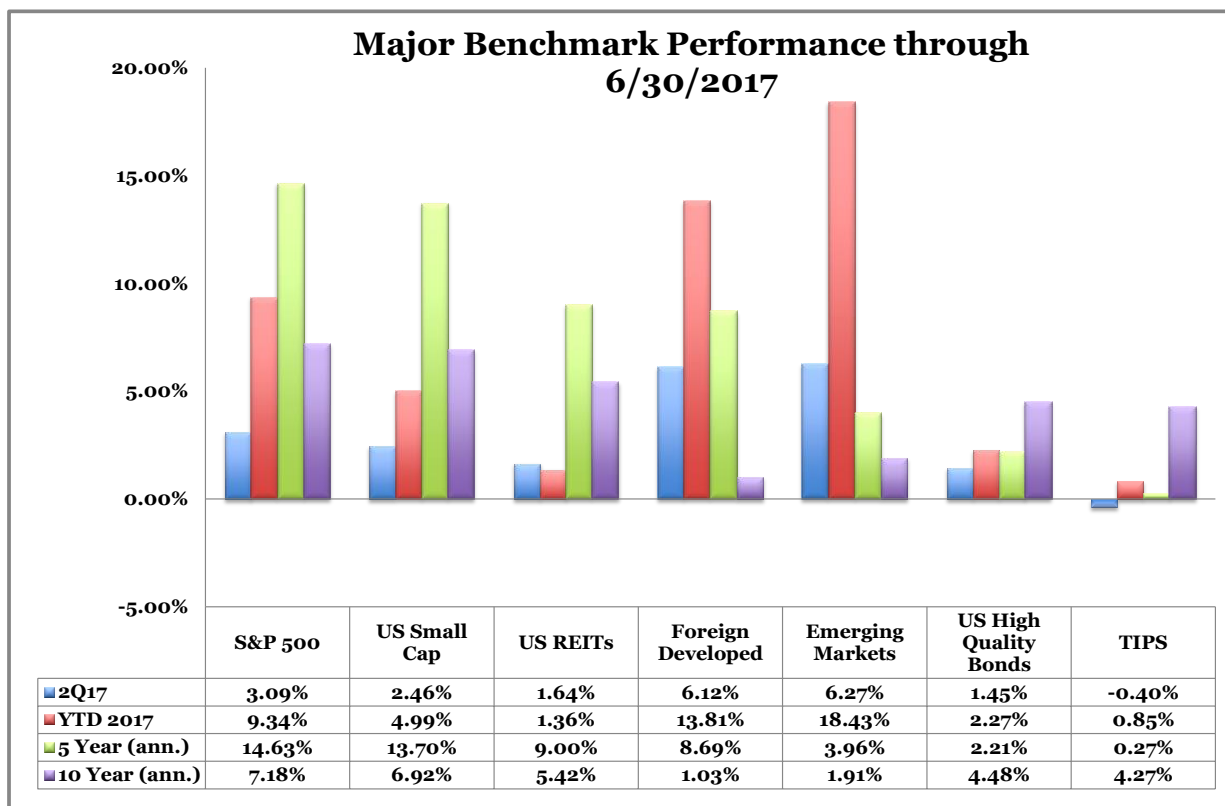




Integral Financial Solutions

Market Summary and Outlook Second Quarter 2017

Equity markets continued to rise in the second quarter, although at a slightly slower pace than what we saw in the first quarter. All equity numbers, including international equities, look quite respectable for the year to date. Fixed income numbers are more muted, but this important asset class performed as expected, considering equities rose and there were two Federal Reserve rate increases so far this year (with more expected by year-end).



Source: DFA

Equity Markets

There has been a surge in market confidence in the US, with solid economic data continuing to propel markets higher. What does this mean for equity valuations? The consensus is that equities are on the high side compared with historical averages, although they are not close to the valuations we saw in the

late 90's dotcom bubble. Technology stocks, which are "growth-leaning", have been strong this year, while energy has been the weakest sector. International markets, (in particular emerging markets) have performed even better than US markets. This is a sharp turnaround after several years of emerging market underperformance. We invest modestly in emerging markets, as this asset class is great for long term diversification, but can be very volatile in the short term.

Big Picture

Although we could go into great detail over which of the asset classes outperformed the market and review the proper valuation of equities, we prefer at this time to revisit the financial "big picture" - namely, what are your long-term goals and how do these markets tie in?

Consider this, from a recent *Wall Street Journal* article entitled, "[Global Stocks Post Strongest First Half in Years, Worrying Investors.](#)":

"The question for stock investors is whether the strong first six months [of 2017] heralds a choppy second half or the start of a multiyear upswing. The data on global rallies offers a mixed record."

Phrased differently:

"We have no way of accurately predicting which markets will outperform or underperform between now and the end of the year."

The article also reports: "All but four of the 30 major indexes representing the world's biggest stock markets by value have risen this year, a first-half performance unmatched since 2009."

We think the big picture (how your investment portfolio is allocated in conjunction with your financial plan) is a much more constructive question to ponder than what the rest of 2017 has in store for us as investors. We believe this is a more useful question:

Is your low-cost globally diversified portfolio still appropriate based on your goals and risk tolerance?

Together with input from our clients, we have developed financial plans based on personal goals and resources, and based on our work together we know that most of our clients have a high probability of reaching their goals. As our clients know, we use conservative assumptions, including a modest inflation-adjusted portfolio return to make sure our clients are not in danger of running out of money.

The projected successful plans depend in part on the performance of your portfolio. However, there is no sure-fire investment approach that guarantees you'll come out ahead. As *Nobel laureate Eugene Fama* has observed, "The probability that you can lose money never goes away ... It's the nature of the beast."

In spite of the fact that there are no guarantees with investing, a balanced plan maximizes the capture of market returns while managing the risks involved. The data strongly supports the notion that building and maintaining a low-cost, well-diversified portfolio is the most prudent investment approach. Because prudent portfolio management calls for maintaining your balance in good markets and bad, we focus more on questions like "How can we best employ upfront asset allocation and ongoing rebalancing to keep your portfolio on track to meet your personal financial goals?" For this reason, we

periodically rebalance our clients' portfolios to minimize the risks associated with overinflated markets, but not so often that we incur excessive transaction or tax-related costs.

Cyber Security

There has been much press about various cyber-attacks on institutions and individual online users. In an increasingly web-connected world, it is imperative that we all take steps to safeguard our sensitive data. Case in point: IFS and Schwab just sent an alert about a phishing scam it has uncovered.

We have an internal program of cybersecurity and are happy to share it with our clients. There are also steps you can and should take to minimize the vulnerabilities hackers and perpetrators of fraud try to exploit. The [link](#) to the list offers a wealth of recommendations regarding ways to protect yourself online. While we do not consider ourselves to be cybersecurity experts, we do think this comprehensive list is worth the couple of minutes it will take to read because there are many good common sense recommendations.

Conclusion

In this summary, we have highlighted the fact that on a year-to-date (only 6 months) basis all of the equity the markets have been strong.

We know that the current bull market began for the S&P 500 just over 8 years ago, making it one of the longest on record. We don't know how much longer it will last, although there is plenty of economic data to support the theory that it will continue for the near term.

Based on the design of your portfolio, combined with modest assumptions about longer-term market performance, the allocation and diversification of each portfolio should provide competitive risk adjusted returns during your investment horizon.

We will always prioritize how your investment portfolio ties in with your individualized financial plan, such as spending and saving assumptions. For those who want to discuss the markets in more detail, we are very happy to do so as we follow developments closely. Please call us anytime.

Sincerely,
Janet & Barry

Sources: Dimensional Fund Advisors (DFA), PIMCO, JP Morgan, Morningstar, New York Times, Schwab, Vanguard, Wall Street Journal.

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