

## Investment Manager Meetings Recap

This quarter, the Strategic Income Group Investment Committee met with the following companies: PIMCO, AmeriFunds, FS Investments, Oppenheimer, AllianceBernstein, Griffin Capital, and JPMorgan.

As always, we also reviewed research from countless other companies.

### Capital Market Outlook

The Investment Committee heard a consistent view from our managers this quarter as it relates to the continued slow growth of the economy with very little chances for recession in the next 12 to 18 months.

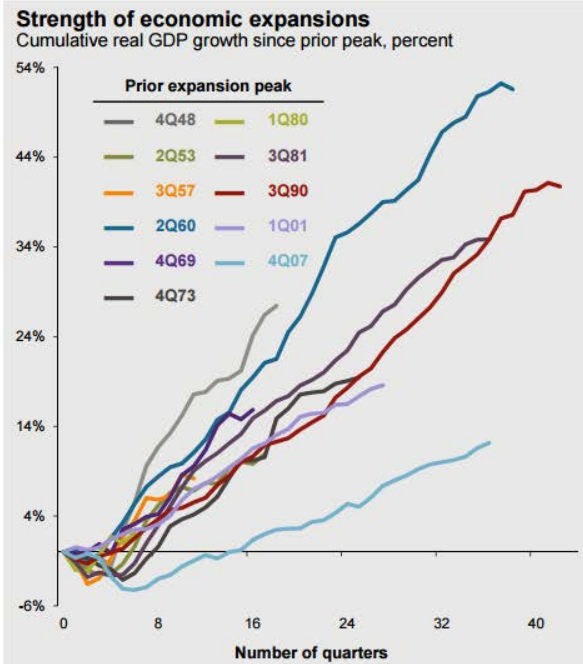
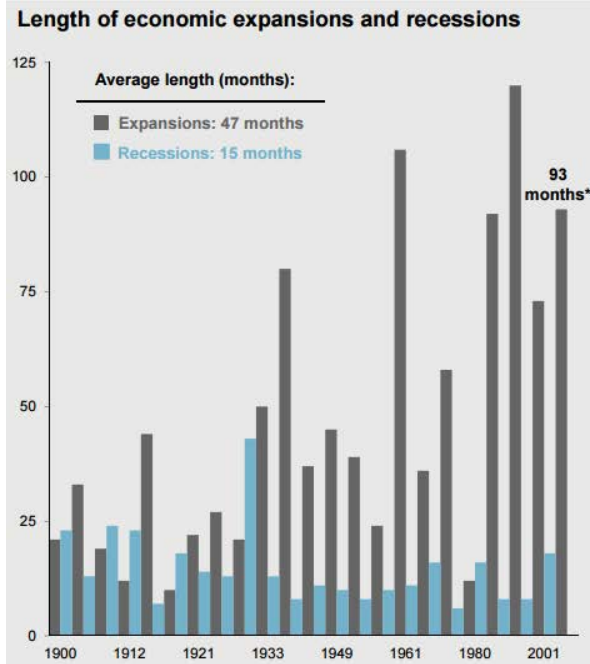
As you will see on the first chart on the next page, we are now in the 3rd longest economic expansion in U.S. history. May marks the 94th month of continued economic growth. Some would argue that we are way overdue for a correction. If you were only looking at the *length of economic expansion* (left side of the chart), you could make that argument.

However, if you look at the *strength of economic expansion* (right side of the chart), you will quickly realize just how anemic this expansion has been. Many of the managers that our investment committee met with believe this is the reason that we could see a continued slow growth in our economy with the chances of recession remaining extremely low.

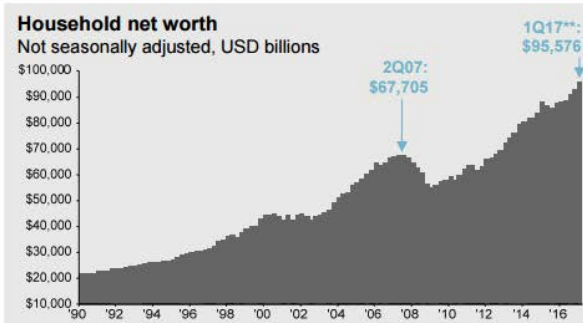
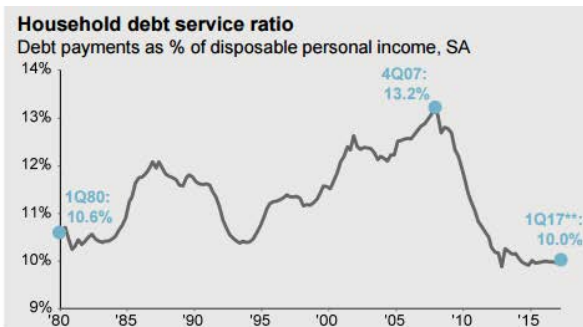
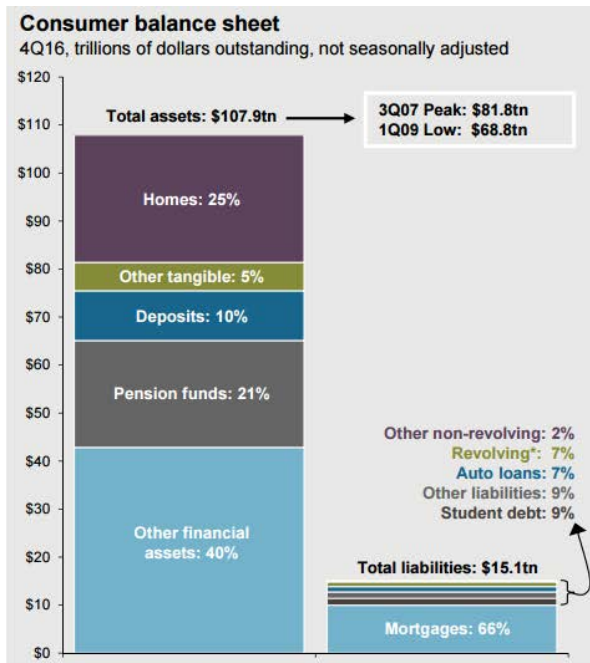
Other indicators that show support for the overall strength of the economy are depicted in the second chart on the next page. You will notice that the total net worth of the U.S. consumer is now 32% higher than the peak of 2007 and almost 57% higher than the low

		Strategic Income Group Current Views (Q2 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		
<i>Please Note: These are 12- to 18-month views from the published date of the applicable commentary. Arrows represent movement from Q1 '17.</i>						

of 2009. This, along with a multi-decade low household debt service ratio, is boosting consumers' confidence.



Source: BEA, NBER, J.P. Morgan Asset Management. \*Chart assumes current expansion started in July 2009 and continued through March 2017, lasting 93 months so far. Data for length of economic expansions and recessions obtained from the National Bureau of Economic Research (NBER). These data can be found at [www.nber.org/cycles/](http://www.nber.org/cycles/) and reflect information through March 2017. *Guide to the Markets - U.S. Data* are as of March 31, 2017.



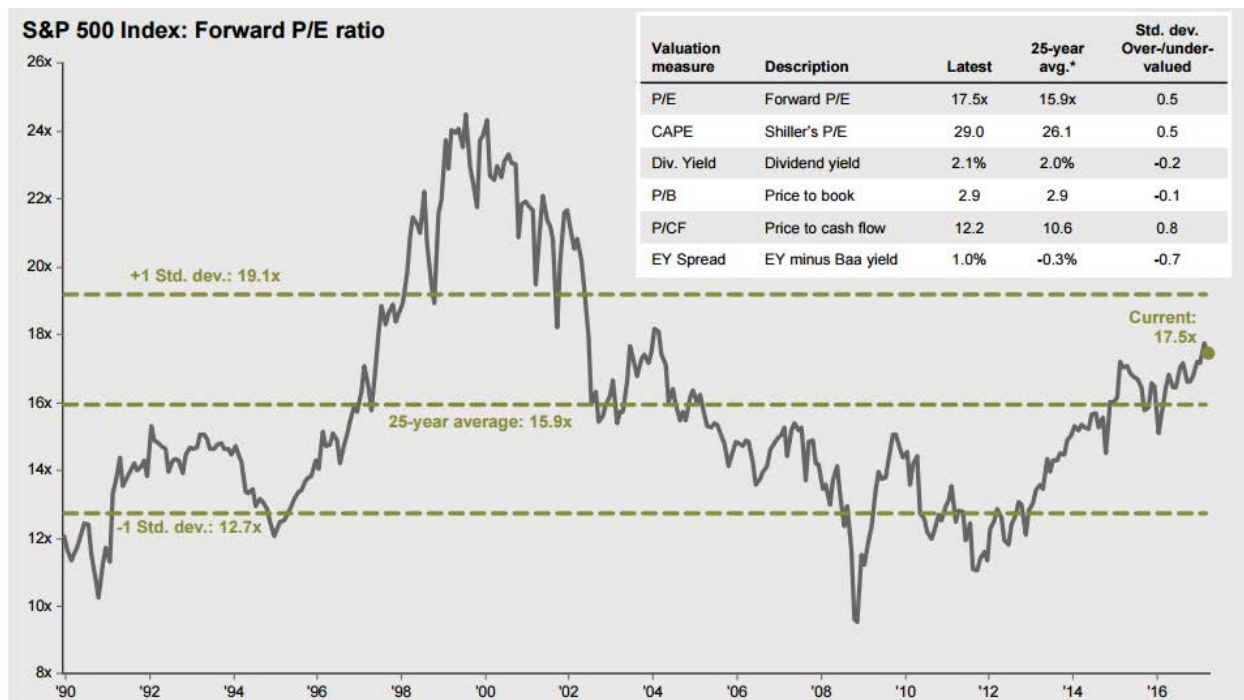
Source: FactSet, FRB, J.P. Morgan Asset Management; (Top and bottom right) BEA. Data include households and nonprofit organizations. SA - seasonally adjusted. \*Revolving includes credit cards. Values may not sum to 100% due to rounding. \*\*1Q17 are J.P. Morgan Asset Management estimates. *Guide to the Markets - U.S. Data* are as of March 31, 2017.

Each of these items plays a role in the Investment Committee's capital market outlook weightings. While we are not overly concerned with a downturn in the economy, we are also not overly excited, either. You will notice that most of our categories are neutral. We have increased our outlook on emerging markets to slightly overweight, international has also moved from slightly bearish to neutral, and U.S. Government bonds have moved from neutral to slightly bearish.

### Muted Returns Expected

Another common takeaway from our research this quarter was the expectations of returns in the next 5 to 10 years. Many of the managers believed that due to the current valuations on equities that the chances of delivering annualized returns on the equity positions of much over 5% would prove difficult.

As you can see below, the valuations on equities have continued to increase, causing concern for some managers that the chances of equities continuing to deliver high single-digit or low double-digit returns in the coming years will be difficult.



Source: FactSet, FRB, IBES, Robert Shiller, Standard & Poor's, J.P. Morgan Asset Management.

Price to earnings is price divided by consensus analyst estimates of earnings per share for the next 12 months as provided by IBES since December 1989, and FactSet for March 31, 2017. Average P/E and standard deviations are calculated using 25 years of FactSet history. Shiller's P/E uses trailing 10-years of inflation-adjusted earnings as reported by companies. Dividend yield is calculated as the next 12-month consensus dividend divided by most recent price. Price to book ratio is the price divided by book value per share. Price to cash flow is price divided by NTM cash flow. EY minus Baa yield is the forward earnings yield (consensus analyst estimates of EPS over the next 12 months divided by price) minus the Moody's Baa seasoned corporate bond yield. Std. dev. over-/under-valued is calculated using the average and standard deviation over 25 years for each measure. \*P/CF is a 20-year average due to cash flow data availability. Guide to the Markets – U.S. Data are as of March 31, 2017.

**J.P.Morgan**  
 Asset Management

When you add in the returns on fixed income, you can see why the managers are expecting muted returns. The Barclays Aggregate Bond Index average returns have changed drastically over the last four decades. As interest rates have fallen, so has the performance of bonds.

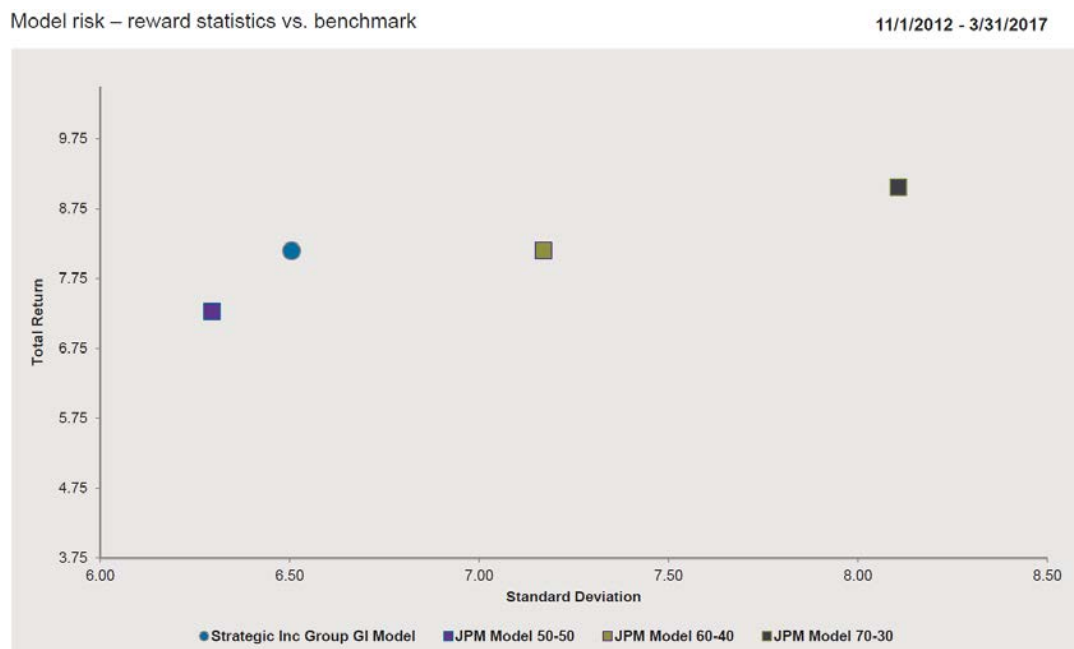
- 1980s: 12.43%
- 1990s: 7.70%
- 2000s: 6.33%
- 2010 through 2016: 3.62%

### Strategic Income Group vs. JPMorgan

One of the biggest advantages of our quarterly investment manager meetings is to have investment powerhouses like JPMorgan run in-depth analysis on our portfolios. This quarter, JPMorgan ran their new proprietary Hibiscus™ on our growth and income portfolio and compared it to their 60/40 (equity/fixed income) portfolio.

The results were great to see, and again, confirmed that the process we are taking and the decisions our investment committee are making are the right ones.

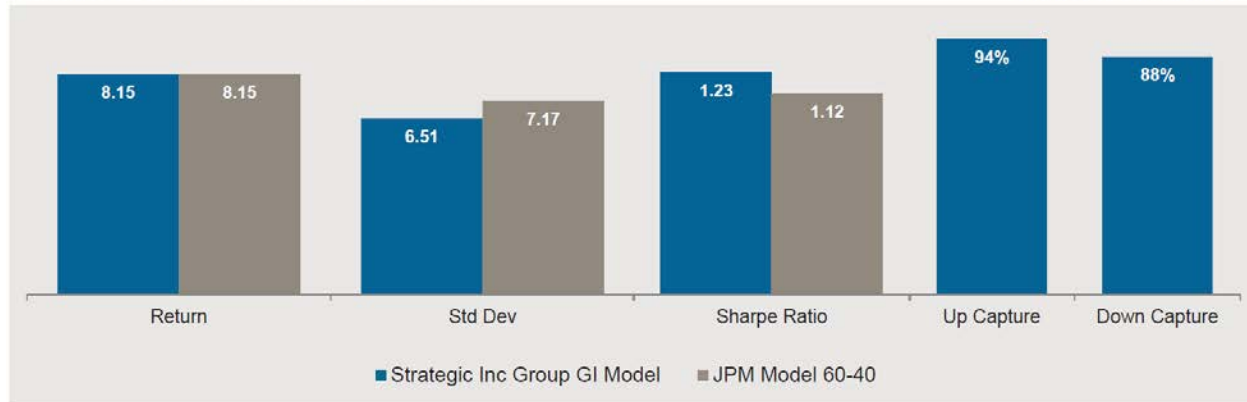
Below you will see a very simple risk/reward chart. As you will notice, our portfolio (blue dot) is generating the same level of return as the JPM Model 60-40, however taking much less risk.



When you compare our portfolios side to side, we have been able to generate the same level of return while again taking on less risk.

## Model risk – reward statistics vs. benchmark

11/1/2012 - 3/31/2017



## Trailing Performance

	YTD	1 Yr	2 Yr	3 Yr	5 Yr	10 Yr	Since Inception	Inception Date
Strategic Inc Group GI Mo	4.05	13.22	5.56	5.50			8.15	10/18/2012
JPM Model 60-40	4.62	11.66	4.64	5.42	7.66	5.67	6.91	06/17/2005

## Calendar Year Performance

	2016	2015	2014	2013	2012	2011	2010	2009	2008
Strategic Inc Group GI Mo	10.15	-0.64	5.24	15.27					
JPM Model 60-40	8.61	-1.05	6.34	15.27	13.89	-0.07	13.98	29.09	-28.67

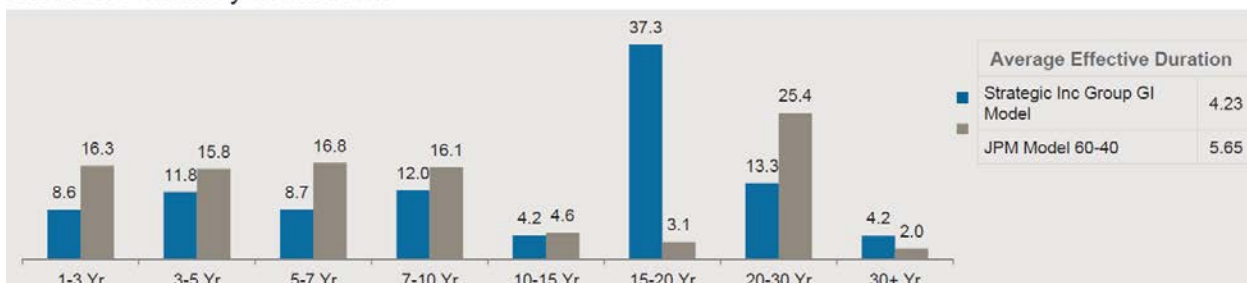
## Credit Quality Exposure (Advisor Model vs. Benchmark)



## Portfolio Yield



## Duration &amp; Maturity Breakdown



## Final Thoughts

One of the core values of Strategic Income Group is: *Pursue excellence — constantly improve as an organization*. This includes what we are doing within investments for clients. The research is clear that the last few years and the next several years will be challenging times for investors. We are not happy with the status quo.

In 2016, our firm invested in additional technology in order to help manage the risk in client accounts. In 2017, we are continuing to look for investments outside the normal in order to add value to our clients' investments. A big part of this has been our ability to reduce the risk in portfolios. The advantage of this work has yet to be seen. Since 2012, there have only been two sell-offs greater than 10%. These happened in 2015 and 2016.

With elevated valuations the chances of a 10% correction increases. It is during these times that we believe our clients will see the advantages of the work we have been putting in for them.

At Strategic Income Group, we believe in comprehensive financial planning. Yes, investments are important, but they are just one component of that plan. If you do not currently have a review meeting scheduled with your advisor, please call our office at **(480) 466-7070** to set one up.

## 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](http://CFSSunCity.com) to learn more today!

## Interesting Facts and Quotes

- The one-page outline released by the White House on 4/26/17 on tax reform included a doubling of the standard deduction on a joint return from its current level of **\$12,700 to \$24,000**. **70% of tax returns** currently use the standard deduction as opposed to itemizing their deductions. (IRS)
- “The only certainty is uncertainty” — Pliny the Elder
- 65% of active bond managers outperformed their benchmarks, only about 37% of active equity outperformed benchmarks over the last five years. (PIMCO)
- “Compound interest is the 8th wonder of the world” — Albert Einstein
- In each of the past 67 years, the S&P 500 posted an average of 51 days in which it rose or fell by 1% or more in a single day. The maximum was 134 days in 2008 and the minimum was only three days in 1964. (CFRA, US Equity Research 2017)
- Politics: The average age of the top three Republicans in the House (Ryan, McCarthy, and Scalise) is 50. The average age of the top three Democrats in the House (Pelosi, Hoyer and Clyburn) is 77. (House)
- “Sell in May and go away?” Think again (see chart).

CHART OF THE WEEK

**Staying invested benefits investors in the long run**  
 60/40 stock to bond portfolio return, growth of \$100,000



## 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/](http://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/](http://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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