DEAVEL WEALTH ADVISORS
CLARITY • CONFIDENCE • CONTINUITY

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Dear Valued Client,

It is often said that what the investment markets dislike more than anything is uncertainty. As the new year began, we had plenty of it. After years of low interest rates, the Fed continued to signal rates would rise. A new President would soon be inaugurated. Some doubted that equity markets – and even our country – could move forward after such a particularly bruising and contentious election.

Many had very strong feelings about who they favored in the election. Famed investor Warren Buffett was one of them. He was quite vocal throughout the election regarding his choice. His candidate did not win. Surprising to some, Mr. Buffett revealed that shortly after the election, his company had purchased $12 billion of common stocks. He explained that over his investing career his favored candidate was elected only about half the time, and so we must move on.

The bond market also seemed to confound the experts. Bond prices generally declined in the last quarter of 2016. As the first quarter of 2017 wore on, a meeting of the Fed loomed. Some economists were concerned the Fed would raise rates, thus hurting bond returns. Others worried they would not raise rates, which would cast fears of a low-growth environment and possibly hurt equity returns. In mid-March, the meeting took place and the Fed did raise rates. The result was not what some economists expected: bonds actually turned in a positive return for the quarter, and so did stocks. John Kenneth Galbraith, an economist himself, once said, “The only function of economic forecasting is to make astrology look respectable.”

% Return as of 03/31/2017

Equity Indexes	**1st Q**	**1 Yr**	**3 Yr**
S&P 500	6.1	17.2	10.4
Russell 2500	3.8	21.5	7.4
MSCI EAFE	7.2	11.7	0.5
Emerging Market	11.4	17.2	1.2
Wilshire REIT	0.0	2.0	10.2
Bond Indexes			
TIPS	1.3	1.5	2.0
Aggregate	0.8	0.4	2.7
Governments	0.7	-1.3	2.0
Mortgages	0.5	0.2	2.7
Investment Corporate	1.2	3.3	3.7
Long Corporate	1.4	5.3	5.4
Corporate High-Yield	2.7	16.4	4.6
Municipals	1.6	0.2	3.5
Cash Equivalents			
3-Month T-Bill	0.1	0.3	0.2
Consumer Price Index	0.9	2.8	1.2

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These events highlight what has been part of our investment philosophy for many years. We are realists. Our stewardship of wealth model recognizes that we must invest for the long term in many environments. We realize there are real people attached to the assets we manage. As noted educator William Ward once said, "The pessimist complains about the wind; the optimist expects it to change; the realist adjusts the sails."

Domestic Equities: Like Mr. Buffett, equity investors apparently chose to look on the brighter side. While it is unclear what direction policies will take under the new regime, initial reports have indicated the new administration will focus on tax reform and infrastructure rebuilding. Given this, U.S. stocks turned in solid returns. Boosted by strong earnings and a potential acceleration of economic growth, the S&P 500 advanced 6.1% in the first quarter. Smaller stocks, which were the darlings of last year's portfolios, returned a more modest 3.8%.

International Equities: International equities have trailed their domestic counterparts for several years. This is likely due to the well-publicized issues relating to weakness in the euro currency and the Brexit referendum. As a result, many began to wonder why they owned international stocks. The first quarter of 2017 answered that question. Developed international stocks jumped 7.2% for the quarter. Emerging markets stocks sailed to an 11.4% gain. This makes the previously maligned categories the number one and number two best-performing for the first quarter. International stocks still have a long way to catch up, but this is an encouraging start to 2017.

Fixed-Income: As noted earlier, bonds turned in respectable returns for the first quarter. Even though the Fed again raised short-term rates, the language associated with the increase was tempered. The Barclay's Aggregate, a measure of the total bond market, managed to eke out a small gain of 0.8%. The Municipal Bond Index performed a stronger 1.6%. Rounding out a clean sweep for bond indices, the High-Yield Index notched to a 2.7% gain.

Eight years ago, the financial markets looked far different than today. The sub-prime induced "Great Recession" produced a bear market that had ground down both portfolio values and the psyches of investors. While many experts predicted it would only get much worse, our investor letter from eight years ago struck a very different tone:

> *"During times of extreme uncertainty, it is tempting to listen to those with extreme positions and shrill voices. Our commitment, instead, is to use prudence and mathematical principles to help build your future. Our response to this crisis is not to shrink away and hope for the best. Instead, we will confront these challenges with discipline and strength. This, we believe, is the only way back."*

It is great to see the dramatic recovery and the rewards these principles have helped achieve. It has been a pleasure to serve you. Of course, the next eight years will bring challenges and difficult moments as well. We

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will be there. Not only are those principles the only way back, but we believe they are the only way forward as well.

Please let us know if you need anything or have questions. We are always here to help.

Sincerely,

Cindy H. Deavel

Cindy Deavel, CFP

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Source of data – – The Vanguard Group Inc., Morningstar, U.S. Department of Commerce, Wall Street Journal, St. Louis Federal Reserve, Bloomberg, The Federal Reserve. The performance of an unmanaged index is not indicative of the performance of any particular investment. It is not possible to invest directly in any index. Past performance is no guarantee of future results. This material represents an assessment of the market environment at a specific point in time and is not intended to be a forecast of future events, or a guarantee of future results. 3 year performance data is annualized. Bonds have fixed principal value and yield if held to maturity and the issuer does not enter into default. Bonds have inflation, credit, and interest rate risk. Treasury Inflation Protected Securities (TIPS) have principal values that grow with inflation if held to maturity. High-yield bonds (lower rated or junk bonds) experience higher volatility and increased credit risk when compared to other fixed-income investments. REITs are subject to real estate risks associated with operating and leasing properties. Additional risks include changes in economic conditions, interest rates, property values, and supply and demand, as well as possible environmental liabilities, zoning issues and natural disasters. Stocks can have fluctuating principal and returns based on changing market conditions. The prices of small company stocks generally are more volatile than those of large company stocks. International investing involves special risks not found in domestic investing, including political and social differences and currency fluctuations due to economic decisions. Investing in emerging markets can be riskier than investing in well-established foreign markets.

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