



Investment Strategists for  
**Successful Families**



January 4, 2017

Thank you for reading GreenThought\$. It is our privilege to provide you with our insight on current financial market events and our outlook on topics relevant to you.

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#### Fourth Quarter 2016: Investment Market Summary



Among investors who have closely followed the Federal Reserve policy decisions, a form of bird watching has become very popular, as in whether the hawks or the doves were in control of the Fed. If the hawks were in the majority, more rate hikes were likely; while if the doves had the more compelling argument, then it was expected that we would have lower rates for longer. Since low interest rates have been a major factor supporting the stock markets, the specter of rising rates was a legitimate cause of concern.

On November 8th, a new bird caught investors' interest: a symbol of investor worry known as a black swan, which refers to an event totally unanticipated by market participants. With the surprise election victory of Donald Trump (some pundit referring to it as an orange swan event), suddenly hawks and doves weren't quite so interesting. Instead, with the promise of a pro-business administration, lower taxes and fiscal stimulus, there is hope for better economic growth in the years ahead. What a change from the beginning of the year! The S&P 500 dropped more than 10% in the first six weeks of the year, and corporate bond

spreads widened to levels that normally portend imminent recession. The chart below, which shows the S&P 500 ETF performance for the year, illustrates this change in sentiment. This ETF, which was up only 5.02% for 2016 leading up to the election (including dividends), went on a tear and finished with an additional gain of 4.39% from the election to the end of the year.



While the S&P 500 finished with a total return of 12% for 2016, it was an uneven performance across the other market indices. The Russell 2000 small cap index was the winner with a total return of 21.3%, while the MSCI EAFE international stock index was barely positive, with a gain of 1%. The MSCI emerging market stock index finished the year with a gain of 11.2%. In fixed income, the Barclays US bond index was up 2.6% while the Barclays Global bond index was up 2.1%. Those indices gave up much of their gains from mid-summer once interest rates worldwide began rising, when they were up over 6% and 9% respectively.

As we begin 2017, it will be interesting to watch as events unfold. The year begins with the hope that new thinking in government will translate into positive results. But there are more than the usual unknowns. Domestically, will we see punitive tariffs and immigration bans that risk retaliatory responses and could provoke a trade war? How will the old healthcare system transition into a new one? Which market sectors will be the losers and winners as a result of tax reform? Overseas, will upcoming elections in Italy, Austria, Netherlands, France and Germany upend the status quo? How will global central banks respond to changing conditions? Will immigration concerns continue to be a major source of discussion?

We close this newsletter with a quote from the economist Thomas Sowell. *“Economists are often asked to predict what the economy is going to do. But economic predictions require predicting what politicians are going to do and nothing is more unpredictable.”* Your Emerald team has been investing through all kinds of markets, and we make our decisions based on fundamentals and historical performance, NOT what is trendy and being touted in the financial press. But we do need to be mindful of what is happening in the world, so as not to be blindsided by events of the day. And of course we want to be on the lookout for this guy:



Have a happy and healthy New Year.

Regards from the Emerald Team

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#### Disclosure Green Thought\$

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Clients are urged to compare the custodian's account statements to the advisor's supplemental statements. Please contact us if you do not receive statements from your custodian.

As of August 2016, Schwab no longer sends month-end statements for those accounts where there has been no activity for the preceding month; these accounts will be receiving quarterly statements.

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