**W. James Steen, CFP®**
jim@petrafin.com

**Jason A. Pearson, CFP®**
jason@petrafin.com

(O) 937.294.9000
www.petrafinancialsolutions.com

The second quarter of 2017 is now officially in the books, and as we turn the page to the third quarter, it's safe to say the summer season is in full swing. While warmer weather brings with it holiday cookouts and trips to the beach, it also holds a special place in the hearts of cycling fans worldwide, as it marks the Tour de France. For those that are unfamiliar with the event, the Tour de France is an annual bicycling competition between almost 200 cyclists, which spans 23 days and over 2,000 miles. With 23 days of televised coverage, you're likely to catch at least one of the various stages of the race, and if you do, you'll notice that riders tend to pack together in groups the announcers call the "peloton." Winners will pull ahead of the peloton, while riders who struggle with the grueling pace or experience equipment issues will lag behind.

This same principal can be applied to the markets, with the peloton represented by the broad, capitalization-weighted market. As this large group of hundreds of stocks winds its way around curves, through valleys and over mountains, many stocks will behave quite similarly with the market as a whole. However, there will be stocks and sectors that break away from the pack for sustained periods of time, and others that falter to fall well behind … a few of which will inevitably abandon the race altogether. Our job as risk managers and tactical investors is to identify the stocks, sectors, and asset classes that have the legs to pedal beyond the comfortable confines of the peloton.

One quantifiable metric that has a tried and true history of providing an objective measure of performance is price. Every day stocks compete, and every day the result of these competitions are recorded. By recording the results of this daily competition, we can rank stocks, sectors, and even asset classes by strength in order to objectively see which areas of the market are performing the best, in addition to seeing which areas are performing the worst, much like we can see the riders that are pulling ahead of the peloton and those that are lagging behind. With that in mind, here are some of our observations from the previous quarter:

- Domestic Equities retain the lead across all major asset classes, though International Equities have improved the most this year, and these two groups rank comfortably above all others to offer the most stable trends for new buying opportunities.

- Within the U.S. markets, the Technology sector remains the most significant long-term leadership trend within the market, despite some well publicized volatility in the month of June.

- The Healthcare sector has improved its ranking more than any other this year, thanks to the resurgence of the Biotech sub-sector. The Energy and Basic Materials sectors continue to struggle overall, representing the laggards among US sectors today.

- International Equities have been the most improved asset class this year, with Asia and Europe being the regions that contributed most readily to that improvement.

- Finally, the U.S. 10-yr Interest Rates have retreated from their highs earlier this year, but remain well above their lows from 12 months ago. This relative instability has pointed toward opportunity in "non-traditional" areas of the bond market over the past year. Preferreds, Convertibles, and International Bonds kept pace with US Treasuries last quarter and have been stronger trends so far this year.

As always, we will continue to monitor your portfolio and make any necessary changes as leadership changes within the market. If you would like to become more familiar with my investment process and the tools I use to identify market leadership across major asset classes and within asset classes, please contact me at your convenience.

If you think this type of information would be of benefit to anyone you know, please share this communication with them.

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