

The BV Group Newsletter

3rd Quarter 2017

BAIRD

Half Full or Half Empty

With the year half way over many are wondering if we are starting to run out of steam on the market. You'll see in the Market Pulse that the equity markets have been very strong to start the year. Many of our clients have noticed it on their statements.

One tool that we use to determine the potential future direction of the market is Baird's "Weight of the Evidence." This is a tool that looks at six points of the market; Federal Policy, Economic Fundamentals, Valuations, Investor Sentiment, Seasonal Trends and Breadth." The underlying definitions of each weighting can be found here:

<http://www.rwbaird.com/news-insights/markets-and-the-economy>.

Heading into the 3Q of the year we see a slightly Bullish tilt towards the market, with underlying fundamentals and breadth of the market driving growth. The drag may continue to be valuations, but if we have a strong earnings quarter that may subside.

We don't feel that this market is completely out of steam; however we'd be (pleasantly) surprised if we had the same growth for the second half of 2017.

"It is not how much we have, but how much we enjoy, that makes happiness." – Charles Spurgeon



Front Row Left to Right: Jennifer Young, Briana Berndt
Back Row Left to Right: Rick Vertheim, CFP®, Curt Brewer, CFP®, ID

MARKET PULSE (As of 12.31.2016)

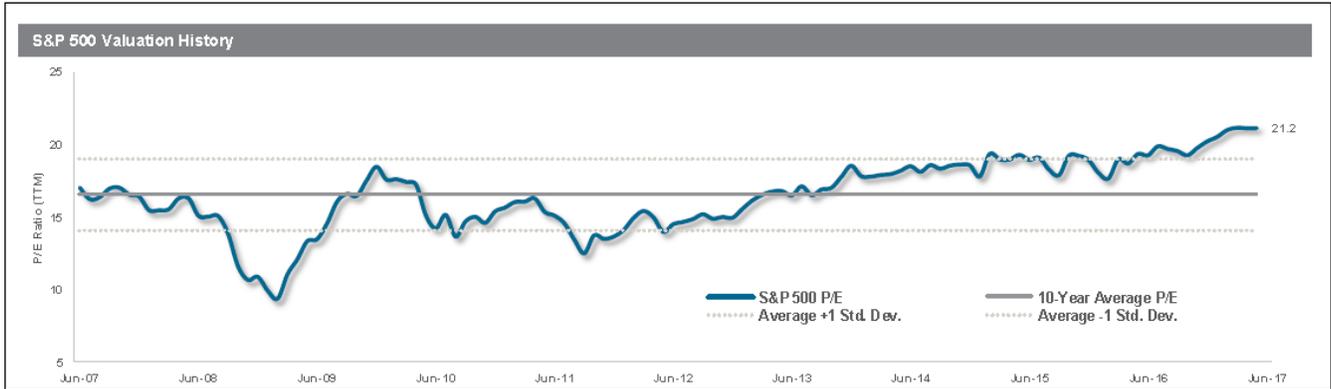
Index	QTD	YTD	1 year	3 year	5 year
Dow Jones Ind Avg	3.95%	9.35%	22.12%	11.01%	13.45%
Nasdaq Comp.	3.87%	14.07%	26.80%	11.68%	15.91%
S&P 500	3.09%	9.34%	17.90%	9.61%	14.63%
MSCI EAFE	6.11%	13.80%	20.25%	1.15%	8.73%
Barclays Agg Bond	1.45%	2.27%	-0.31%	2.48%	2.21%
Barclays Muni Bond	1.96%	3.57%	-0.49%	3.33%	3.26%
Barclays High Yield	2.17%	5.40%	13.21%	4.56%	6.94%
Citi 3-Mo T-Bill	0.18%	0.30%	0.46%	0.20%	0.15%

Opportunities Abroad: Focus on International Investing

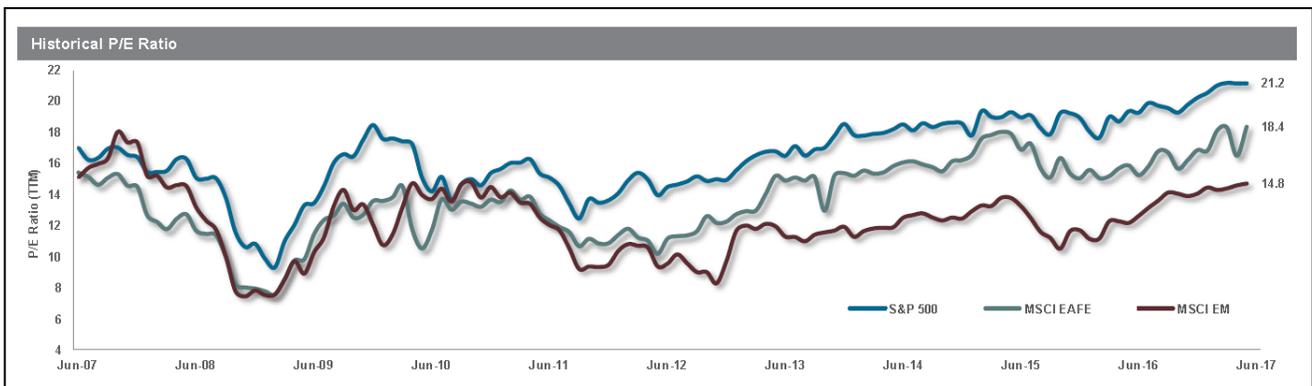
"Be Fearful When Others Are Greedy and Greedy When Others Are Fearful" –This quote is by Warren Buffet, one of the best investors of our lifetime and the nature behind this quote is to be cognizant of the price that you pay for investments and the value of what you get.

We have seen incredibly strong domestic equity returns in the recent years with the S&P 500 up 14.63% annually over the last five years. Strong returns like this bring into question the valuation of the stock market and questions whether we can continue to see returns like this over the next five years. Baird's research and our team have written about what high valuations means to the stock market, which can be found here: <http://www.rwbaird.com/news-insights/markets-and-the-economy>. However, in short we just view high valuations as an indicator that those stocks markets have a higher probability to underperform over the next five years as opposed to outperform.

Here is a chart to show the current valuation (P/E) of the S&P 500 (*Source: Baird's Q2 2017 Market Chartbook*):



Naturally, clients ask, well where do we want to invest for the next five years and see the best opportunity for outperformance, and we feel that may be the international markets. This shift may not “feel” right immediately because over the past five years the developed international markets have annualized an 8.73% rate of return (1.0% annualize return over 10 years), lagging the US markets. However this is where we might want to get “greedy” like Warren Buffet says, because valuations are low compared to the US Markets. See the comparative valuation charts below (*Source: Baird's Q2 2017 Market Chartbook*):



As part of our review or investment process, we need to make sure that our clients have the proper allocation to the international markets. While valuation of the markets isn't the only factor to invest globally, it is a primary reason to have the conversation. If you haven't reviewed your international investments, give us a call and we'll schedule a review.

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Upcoming Baird Wealth Strategies Calls

- **Baird Wealth Strategies** –*We will be sending invitations out to clients in targeted emails regarding topics that we feel that you might find interesting. This will be done in order to avoid sending you excess email communication and keeping your inbox clean. If however there is a topic you are interested or would like to know more about, please don't hesitate to let us know.*
 - o July 21st, 2017 – **Interacting with Baird Technology**
 - Presented by **TBD**
 - o August 16th 2017 – **Financial Literacy: Once You Start Receiving Income, What Should You Do With the Money?**
 - Presented by **Brian Levitt**, Senior Investment Strategist, Oppenheimer
- Watch any previous Baird Wealth Strategy calls here: <http://www.rwbaird.com/private-wealth-management/wealth-strategies-videos>

Other BV Group Updates

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Document Exchange

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