twelve months ago, 2017 started out with a ‘new hope’ as capital markets began acclimating to a more business-friendly environment coming out of Washington DC. The domestic economy, gaining strength due in part to a relaxed regulatory environment, joined the rest of the world in the first synchronized global expansion in over a decade. Investors ‘spanned the globe,’ sending international stock prices higher in what materialized as the best first half of a year for global stocks since 2009. But that was by no means the end of the story. Stock markets further rallied in the second half, gaining steam throughout Q4 given the increasing likelihood of forthcoming corporate tax cuts. With the December 22nd signing of the Tax Cuts & Jobs Act, the stimulus policy baton was officially passed from the Fed (easy monetary policy earlier in this business cycle) to the GOP (easier fiscal policy for the next leg of the cycle), setting the stage for next year.

So, what does 2018 have in store?

Although we probably won't see the same magnitude of gains (more than 20% over the last year and more than 16% annualized over the last five years), next year looks promising as the economy continues to gain steam. Most economic indicators are at or right near their cycle highs and are simply showing no signs of a top. And history suggests that even when these indicators do peak, a recession is still a year or two away. Thus, this expansion has the potential to reach into 2019 or beyond. According to FactSet, the improving economy coupled with a global expansion plus the aforementioned corporate tax cuts should move corporate earnings 11% higher in 2018. If this proves true, next year will mark the highest annual earnings growth since 2011. Also, consider stock prices themselves and the breadth of this advance. Every S&P 500® Industry Group is currently trading higher than its longer-term trendline (i.e. the 200-day moving average) and that doesn't happen very often. In the ten previous times this occurred since 1990, the S&P 500 posted gains in the subsequent three, six and 12-month periods every time, according to research conducted by Bespoke Investment Group.

Fiscal stimulus, improving economic activity, and higher corporate earnings combined with great stock price action all suggest further gains in 2018. However, the New Year may also usher in increased volatility, especially compared to 2017—but more on that later.

Q4 EQUITY

The synchronized global expansion continued in Q4, pushing International Stocks higher (+5.00%) to cap a very strong 2017 (+27.19%). One of the standouts was Japan (+8.49%) which led most regions. Emerging Markets performed in line with other markets during Q4 (+7.44%), but bested all major regions for the year (+37.28%).[1]

	Indices	Q4	*TTM		Indices	Q4	*TTM
Stocks	***GLOBAL EQUITY***	**5.73**	**23.97**	Bonds	***GLOBAL BONDS***	**1.08**	**7.39**
	U.S. Large Cap (S&P 500)	**6.64**	**21.83**		*U.S. Aggregate (High Quality)*	**0.39**	**3.54**
	U.S. Small Cap (Russell 2000)	**3.34**	**14.65**		*U.S. High Yield (Low Quality)*	**0.47**	**7.50**
	International Developed Markets	**4.23**	**25.03**		*International Aggregate*	**1.63**	**10.51**
	International Emerging Markets	**7.44**	**37.28**		*Emerging Market Debt (USD)*	**0.62**	**8.17**
Alts	*Gold*	**1.91**	**13.68**	Cash	*Inflation*	**-0.06**	**2.17**
	Oil	**16.93**	**12.47**		*Cash (3-month T-bills)*	**0.26**	**0.81**
	Commodities	**4.71**	**1.70**		*U.S. Dollar Index*	**-0.38**	**-8.34**
	Master Limited Partnerships	**-0.95**	**-6.52**	**Trailing Twelve Months*			

While International stocks outpaced the U.S. for 2017 (+27.19% vs. +21.13%), U.S. stocks made a strong comeback in Q4 (+6.34%) outperforming overseas stocks for the first time this year. Large Caps not only outpaced Small Caps (+6.64% vs. +3.34%) during the quarter but also outperformed for all of 2017. Large Caps were led by Growth stocks (+7.61%), as the group outperformed Value (+5.08) for the 9th time in the last 12 quarters.[1]

For investors, having the proper sector positioning was 'huge' in 2017, as the difference between the leader and the laggard was near 40%! The clear leader was the growth stalwart Technology Sector as the group posted eye-popping annual returns (+38.83%). Bringing up the rear were traditional value sectors such as Telecom (-1.25%) and Energy (-1.01%).[1]

Q4 FIXED INCOME

You would think with all the stimulus getting pumped through the system amidst a global synchronized recovery that interest rates would head north. While short-term rates did indeed rise (as they are controlled by Janet Yellen and the Fed), the yields on longer range 10-year Treasury Bonds actually fell 4 basis points over the course of 2017, finishing the year at 2.40%. For Q4, the change in yields was also minimal – resulting in Core U.S. Bonds (+0.39%) posting a relatively boring quarter with Corporate High Yield Bonds (+0.47%) outperforming. Overseas, there was a bit more action as both International Bonds (+1.63%) and Emerging Market Bonds (+0.62%) outpaced the US. [1]

CONCLUSIONS

We're all familiar with the parable of the boiled frog. With that in mind, savvy investors would be well advised to frame current events in a larger historical context so as not to get cooked. In that respect, it may be both wise and judicious to temper your enthusiasm for the S&P 500 in 2018.

- Consider that when including dividends, 2017 marks the 9th straight up year which ties the streak from the 1990s (1991—1999) for the longest of all time.
- While comparisons to 1999 are always worrisome, 2017 also saw positive total returns in each and every month – something that's never happened before.
- Stocks haven't had a 3% pullback since November 4, 2016 which is easily the longest stretch of time dating back to 1928.
- Daily volatility was also tepid (and again historic) with 2017 delivering only 8 trading days with a move greater than 1% - the fewest on record dating back to the mid-1960s.

The takeaway? 2017 was not a normal year! We are all taught that if an investor can tolerate more risk, they should stand to gain greater rewards. This year, however, delivered more reward with less risk, reminding us of the Miller Lite ads of yesteryear 'Tastes great, less filling!'

While it makes for a catchy ad slogan, the idea of more reward and less risk does not lend itself to the capital markets over longer periods of time and now may be a good time to remember what normal is. Consider that stocks don't go up every year let alone every month. Also, consider that the average annual pullback for the S&P 500 since 1980 has been -13.8% and the average pullback in the last five years has been -7.8%[2]. While we're certainly not calling for a top in stocks, we are urging investors to expect and prepare for future volatility. Revisit your investment plan and at the very least rebalance, as the heyday of Dick Butkus, Bubba Smith and Bob Uecker is most likely behind us.

Deron T. McCoy, CFA, CAIA, CFP®, AIF®

Chief Investment Officer

Index	Index Name	Definition
International Emerging	MSCI EM	Index comprised of large and mid-cap stocks across 23 Emerging Market countries.
U.S. Large Cap	S&P 500	Index based on 500 large US companies ranked by market capitalization (size).
S&P 500 Equal Weight	S&P 500 Equal Weighted	Index based on 500 large US companies ranked equally.
U.S. SMID Cap	Russell 2500	Index based on 2500 smaller US companies ranked by size (or, Russell 3000 which measures 98% of US market cap less the S&P 500 names).
Commodity	Bloomberg Commodity	Index tracks price of basket of commodities including energy, grains, industrial metals, precious metals, softs (sugar, coffee and cotton) and livestock.
International Developed	MSCI EAFE	Index comprised of large and mid-cap stocks across Developed Markets around the world, excluding US and Canada.
Global Bond	Barclays Global Aggregate	Index is comprised of global investment grade bonds from twenty-four Developed and Emerging local currency markets.
U.S. Real Estate	MSCI US REIT	Index comprised of equity REITS including industrial, mortgage, office, residential, retail, specialized and diversified REITS.
High Yield Bond	Barclays US Corporate High Yield	Index comprised of U.S. non-investment grade corporate bonds.
U.S. Bond	Barclays US Aggregate Bond	Index comprised of U.S. government and investment grade corporate bonds. 45% of index is government related.

[1] Data as of 12/31/17. Format: Asset Class/Sector, Index Name, Last Month (%), Last Quarter (%) , TTM (%), YTD (%). U.S. Large Cap, S&P 500 TR USD, 1.11, 6.64, 21.83, 21.83; International Equity, MSCI ACWI Ex USA NR USD, 2.24, 5, 27.19, 27.19; Emerging Market Equity, MSCI EM NR USD, 3.59, 7.44, 37.28, 37.28; U.S. Growth Stocks, Russell 3000 Growth TR USD, 0.73, 7.61, 29.59, 29.59; U.S. Stocks, Russell 3000 TR USD, 1, 6.34, 21.13, 21.13; U.S. Value Stocks, Russell 3000 Value TR USD, 1.28, 5.08, 13.19, 13.19; Energy, S&P 500 Sec/Energy TR USD, 4.88, 6.02, -1.01, -1.01; Technology, S&P 500 Sec/Information Technology TRUSD, 0.01, 9.01, 38.83, 38.83; Telecom, S&P 500 Sec/Telecom Services TR USD, 5.77, 3.61, -1.25, -1.25; U.S. Small Cap, Russell 2000 TR USD, -0.4, 3.34, 14.65, 14.65; U.S. Core, BBgBarc US Agg Bond TR USD, 0.46, 0.39, 3.54, 3.54; U.S. High Yield, BBgBarc US Corporate High Yield TR USD, 0.3, 0.47, 7.5, 7.5; International Bonds (USD), BBgBarc Gbl Agg Ex USD TR USD, 0.27, 1.63, 10.51, 10.51; Emerging Market Debt (USD), BBgBarc EM USD Aggregate TR USD, 0.39, 0.62, 8.17, 8.17; Japan, MSCI Japan NR USD, 0.7, 8.49, 23.99, 23.99.

[2] Source: FactSet, Standard & Poor's, J.P. Morgan Asset Management