

Investment Manager Meetings Recap

This quarter, the Strategic Income Group Investment Committee met with the following companies: Credit Suisse, ProShares, Mainstay — New York Life, John Hancock, Goldman Sachs, and Columbia Threadneedle Investments.

In addition, we reviewed research from countless other companies.

Political Influence on Markets

Over the past several months news headlines have been flooded with political commentary. The U.S. seems to be as polarized as it's ever been when it comes to political ideology. When it comes to managing your assets, it's Strategic Income Group's responsibility to look beyond the rhetoric and analyze the facts.

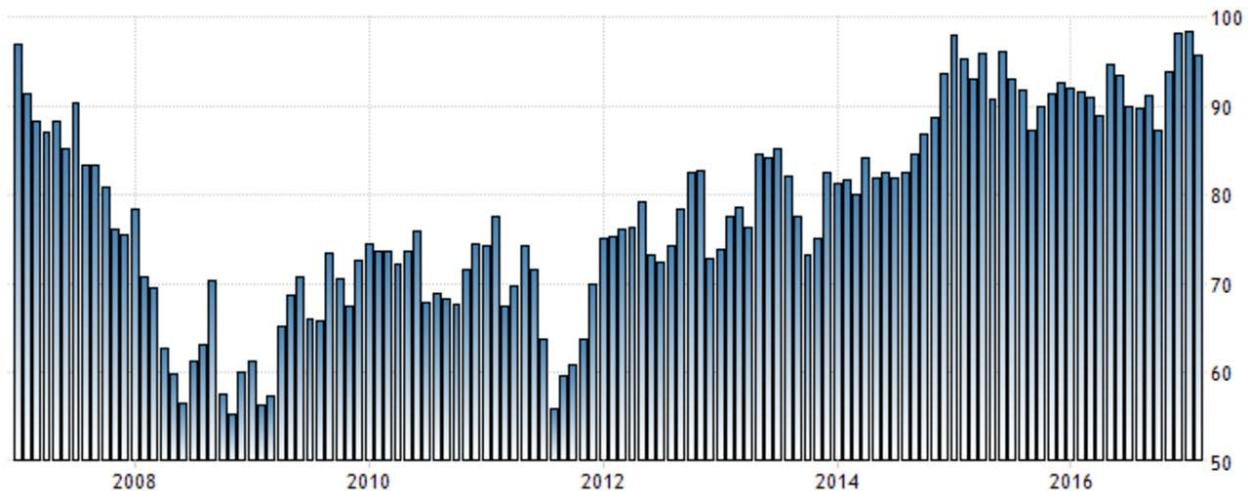
The first six weeks of trading for U.S. equities in 2017 has been noticeably different compared to the same period last year. The S&P 500's year-to-date return through February 10th of 2016 was -9.12% while this year it is +2.58%.

One of the primary factors contributing to the positive start to 2017 is what industry experts have called the "Trump bump." Whether one agrees with the president's political policies or not, it is hard to deny that both the market and consumers are optimistic about the way forward. The graph on the next page shows that consumer confidence is at its highest levels in 10 years.

		Strategic Income Group Current Views (Q1 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. Arrows represent movement from Q3 2016.

US CONSUMER SENTIMENT



Historically, the impact of the U.S. presidential election has not significantly moved markets either up or down. However, last month U.S. consumer sentiment reached a 13-year high of 98.5 and since the election the S&P 500 is up 11.34% (as of February 13th). The likely reason that the current administration is more significantly influencing market movement is its pro-business/anti-establishment agenda.

Not in one calendar year over the 10-year period of 2006 through 2015 did real gross domestic product (GDP) hit 3.0%. The prior record for consecutive sub-par 3.0% real GDP was four years (1930 through 1933). Combine substandard production with lower-than-average wage growth during the current economic recovery and the desire for change becomes predominant.

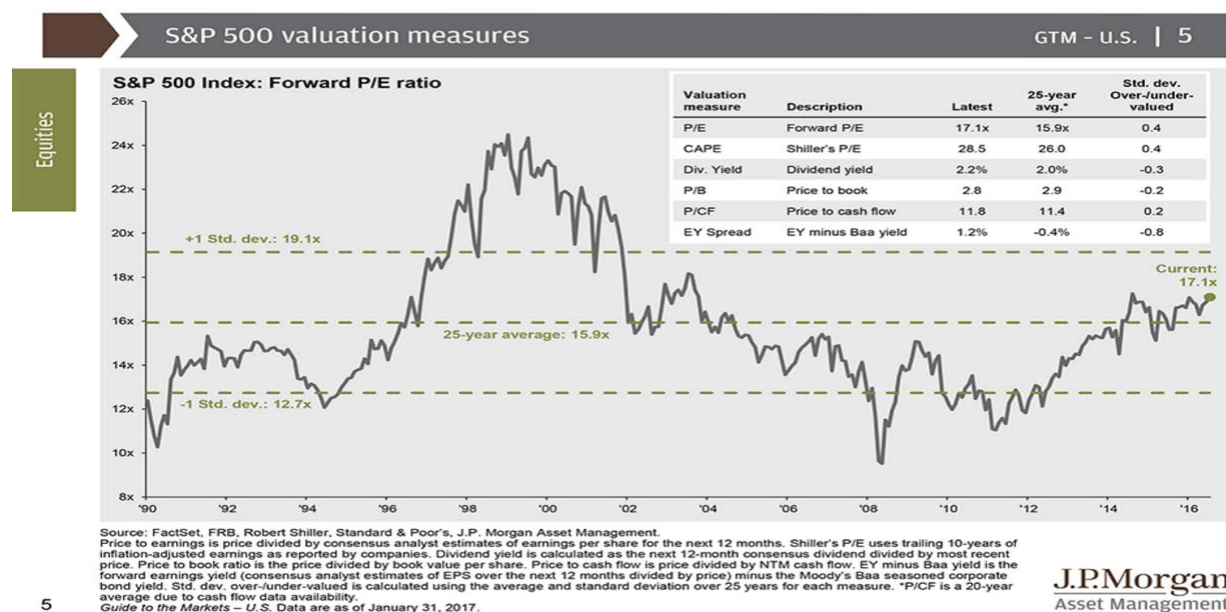
While the stock market has reacted favorably since the election, the market cannot trade for an extended period of time on sentiment. In her recent testimony to the U.S. House Financial Services Committee, Janet Yellen said, "I think market participants likely are anticipating shifts in fiscal policy that will stimulate growth and perhaps raise earnings." The majority of the investment managers we met with this quarter had a similar outlook. The upward market movement since the election is in anticipation of favorable fiscal policies to come, but as of right now, economic growth needs to pick up in order to sustain stock market growth.

Capital Market Outlook

Not only will it take time for the new administration to implement its policies, the outcome of those policies is by no means guaranteed to produce growth. The consensus of the managers we met with this quarter anticipate 2017 U.S. economic growth to be on

average 2.7%. While GDP above 3.0% is desired, the 2.7% estimate for 2017 is improvement.

With oil estimated to reach the \$55 to \$60 mark in 2017 and two projected interest rate hikes by the Feds, two of the four triggers for a recession end the year at levels that are not concerning. The average American household debt service is at a 35-year low minimizing the concern of excessive consumer consumption. The charts below show that the remaining catalyst for recession and overvalued asset prices are also at levels that do not warrant recessionary concerns as of yet.



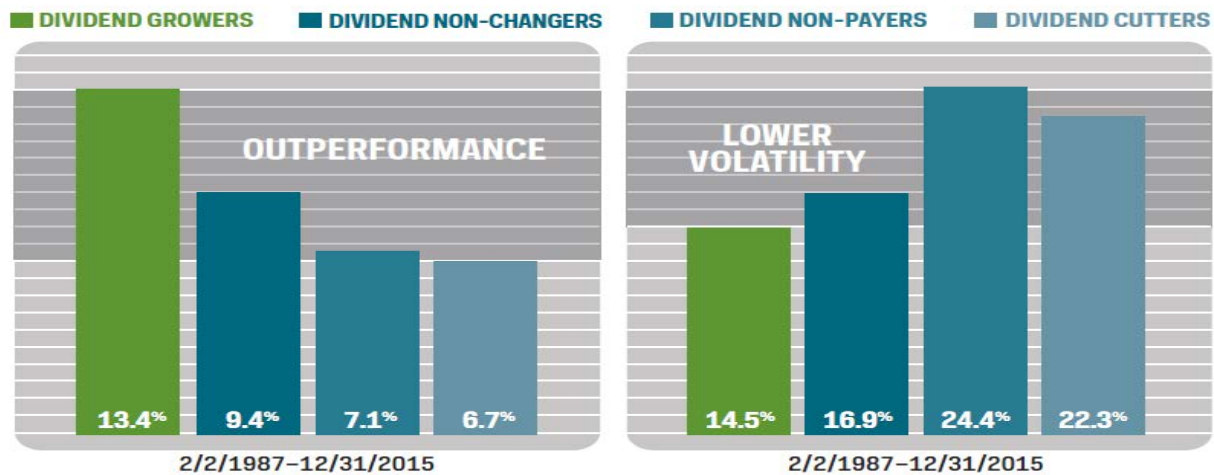
The U.S. dollar has been on a five-year upward trend. Most of the managers we spoke with this quarter believe this trend either maintains moderate growth or stabilizes. On March 31st Article 50 of Brexit triggers negotiations. In 2017, Holland, France, Hong Kong, Iran, and Germany all have elections with significant implications. While from a valuation perspective international stocks are less expensive than their U.S. counterparts, given all the headwinds the international markets face, we feel it's still too early to overweight them in the models.

Risk Reduction Investing

The overall outlook for 2017 from the investment managers we met with this quarter was that investors should expect moderate returns with heightened volatility. They also emphasized that it is critical for investors to be in a portfolio that accurately reflects their risk comfort level. One of the biggest hindrances to return is selling out of a portfolio once

volatility is present. To reduce volatility in our models, we continue to use dividend-centric funds for U.S. large-cap and mid-cap exposure. The chart below shows how dividend-paying stocks reduces portfolio volatility.

Historically, companies that grew dividends outperformed, with lower volatility



Source: Ned Davis Research, based on an analysis of Russell 3000 stocks from 2/2/1987-12/31/2015. Results of a hypothetical portfolio of \$100 in stocks in the United States, divided into: Dividend Growers (dividends per share increased); Dividend Non-Changers (no change in dividend per share); Dividend Non-Payers (no dividends paid); Dividend Cutters (dividend per share decreased). Dividend activity measured over trailing 12 months. Assumes dividends reinvested and all are equally weighted. Past performance does not guarantee future results. Volatility refers to standard deviation, a statistical measure that captures the variations from the mean of a stock's returns and that is often used to quantify risk over a specific time period. The higher the volatility, the more the returns fluctuate over time.

Historically Competitive Results

Percentage of time periods the U.S. Equity Dividend & Premium Fund outperformed vs the equity market (S&P 500)



Chart Source: Morningstar Direct as of 12/31/16. Time periods are represented by cumulative trailing four quarter performance measured at each quarter-end from January 2006 – June 2016. **Past performance does not guarantee future results, which may vary.** *The S&P 500 represents the overall market in the example above. Negative Market is defined as returns less than 0, Flat to Single Digital Market is defined as returns from 0-9.99% and Double Digit Return Market is defined as returns greater than 10%. As of December 31, 2016, the S&P 500 Index Average Annual Returns for the 1-, 5- and 10-year period were 11.93%, 14.64% and 6.94%, respectively.

Writing index covered calls is another way to generate income and reduce risk in the equity segment of a portfolio. Index call options are used in a portfolio in an attempt to generate additional return. The premiums received from selling these options may allow the strategy

to outperform the benchmark in negative to moderate markets, while still partially participating in exuberant markets.

In addition, the financial sector of the economy should benefit from the two minimally projected Fed rate hikes anticipated for 2017 and the likelihood of Dodd-Frank being revised. Interest received by banks is the driver of their profitability. With rates moving upward they will have the opportunity to capture more profit and if their capital requirements are reduced they will be able to generate more loans.

Riskalyze

In an effort to help clients truly understand their risk level when it comes to investing and best assess the appropriate stock-to-bond ratio for their portfolio, Strategic Income Group has made a substantial investment in software called Riskalyze. By going through a series of in-depth risk-based questions, an investor can determine the optimal portfolio they should invest in. Riskalyze provides the probable range of returns a portfolio will provide over the next six months as well as the average annual rate of return over a market cycle.



Final Thoughts

With the likelihood of heightened volatility facing the equity markets over the next several quarters, it is critical that investors truly understand how comfortable they are with the markets' ups and downs. As a committee, we continually take action to ensure the models we manage best represent the opportunities the markets currently have to offer for each appropriate risk category. In addition to our quarterly investment manager meetings, we are monitoring all of the research and information at our disposal on a daily basis.

At Strategic Income Group, we believe in full transparency. One of the best ways for you to “check under the hood” and see how we work for you is to attend one of our quarterly investment manager meetings. We encourage you to join us and see the process we go through to formulate the decisions that impact the management of your portfolio.

During the first and second quarter of 2017, we also emphasize our request that you work with your advisor to establish your Riskalyze profile. If you don't have a scheduled appointment with your advisor, please call us at 480-466-7070 so we can meet with you soon.

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.

Interesting Facts

- 14% of emerging market exports goes to the United States while 50% goes to other emerging market countries.
- Since 2008 the growth of the working population has been 0.40% annually. For every other period of economic recovery that number has averaged 1.00%.
- The 4th quarter of 2016 was the worst quarter for the U.S. aggregate bond market since 1981.
- The United States generates more than 20% of the world's GDP with about 4% of the world's population.
- About 30 million pennies are produced each day. That's 1,040 pennies every second.

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!

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.

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!

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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