Investment Manager Meetings Recap Commentary

This quarter, the Strategic Income Group Investment Committee met with the following companies: Prudential Financial, U.S. Energy Development Corporation, BlackRock/ iShares, Multi-Funds, KBS-CMG, Invesco, and Triton Pacific Securities.

In addition to research provided by the companies we met with this quarter, the committee thoroughly assessed outputs from technology subscriptions we utilize.

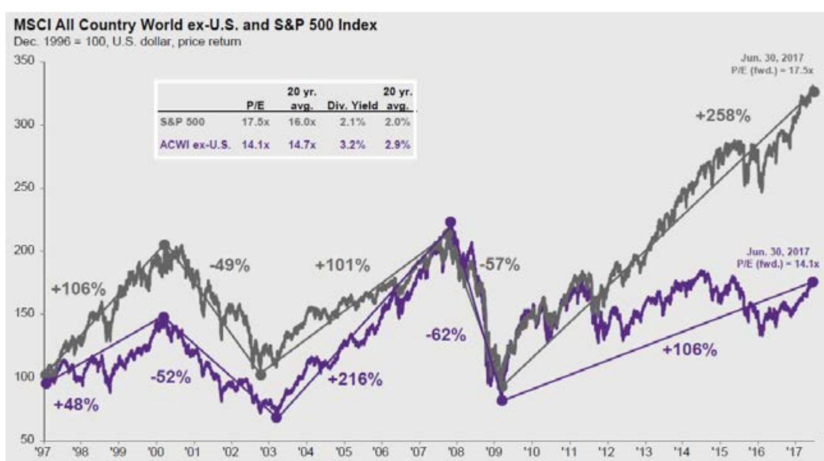
Strategic Income Group Current Views (Q3 2017)

		Bearish	Slightly Bearish	Neutral	Slightly Bullish	Bullish
Capital Market Outlook				X		
		Underweight	Slightly Underweight	Neutral	Slightly Overweight	Overweight
Equities	U.S. Large Cap			X		
	U.S. Mid Cap			X		
	U.S. Small Cap			X		
	International			X		
	Emerging Markets				X	
Fixed Income	U.S. Government		X			
	U.S. Investment Grade Corporate				X	
	U.S. High Yield			X		
	International			X		
Alternatives					X	
Cash				X		

Please Note: These are 12- to 18-month views from the published date of the applicable commentary. There are no changes from Q2 '17.

Capital Market Outlook

The overarching theme taken away from this quarter's meetings is continued neutrality for most investment categories as represented in our third-quarter Current Views chart. In assessing the outlooks of several investment managers, there was no collective emphasis to be fully bearish or bullish on any one investment category.



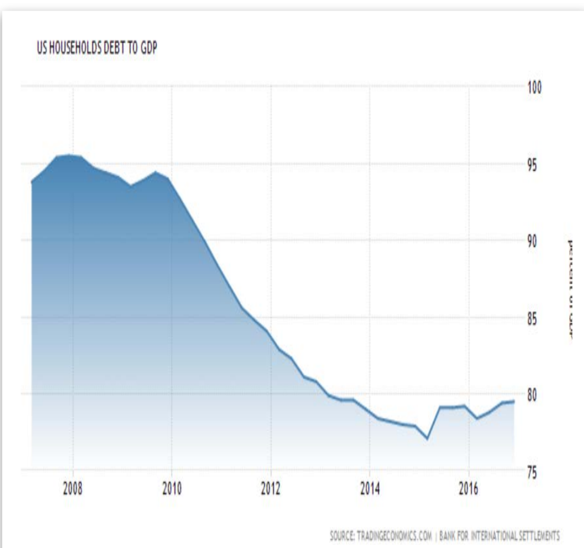
Source: MSCI, Standard & Poor's, FactSet, J.P. Morgan Asset Management.

Over the last six months the

outlook for U.S. stocks has been reduced to neutral. This is primarily due to heightened valuations. At the same time, foreign stocks have moved up to neutral due to lower valuations and some initial signs of economic stabilization.

U.S. Equity Markets

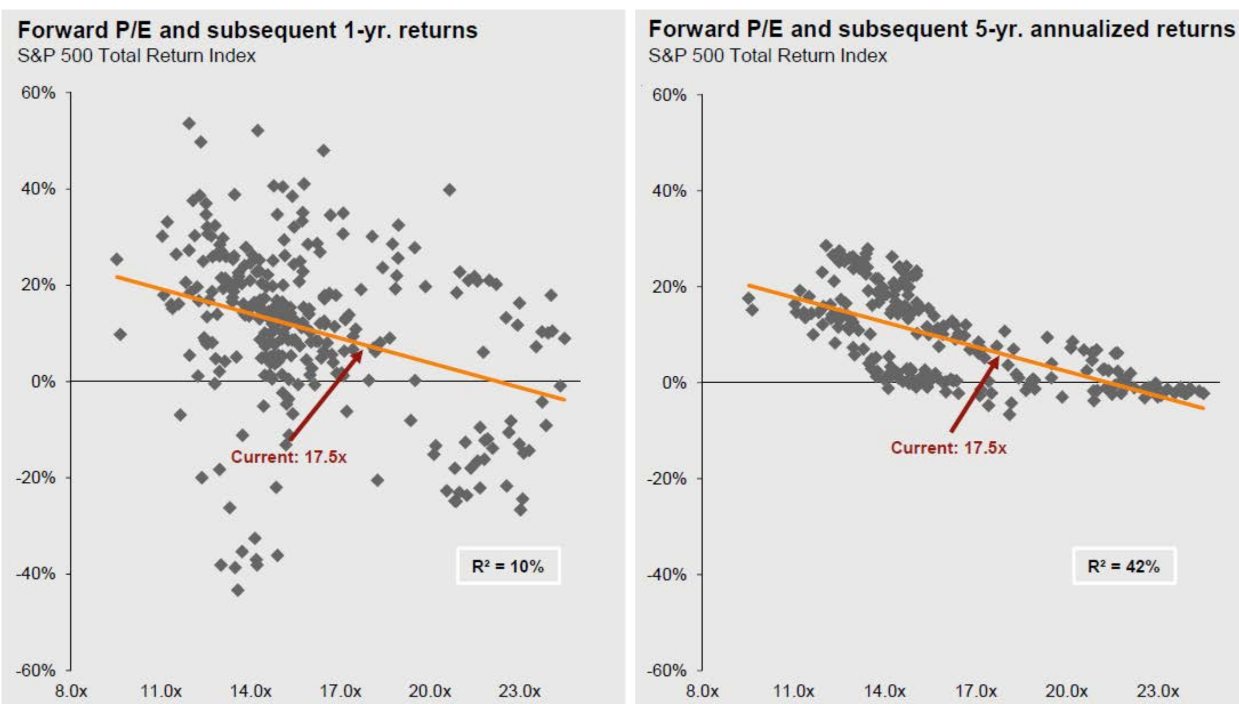
Since the 2016 presidential election the S&P 500 is up over 15% and that has some investors thinking “we must be close to the next bear market.” However, as we continue to look at some of the most telling indicators of potential economic concern, there isn’t anything that jumps out as a big red flag, as suggested by the following four graphs. Energy prices, interest rates, personal debt, and inflation all seem to be in check and far from recession-inducing levels.



Currently, there are two factors that seem to have the greatest potential to set back the U.S. economy and equity markets: a black swan event or political gridlock. A black swan event is defined as an unpredictable or unforeseen event, such as geopolitical unrest. Typically, black swan events do not have a sustained negative impact on markets. With the new administration having been in office for only seven months, it’s hard to determine yet what will or will not get done in Washington.

With no traditional threats to the U.S. economy and equity markets being overly present, can valuations alone be a big enough concern to turn markets negative? At current valuation levels, the answer to that question appears to be “no.” The following chart compares the current profits-to-earnings ratio (greatest indicator of stock valuations) of the S&P 500 to subsequent one-year and five-year annualized returns.

While the current ratio of 17.5x does suggest that future returns will likely be lower, it in no way suggests that valuations alone will definitively affect the market negatively. It’s not until the ratio gets to approximately 21.5x that valuations alone appear to have a predictable negative impact on the market.

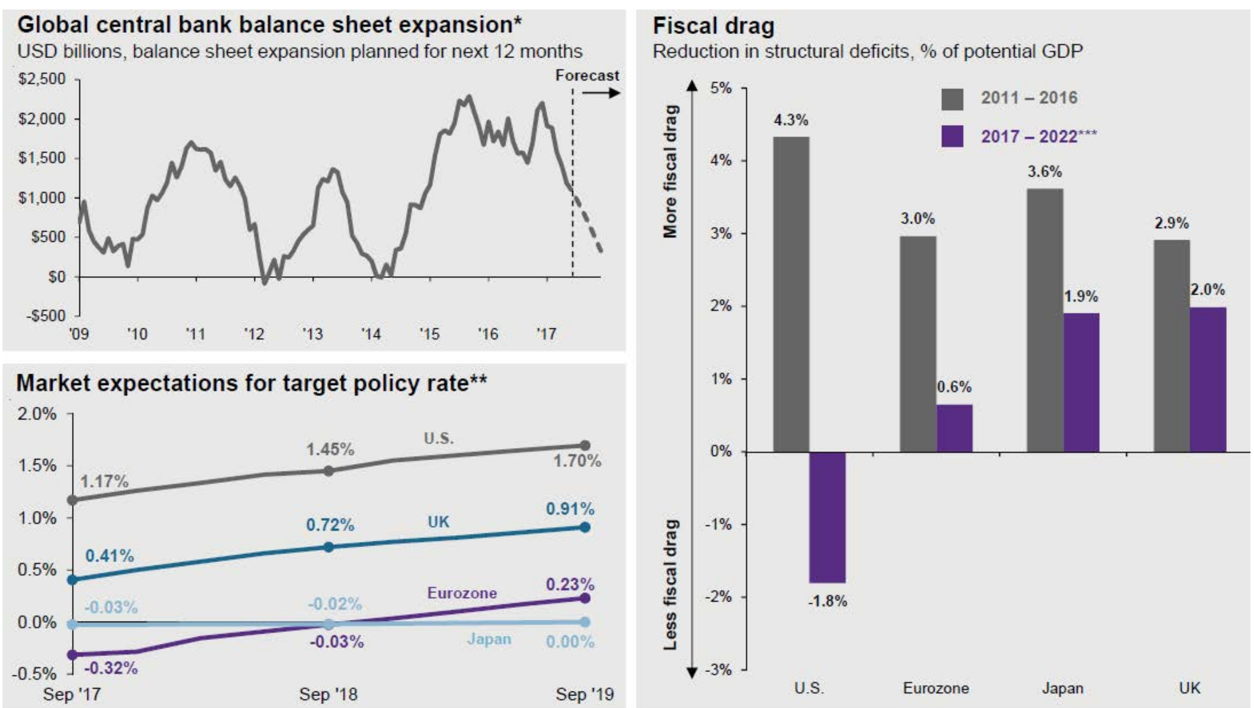


Source: FactSet, Reuters, Standard & Poor’s, J.P. Morgan Asset Management.

Developed Foreign Markets

While valuations have caused us to move our outlook on U.S. equities down to neutral this year, valuations on foreign equites prompted us to increase our weighting to neutral. Referring back to the first chart in this commentary, you can see that the current profits-to-earnings ratio of the All Country World except U.S. Index is lower than its 20-year average. That same chart shows the outperformance of U.S. equities since the Great Recession to today. With developed foreign markets noticeably "cheaper," there should be greater return potential abroad.

Just as current earnings alone are unlikely to negatively impact the U.S. market, earnings by themselves are not likely to move foreign markets. Until recently, the certainty of international economies has held their market return potential back. We are finally starting to see some economic stabilization in developed foreign markets. The following chart shows the improvements of global fiscal and monetary policies.



Source: J.P. Morgan Asset Management; (Top left) Bank of England, Bank of Japan, European Central Bank, FactSet, Federal Reserve System, J.P.

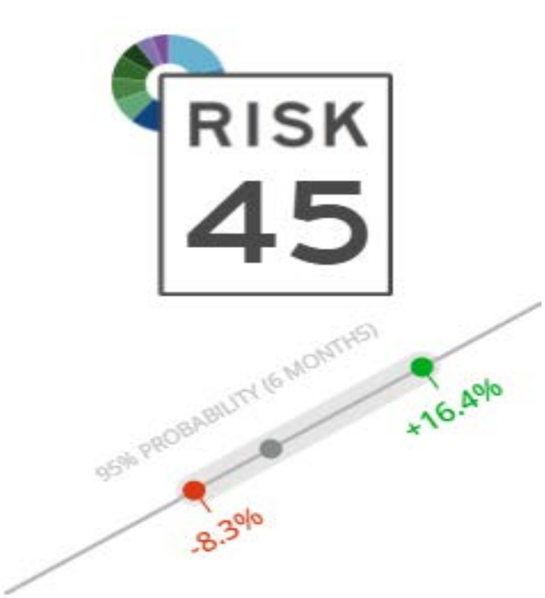
Portfolio Construction

What impact does having a neutral outlook on most asset categories have on a portfolio? Typically, this would suggest that our allocation between stocks and bonds does not favor either category. The neutral weighting of stocks and bonds in our Strategic Growth and

Income portfolio would be 60% stocks and 40% bonds. We are currently at 58% stocks and 42% bonds — well within tolerance of neutral.

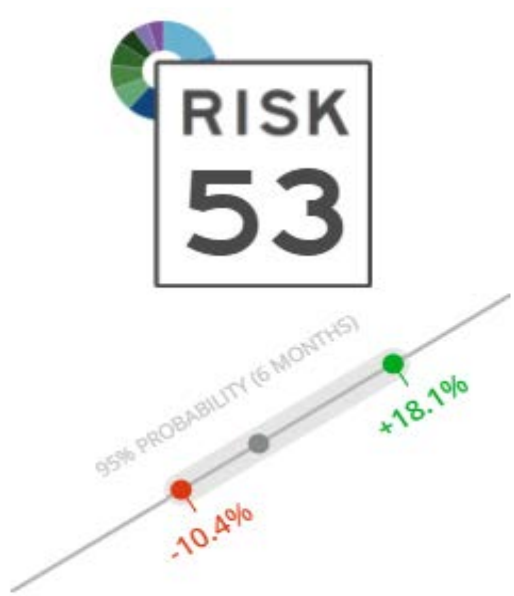
The selection of each stock and bond position is where enhancements can be added to the portfolio. Below is a comparison of our Strategic Growth and Income portfolio to Morningstar's equivalent Moderate Risk portfolio.

Strategic Growth and Income Portfolio



Potential Annual Return	8.07%
Annual Dividend	3.02%
Expense Ratio	0.55%

Morningstar Moderate Target Risk Portfolio



Potential Annual Return	7.65%
Annual Dividend	1.94%
Expense Ratio	0.13%

The most significant difference between these two portfolios is that the Strategic Growth and Income model has 20% less downside exposure with a great potential annual rate of return. There are four positions in this portfolio that are the primary reason for this difference.

Two of these four holdings are the S&P 500 and S&P MidCap 400 Dividend Aristocrats ETFs. Instead of investing in the entire S&P 500 or S&P MidCap 400, these funds only invest in the stocks of their respective index that have a long history of raising dividends. Companies that consistently grow their dividends tend to be high-quality companies with the potential to withstand market turmoil and can still deliver strong risk-adjusted total returns over time.

There are two bond holdings in the portfolio that have helped to bolster returns over the past year. The AlphaCentric Income Opportunities fund seeks to generate current yield and total return via investments in the often overlooked segments of residential mortgage and asset-backed securities. While the trailing one-year return for the period ending August 9, 2017 of the Vanguard Total Bond Index was –0.23%, AlphaCentric Income Opportunities was up 12.43% during that time.

Another non-traditional bond we have in this portfolio is the PIMCO Income Fund. While maximizing current income is its primary goal, this fund also seeks long-term capital appreciation and attractive risk-adjusted returns. This means that while the fund is going to seek out the highest possible income for investors, it aims to not sacrifice quality or principal. The trailing one-year return for the period ending August 9, 2017 of the PIMCO Income Fund was 8.44%.

In Closing

With the outlook for potential returns from the majority of investment categories being neutral, security selection is as important as ever. The Strategic Income Group Investment Committee prides itself in finding investment options for our clients that work to maximize the relationship between risk and return. If you have

Announcing Certified Fiduciary Services

Strategic Income Group is pleased to announce its new, wholly-owned subsidiary company, Certified Fiduciary Services, Inc.

Certified Fiduciary Services provides a variety of estate and trust administration services that complement Strategic Income Group's offerings. Clients will now enjoy more seamless financial services with the two companies working together.

Visit CFSSunCity.com to learn more today!

not yet determined your "risk score" or done a recent in-depth review of your portfolio, please contact us to set an appointment with your advisor.

Interesting Facts

- The world's first bank was Monte dei Paschi di Siena, founded in 1472 and headquartered in Tuscany, Italy. It is still in operation today.
- If you invested $100 in Microsoft in 1986 instead of buying a version of Windows 1.0, it would be worth $46,400 today.
- Zimbabwe has experienced the worst inflation in the world — 6.5 sextillion in November 2008. That's 6,500,000,000,000,000,000,000. And you thought the late '70s and early '80s were bad.
- Despite the New York Stock Exchange's notoriety, it was not the first stock exchange in the United States. That distinction belongs to the Philadelphia Stock Exchange, which was founded in 1790.
- Of the 524 bank failures that have occurred in the U.S.A. during the 10 years ending June 30, 2017, more than half have occurred in just four states. 51% of the total bank failures (269) have taken place in Georgia (92), Florida (72), Illinois (65), and California (40). Nine U.S. states had no bank failures in the last 10 years (source: Federal Deposit Insurance Corporation).
- 19% of the U.S. population is currently receiving a monthly benefit payment from Social Security, i.e., 61 million out of 326 million Americans (source: Social Security Administration).

What Are Investment Manager Meetings?

At Strategic Income Group, we believe in reviewing detailed investment research. Every 90 days we set aside a week during which around 7 to 10 investment managers give us recommendations on our current portfolios as well as share their firms' current views on the market and economy. This recap is our commentary on the most recent meetings.

Did You Know?

Strategic Income Group has an official financial planning process called "The Three Phases of Wealth" designed to help you wherever you're at in your financial journey.

Visit StrategicIncomeGroup.com/Start/ to learn and set some financial goals!

Did You Know?

Strategic Income Group provides a variety of services to its clients.

Visit "Our Services" page at StrategicIncomeGroup.com/Our-Services/ to discover new financial services for you and your family. Each of the services are designed to help Strategic Income Group clients achieve a greater degree of financial security.

Questions?

If you have any questions whatsoever regarding our investment manager meetings or any of the notes, give us a phone call or stop by our office:

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