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Winter 2017

Surprise!

As we look forward to 2017, let's first take a brief look back on a very exciting and unpredictable year. The New Year's weekend edition of the Wall Street Journal published a visual snapshot of the journey that was the Dow Jones Industrial Average (DJIA), for 2016.

2016 was littered with "surprises." The year started out quickly making history, resulting in the worst five-day start of all time. Six months later, as we reached the halfway point on the year, the market was rocked with the first big surprise when the U.K. voted to leave the European Union, going against all major consensus. Maybe even more surprising and less predicted was that less than 20 trading days later the DJIA closed at a record high for the first time since 2015. All was fairly subdued as we approached the U.S. election (as subdued as an election year can be). Once again, the assumption turned out to be inaccurate when underdog Donald Trump

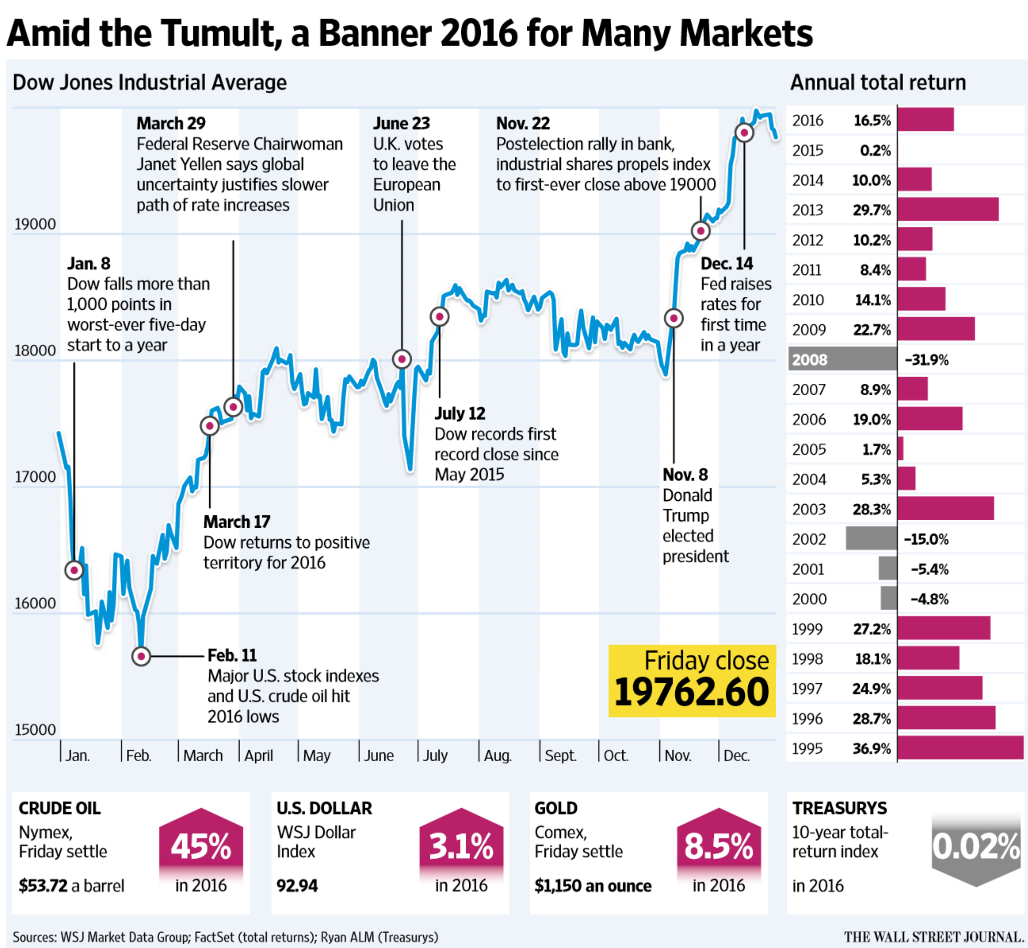

*Chart from The Wall Street Journal: Weekend Edition Dec. 31-Jan. 1 2017. Printed with permission.

was elected as the 45th President of the United States. Similar to the “Brexit” vote, maybe even more shocking, was the run up in the U.S. equity markets, with the DJIA reaching the 19,000 mark for the first time in history just prior to Thanksgiving. As we close the books on 2016 and say goodbye to the year of the Monkey, the DJIA sits near all time highs and on the doorstep of 20,000.

Much can be learned about the markets in 2016 but maybe the best lesson is one taught years ago by the late Casey Stengel, “Never make predictions, especially about the future.”

	10 YEARS ENDING 12/06*	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	10 YEARS ENDING 12/16*
BEST PERFORMANCE	Global Real Estate 15.0%	Emerging Markets 40.9%	Cash 6.6%	Emerging Markets 83.8%	U.S. Equity Small Cap 26.9%	U.S. Bonds 7.8%	Global Real Estate 27.7%	U.S. Equity Small Cap 38.8%	Global Real Estate 15.0%	U.S. Equity Large Cap 0.9%	U.S. Equity Small Cap 21.3%	Global High Yield 7.8%
	U.S. Equity Small Cap 9.4%	Infrastructure 22.4%	U.S. Bonds 5.2%	Global High Yield 60.7%	Emerging Markets 21.7%	Global High Yield 3.2%	Global High Yield 18.9%	U.S. Equity Large Cap 33.1%	U.S. Equity Large Cap 13.2%	U.S. Bonds 0.5%	Global High Yield 16.2%	U.S. Equity Large Cap 7.1%
	Non-U.S. Equity 8.6%	Commodities 16.2%	Balanced -26.6%	Global Real Estate 37.1%	Global Real Estate 19.6%	Cash 1.6%	Emerging Markets 18.8%	Global Equity 27.4%	Infrastructure 12.1%	Cash 0.5%	U.S. Equity Large Cap 12.1%	U.S. Equity Small Cap 7.1%
	U.S. Equity Large Cap 8.6%	Non-U.S. Equity 13.2%	Global High Yield -27.0%	Non-U.S. Equity 35.6%	Commodities 16.8%	U.S. Equity Large Cap 1.5%	Non-U.S. Equity 16.7%	Non-U.S. Equity 21.7%	U.S. Bonds 6.0%	Global Real Estate -0.8%	Commodities 11.8%	Balanced 4.5%
	Global Equity 8.5%	Global Equity 9.2%	U.S. Equity Small Cap -33.8%	Global Equity 31.5%	U.S. Equity Large Cap 16.1%	Balanced -0.6%	U.S. Equity Large Cap 16.4%	Infrastructure 14.0%	Balanced 5.3%	Global Equity -0.9%	Infrastructure 11.4%	U.S. Bonds 4.3%
	Balanced 8.5%	Balanced 8.6%	Commodities -35.7%	U.S. Equity Large Cap 28.4%	Global High Yield 15.4%	Infrastructure -1.3%	U.S. Equity Small Cap 16.4%	Balanced 12.5%	Global Equity 5.2%	Balanced -1.8%	Emerging Markets 10.2%	Global Equity 4.1%
	Emerging Markets 8.2%	Cash 7.3%	U.S. Equity Large Cap -37.6%	U.S. Equity Small Cap 27.2%	Balanced 13.1%	U.S. Equity Small Cap -4.2%	Global Equity 16.2%	Global High Yield 7.1%	U.S. Equity Small Cap 4.9%	Global High Yield -2.0%	Global Equity 7.7%	Infrastructure 2.8%
	Commodities 7.0%	U.S. Bonds 7.0%	Infrastructure -39.5%	Balanced 24.2%	Global Equity 12.4%	Global Equity -5.7%	Balanced 11.8%	Global Real Estate 3.7%	Global High Yield 2.5%	Non-U.S. Equity -2.6%	Balanced 7.0%	Emerging Markets 2.4%
	Global High Yield 6.6%	U.S. Equity Large Cap 5.8%	Global Equity -41.2%	Infrastructure 24.0%	Non-U.S. Equity 9.6%	Global Real Estate -6.5%	Infrastructure 10.9%	Cash 0.4%	Cash 0.6%	U.S. Equity Small Cap -4.4%	Global Real Estate 4.1%	Cash 2.1%
	U.S. Bonds 6.2%	Global High Yield 1.7%	Non-U.S. Equity -44.2%	Commodities 18.9%	U.S. Bonds 6.5%	Non-U.S. Equity -12.4%	U.S. Bonds 4.2%	Emerging Markets 0.02%	Emerging Markets -1.7%	Infrastructure -12.2%	U.S. Bonds 2.6%	Global Real Estate 1.5%
	Cash 4.7%	U.S. Equity Small Cap -1.6%	Global Real Estate -48.2%	U.S. Bonds 5.9%	Infrastructure 4.8%	Commodities -13.3%	Cash 0.4%	U.S. Bonds -2.0%	Non-U.S. Equity -4.0%	Emerging Markets -12.8%	Non-U.S. Equity 2.4%	Non-U.S. Equity 1.1%
WEAKEST PERFORMANCE		Global Real Estate -7.4%	Emerging Markets -55.5%	Cash 0.8%	Cash 2.3%	Emerging Markets -19.4%	Commodities -1.1%	Commodities -9.5%	Commodities -17.0%	Commodities -24.7%	Cash 0.9%	Commodities -5.6%

*Annualized return. †10 year period ending 12/03: Non-U.S. Equity – MSCI EAFE Index (1/1/1995-6/28/1996) & Russell Developed ex-U.S. Large Cap Index (6/28/1996-12/31/2016); Global Equity – MSCI World Index (1/1/1995-6/28/1996) & Russell Developed Large Cap Index (6/28/1996-12/31/2016); Emerging Markets – MSCI Emerging Markets Index (1/1/1995-6/28/1996) & Russell Emerging Markets Index (6/28/1996-12/31/2016); Global Real Estate – FTSE NAREIT All Equity Index (1/1/1995-2/18/2005) & FTSE EPRA/NAREIT Developed Index (2/18/2005-12/31/2016); Cash – BofAML U.S. Treasuries 1-3 Yr. Index; Global High Yield – Bloomberg Barclays Global High Yield Index (1/1/1990-12/31/1997) & BofAML Global High Yield TR Hdg Index(12/31/1997-12/31/2016); Infrastructure – S&P Global Infrastructure Index; U.S. Bonds – Bloomberg Barclays U.S. Aggregate Bond Index; U.S. Equity Large Cap – Russell 1000® Index. Balanced: 30% Russell 3000® Index; 35% Bloomberg Barclays U.S. Aggregate Bond Index; 20% Russell Developed ex-U.S. LC Index; 5% Russell Emerging Markets Index; 5% FTSE NAREIT All Equity Index; 5% Bloomberg Commodity Index.

Please note that this chart is based on past index performance and is not indicative of future results.

Indexes are unmanaged and cannot be invested in directly. Index performance does not include fees and expenses an investor would normally incur when investing in a mutual fund. Diversification and strategic asset allocation do not assure profit or protect against loss in declining markets.

“Don’t Look Back”

When a new year begins, oftentimes we have the tendency to look back and see what worked well and jump on that “wagon” for the ride. In our opinion, there is still great momentum behind the U.S. markets. In late September of 2016, Sam Stoval, U.S. equity strategist at S&P Global Market Intelligence, noted the following: “The dividend yield on the S&P 500 Index is 2.15%, while the yield on the 10-year Treasury note (T-note) is around 1.57%, according to Bloomberg. Since 1953, whenever the dividend yield on the S&P 500 Index exceeded the yield on the 10-year T-note, the S&P 500 Index posted an average gain of nearly 20% in the following 12 months, and rose in price more than 80% of the time.” Looking at the “Quilt Chart” of investment returns above, we can

*Quilt chart from Russell Investments: January 11, 2017. Printed with permission.

see that the U.S. markets have been at or near the top of investment returns since the "Great Recession" of 2008 (chart through 2015). Again, we feel there is still value in the U.S. but a globally diversified portfolio has been and remains the best way to achieve ultimate diversification. Below is a snapshot of market returns for specific countries. As you can see, outside of the U.S. and a few countries that benefited late in the year from the increased price in crude oil (still historically low), much of the world traded relatively flat on the year. We see great value in these global markets moving forward.

*Map from Baird Q4 2016 Market ChartBook. Printed with Permission.

Mirror, Mirror...

Remember what we said about predictions? That said, we did want to point out two drivers to the market and economy as we enter the new year. Neither of these are new as we've discussed them at length in past newsletters and meetings but still ring true today, moving forward into the new year. The first is interest rates. The Federal Reserve raised interest rates 0.25% in December of 2016 which marked only the second interest rate raise in the past decade and still leaves the United States at historically low levels. During the last Fed meeting, Janet Yellen indicated probably two or three more hikes could come in 2017. This is good news for the economy, your portfolio and savings accounts. Remember when money market accounts paid 5%? Whether or not the Fed raises one, two or three times is insignificant to us but rather a good sign that the U.S. economy has not only recovered from the Great Recession but is once again healthy.

Finally, another huge driver to the market and economy that we've talked so much about but needs to be reiterated, is the low price of crude oil. You can look back at previous newsletters to obtain more details than you would want on why the price of crude is falling and why this is a good thing (not only because it feels good filling your tank). Read what Oil wildcatter Trevor Rees-Jones says in a recent article in Forbes Magazine: linked here. The savings at the pump, have and will continue to fuel the American economy.

We wish you health and happiness in 2017 and look forward to seeing you soon!

R.B., Hugh, Randy, Trevor, Jo and Ashley

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1248 O Street, Suite 890 | Lincoln, NE 68508 | (402) 420-8500
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