



Market Commentary February 21, 2017

Dear Investors:

Up!

Four major U.S. benchmark stock indices closed at record highs for four consecutive days during Valentine's Day week, reported *Financial Times (FT)*.

To date, positive corporate earnings and robust investor confidence have offset fiscal and political uncertainty and helped push U.S. stock markets higher, said sources cited by *FT*. With 82 percent of companies in the Standard & Poor's 500 Index reporting, corporate earnings are up 4.6 percent for the fourth quarter of 2016, and the *Investors Intelligence Advisors Sentiment* survey showed bullishness at a 12-year high last week, according to *CNBC.com*.

While bullish performance is welcome by stock investors, a *Barron's* article titled, 'Memo to Investors: What Goes Up Must Come Down,' listed the responses of traders at a firm whose chief market strategist asked:

"In order to stay long U.S. equities, you have to believe...what? Here are some answers: Trump's recent troubles are just the typical pains of any new administration. The Federal Reserve hikes rates twice, not three times, in 2017, and the yield on 10-year Treasuries stays at or below 3 percent. Oil prices remain stable. The Street, for once, is too pessimistic on earnings, but since analysts already forecast profit growth of 10.5 percent in 2017 and 11.7 percent in 2018, lower taxes must goose growth.

To this list, [the chief strategist] added the following: Trump doesn't introduce overtly protectionist policies. U.S. growth stays in the 2 percent to 3 percent range until Trump's economic agenda passes Congress. And no geopolitical event either increases global energy prices or dampens U.S. consumer confidence."

Stock markets may be highly valued, but the *Conference Board Leading Economic Index*, which was designed to determine highs and lows in the business cycle, indicates the U.S. economy is

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doing well. The index increased for three consecutive months (November through January). The Conference Board’s director of business cycles and growth research, Ataman Ozyildirim, said, “The January gain was broad based among the leading indicators. If this trend continues, the U.S. economy may even accelerate in the near term.”

Data as of 2/17/17	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 (Domestic Stocks)	1.5%	5.0%	22.0%	8.5%	11.6%	4.9%
Dow Jones Global ex-U.S.	0.8	5.6	17.4	-1.4	1.9	-1.1
10-year Treasury Note (Yield Only)	2.4	NA	1.8	2.7	2.0	4.7
Gold (per ounce)	0.7	6.8	2.3	-2.3	-6.4	6.3
Bloomberg Commodity Index	-1.4	0.7	15.9	-12.8	-9.6	-6.2
DJ Equity All REIT Total Return Index	0.2	2.1	19.6	11.0	10.9	4.1

S&P 500, Dow Jones Global ex-US, Gold, Bloomberg Commodity Index returns exclude reinvested dividends (gold does not pay a dividend) and the three-, five-, and 10-year returns are annualized; the DJ Equity All REIT Total Return Index does include reinvested dividends and the three-, five-, and 10-year returns are annualized; and the 10-year Treasury Note is simply the yield at the close of the day on each of the historical time periods.

Sources: Yahoo! Finance, Barron’s, djindexes.com, London Bullion Market Association.

Past performance is no guarantee of future results. Indices are unmanaged and cannot be invested into directly. N/A means not applicable.

THINGS YOU DIDN’T KNOW YOUR CAT WANTED.

Cat wine didn’t win the first Pet Care Innovation Prize – that went to a dishwasher-safe bowl that connects to the pet owner’s phone and Wi-Fi – but the product has been in the news. Hostilities appear to have broken out between competing start-up companies that make faux wine for cats (and a few faux wines for discriminating dogs). *The New York Times* reported:

“But already the company that brought its products to market first... ‘the original cat winery’ – is accusing its newer competitor...of being a copycat...Both have come up with clever names for their products: For \$11.95, people can buy Fluffy an 8-ounce bottle of Catbernet or Pinot Meow...Or for \$14.95, they can pour 12 ounces of Meow & Chandon...Since alcohol can harm cats, these products are essentially catnip water, which can make a cat loopy and an owner happy. But based on a wine tasting I conducted at a local cat cafe-slash-adoption center, the products are primarily catnip for the owners: The shelter cats did not like wines from either company – only two of them indulged – but the people visiting the tastings loved the concept.”

The challenge for companies that want cats to enjoy their wines, according to data from *National Geographic*, is the active ingredient in catnip – the oil found on catnip’s stems and leaves – functions as a pheromone. While humans have ingested catnip for years in teas that assist digestion or reduce tension, cats prefer to smell the stuff. That could make the bouquet of cat wine quite important. Next on the docket for the cat wine start-ups: products for the next generation – kittens.

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If cat wine sounds over-the-top to you, ponder this: One of the cat wine start-ups sold half of a million dollars worth of pet wines last year.

Weekly Focus – Think About It

“Stories matter. Many stories matter. Stories have been used to dispossess and to malign, but stories can also be used to empower and to humanize. Stories can break the dignity of a people, but stories can also repair that broken dignity.

--Chimamanda Ngozi Adichie, Nigerian novelist

Best regards,



John Y. Kim, J.D., LL.M.
President

P.S. Please feel free to forward this commentary to family, friends, or colleagues. If you would like us to add them to the list, please reply to this e-mail with their e-mail address and we will ask for their permission to be added.

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- * Government bonds and Treasury Bills are guaranteed by the U.S. government as to the timely payment of principal and interest and, if held to maturity, offer a fixed rate of return and fixed principal value. However, the value of fund shares is not guaranteed and will fluctuate.
- * Corporate bonds are considered higher risk than government bonds but normally offer a higher yield and are subject to market, interest rate and credit risk as well as additional risks based on the quality of issuer coupon rate, price, yield, maturity, and redemption features.
- * The Standard & Poor's 500 (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general. You cannot invest directly in this index.
- * All indices referenced are unmanaged. Unmanaged index returns do not reflect fees, expenses, or sales charges. Index performance is not indicative of the performance of any investment.
- * The Dow Jones Global ex-U.S. Index covers approximately 95% of the market capitalization of the 45 developed and emerging countries included in the Index.
- * The 10-year Treasury Note represents debt owed by the United States Treasury to the public. Since the U.S. Government is seen as a risk-free borrower, investors use the 10-year Treasury Note as a benchmark for the long-term bond market.
- * Gold represents the afternoon gold price as reported by the London Bullion Market Association. The gold price is set twice daily by the London Gold Fixing Company at 10:30 and 15:00 and is expressed in U.S. dollars per fine troy ounce.
- * The Bloomberg Commodity Index is designed to be a highly liquid and diversified benchmark for the commodity futures market. The Index is composed of futures contracts on 19 physical commodities and was launched on July 14, 1998.
- * The DJ Equity All REIT Total Return Index measures the total return performance of the equity subcategory of the Real Estate Investment Trust (REIT) industry as calculated by Dow Jones.

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- * Yahoo! Finance is the source for any reference to the performance of an index between two specific periods.
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