THE SUMMIT
Financial Strategies, Inc.

In this issue

WHY IS THE STOCK MARKET MAKING NEW HIGHS?

by Brett Langer

The last three years can best be described as: fear of the unknown. Investors and analysts have been anticipating the next recession and/or financial mess. Due to this anticipation, the past few years saw the market move sideways more than anything else. Investors pulled money from economically sensitive areas and stayed with more defensive investments. The economy was barely growing at 1 to 2% and it was difficult to have confidence in what was around the next turn.

We have been hearing confusing information for the past three to four years. One, most of the jobs being added were of the part time sort. Competition for jobs has decreased due to this shift to part time employment, which has in turn caused wages to stay stagnant.
The labor participation rate is hanging on to the lowest levels we've seen in decades. Only 60% of the work force are currently working. When we hear that the unemployment rate is under 5%, it's not counting on the millions who gave up and completely left the work force. It only counts those who are currently looking for work.

Last year we actually saw a earnings recession from companies. Energy and materials sectors fell off a cliff while the remaining sectors weren't growing enough to offset that landslide. The sector that rose the most in earnings was healthcare. However, this has become a hot bed. Healthcare cost have spiraled out of control. In one year, my own family’s premiums went from $1,400 a month to $2,000 per month while our deductibles tripled. This was a concern because with little wage growth, how on earth were we going to absorb these increasing costs?

So why is the market higher? Perception that economic growth is around the corner. Confidence is the highest it's been in 13 years from individuals and business leaders alike. Investors are finally moving from defensive positions to economically sensitive companies that need the economy to increase in growth. The following indicators are showing this change. First, energy and material prices are showing that they've bottomed. This is helping earnings rebound. Oil companies were able to decelerate output, get finances in line, and turn business around. Companies didn't have the massive defaults that were being predicted, therefore disaster was averted. This in of itself helped gain the confidence that we would avert a recession. Secondly, investors are betting that Trump as President, will make good business decisions.

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At our firm, we believe this is important for investments to stay at higher levels and grow from this point forward. Trumps advisors have laid out an aggressive first 100 days of changes including lower taxes, softer regulations, better healthcare, and lastly a vast infrastructure bill to help rebuild our Country.

There are two questions we are asking in regards to this. One, can all of these get done in the first 100 days? Secondly, will they be as effective as investors are pricing into the market?

Let's take the first one. We think it is unlikely that all of these changes will get done in 100 days. If the list is not completed, we foresee some volatility in investments. The stock market generally prices in what it believes will take place in the next 6 months to a year. It it's perceived that some of these policies will be in place by then and if they aren't, investors might be a little disappointed and start selling some shares.

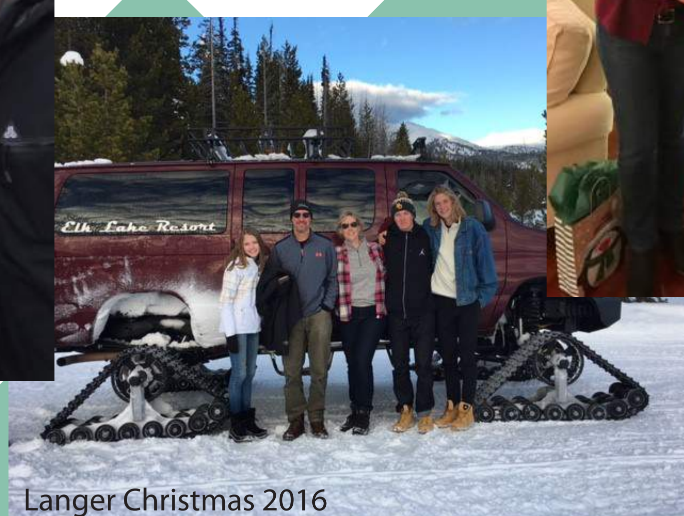
Secondly, is the question of effectiveness. This is a political debate for sure. Half of the economist say they will lead to growth and the other half would say they won't and will in fact lead to other issues.

At our firm, we think regulations did go too far. I had the chance to listen to the President at a regional bank a few weeks ago. He flopped two books on the table the size of phone books, which were regulations on lending and banking operations that banks were being held too. If the administration can streamline these regulations while at the same time keep banks safe at being banks, this would go a long way at being effective. I have helped clients through the process of trying to get home loan or refinance. It's painful, slow, and becoming more expensive by the day.

We think the market and economy will grow during 2017. At what speed will be the question. If we only grow 1-2 percent, then expect lower returns. If we turn the corner, then we could be surprised at where we end up on the year. We will be watching the first quarter of this year to see what the tone is and where the Trump administration turns.

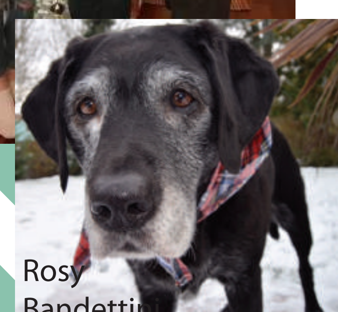
THE SUMMIT FAMILY PICTURES

Bodens Christmas 2016



Langer Christmas 2016

Bandettini Christmas 2016



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THE SUMMIT FINANCIAL STRATEGIES

Mesquit Snow 2016

INTEREST RATES

by Lisa Mesquit

When I worked in banking in the 1990s, I remember talking with my colleagues about mortgage interest rates. At that time, we still had 10% mortgages in our investment portfolio and we looked at the 6% mortgages we were then buying and thought, "Rates can't get much lower than this." Were we ever wrong.

Rates did get lower and ever since then, the United States has "enjoyed" a long period of low interest rates. Who has enjoyed it? Certainly, not investors! Borrowers, of course. Lower interest rates mean a home buyer can either have lower payments than they otherwise would, or buy more house at the same price. For corporations, low interest rates mean that they have a lower return threshold in order to make a project profitable with borrowed money. And the US Government, the biggest benefactor of lower interest rates, can make lower payments on all that debt.

We have turned a corner. In December, after months of discussion and hints, the Federal Reserve Bank surprised no one when they raised interest rates for the first time in a year and only second time in a decade. After adding .25% to the Federal Funds rate (the rate they charge banks for borrowing money), they projected that they would continue to raise rates throughout 2017. These rate increases are specifically to banks. They do not directly affect consumers until banks pass the costs through to borrowers.

Treasury rates are the rates that the US government pays on its bonds and they have also increased .15% to .3% over the last three months. These are the rates most relevant to mortgage rates which have increased about .2%. The Federal Reserve does not set Treasury rates or mortgage rates. They are determined by supply and demand in the market. When investors are scared, like they have been over the past few years, many investors buy US Treasury bonds because they perceive them to have little risk of loss. These investors bet that the .75% they earn on the bond will be a better investment than the stock market. Sometimes, they have been right.

Buoyed by economic growth, confidence in the future of the US economy is at record highs. Consequently, investors are shifting their money from Treasury bonds to the stock market which is causing the price of bonds to decline and yields to increase. How high will they go?
For now, bond investors are still skeptical that rates will rise as much as the Fed projects. However, if the economy stays strong or even strengthens. The likelihood that rates will continue to rise is high. At our firm, don't expect the increase to be fast, but we could see an environment of slow and steady rates increases.

While the rate increases are good to regulate the speed of economic growth, they are bad for bonds. Each time market rates increase a bond is worth less money. Think of it this way, if you can choose between two investments that are identical except that one pays 1% and the other pays 2%, you'll buy the 2% investment every day. In order to compete with the 2% investment, the 1% investment has to lower its price in order to yield 2%. So, the price is lowered and the bond is worth less. If you aren't selling, you don't realize the price decline, but you still see it in your returns.

Here at the Summit, we've been taking steps to put our clients in the type of bonds that weather a rising rate environment the best. As the economy continues to grow and strengthen, we continually watch to keep your assets allocated in the best way for you.

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FAVORITE RECIPES

Cranberry Chicken

by Keith Bandettini

Ingredients:

- 1 Tablespoon butter
- 1 small onion, coarsely chopped
- 3 pounds chicken thighs, skinned
- 2/3 cup ketchup
- 1/3 cup brown sugar, firmly packed
- 1 Tablespoon cider vinegar
- 1 teaspoon dry mustard
- 1.5 cups fresh or frozen cranberries, rinsed

Directions:

Preheat overn to 400 degrees.

In a 10x15 inch baking pan, combine butter and onion. Roast uncovered until onion is a pale gold, stirring occasionally. Push onion to one side of pan. Place chicken thighs side by side in pan (not on top of onions).

Bake uncovered for 25 minutes.

In a bowl, combine ketchup, brown sugar, vinegar, mustard and cranberries. Scoop browned onions out of pan and stir into mixture. Space chicken evenly in pan and spoon cranberry mixture over chicken.

Bake about 20 minutes more, until cranberry mixture is slightly caramelized and chicken is no longer pink at the bone in the thickest part.

Bon Appetit!

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