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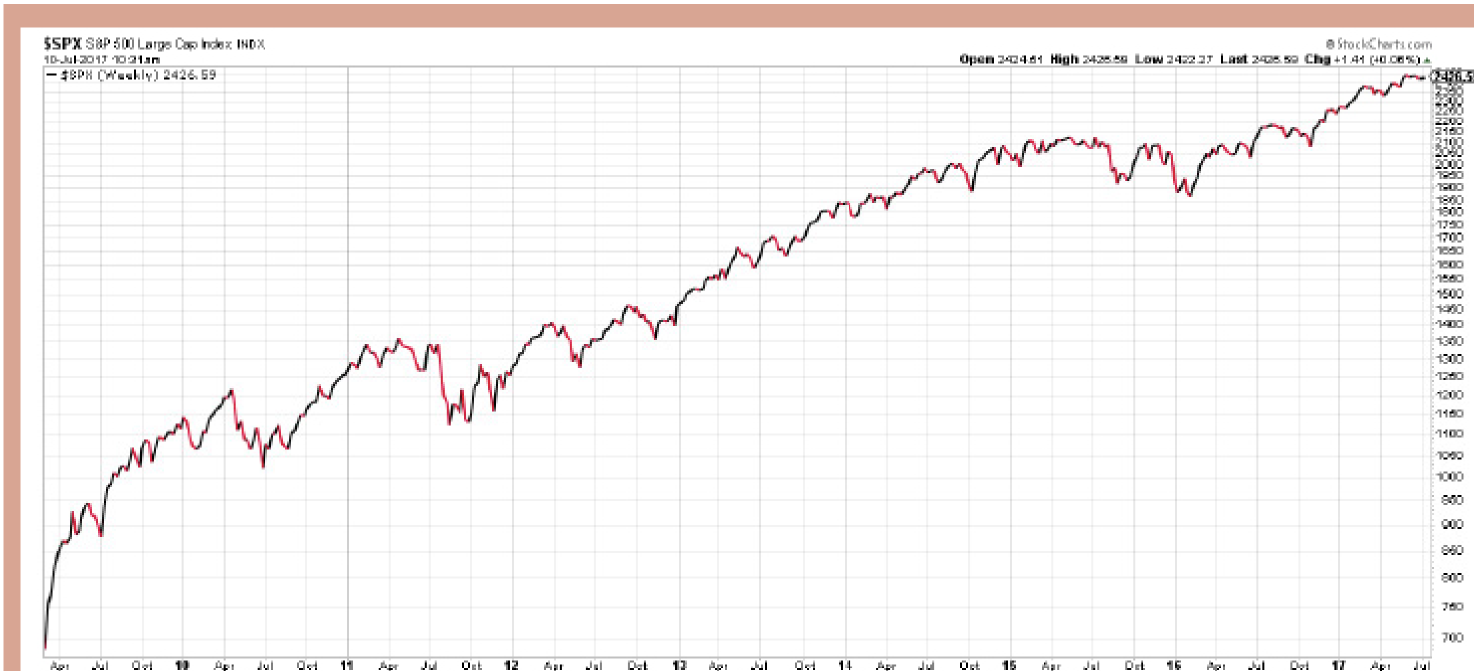
2nd Quarter 2017 in Review

By Darren Nyce, CFA
Senior Research Analyst, Castle Investment Advisors, LLC

One of the stops on the recently completed Nyce family vacation was the majestic Grand Canyon. The enormity, the colors, the depth, and the spectacular vistas made this a literally awesome experience. Hiking at the Grand Canyon is different than most other places in that since you start at the rim of the canyon, the first leg is all downhill, lulling you into the sense that you can cover more ground than is sensible. Once you decide to turn around, you begin the long, slow trip back up to the top; switchback after switchback, with the heat of the day forcing you to wonder when this path will stop rising.

Since 2009 the stock market has been on a long, steadily rising trend that investors have been enjoying, but have now begun wondering when its path will stop rising.



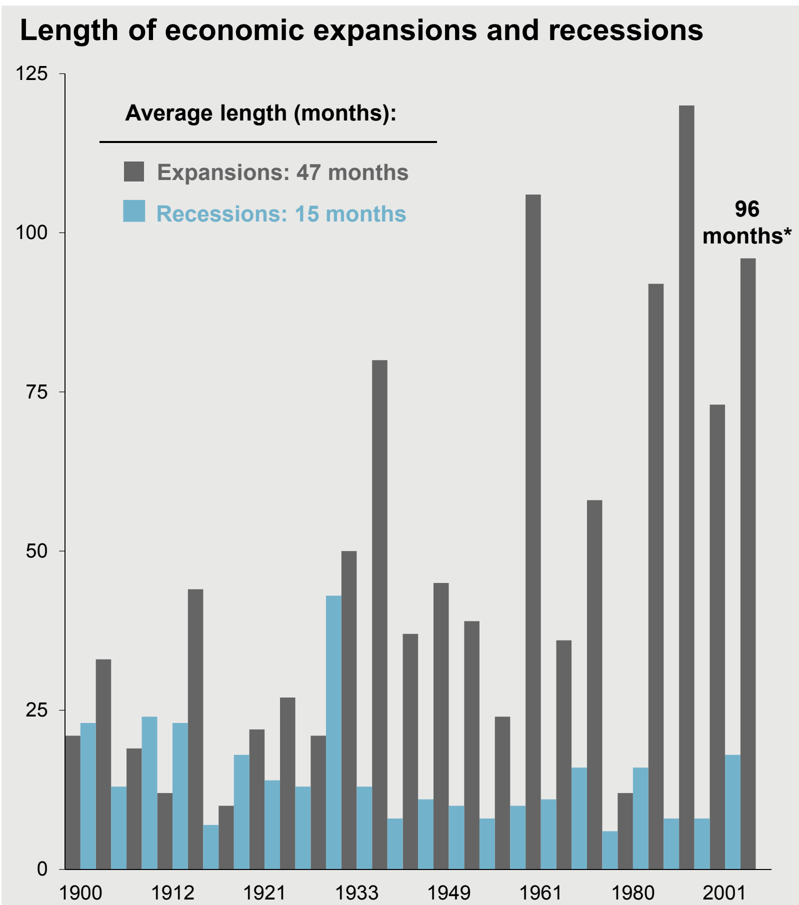
The rise has not only been long, but also remarkably smooth as volatility levels have fallen to multi-decade lows.

Higher stock prices have come in spite of the fading hopes for stimulating growth policies as Congress and the White House appear to be sidetracked. The much hoped for income tax legislation remains absent, but solid earnings growth helped the S&P 500 post its seventh consecutive quarterly gain.

Corporations are experiencing an earnings growth spurt with profits in the first quarter increasing by almost 15% compared to Q1 2016. If the second quarter estimates are close to accurate, they will break the Q3 2014 record for the most ever, with Q3 and Q4 also expected to post new highs. Though valuations are higher than average, with a P/E of 17.5, the earnings growth has so far been able to support them.

Additionally, dividends paid by S&P 500 companies set a record this spring paying out a total of $104 billion. There is some expectation that this record will fall again in the third quarter.

Our current economic expansion (consecutive months of economic growth) has reached a length of 96 months (8 years). The longest period on record without a recession is 10 years. While it is tempting to think of economic and market cycles as if they have the regularity of planetary orbits, the reality is more complex and much less predictable.



Source: JP Morgan Asset Management, 6.30.2017

The current batch of economic data continues to look positive and keeps open the possibility, if not the likelihood, of the existing growth period setting the record, though a period of market tranquility can't last forever.

(All this talk of breaking records reminds me of another part of our vacation – we were in Las Vegas the day they set a heat record of 117. I hope those of you desert dwellers have stayed cool – now back to the newsletter.)

The unemployment rate reached 4.3%, its lowest level in 17 years.

Inflation remains under 2% and has now been under 3% for 25 years.

The Federal Reserve raised interest rates for a second time this year and most analysts expect a third to come later this fall.

Economies around the world are joining the U.S. in experiencing economic growth; creating additional investing opportunities. One example of this growth is the measure of manufacturing activity called the PMI index. Of the world economies, 97% are now showing increases. In fact, June was the first time since 2011 that U.S. growth was below the global average in this area.

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317.849.9559 ✠ www.castle3.com

The following chart shows the returns for various indexes during the second quarter of 2017:

Index	1st Qtr 2017 Return	1 Year Return	3 Year Annualized Return	5 Year Annualized Return
S&P 500	3.1%	17.9%	9.6%	14.6%
Nasdaq Composite	4.2%	28.3%	13%	17.4%
Russell 2000 – Smaller Companies	2.5%	24.6%	7.4%	13.7%
MSCI EAFE – International	6.1%	20.3%	1.2%	8.7%
Barclays US Aggregate Bond	1.5%	-0.3%	2.5%	2.2%

Nine of the eleven sectors in the S&P 500 were positive for the first half of the year (energy and telecommunication services were the exceptions), with technology (i.e. Apple, Google, Microsoft, & Facebook) and healthcare leading the way.

So when will the trail stop rising? When will the next correction hit? When will we experience the next recession?

Hopefully you've got a good map to help with the first question, but the other two are beyond our reach. Since we don't have good answers to those questions, what should our course of action be? The financial historian Peter Bernstein sums it up best, "Diversification is the only rational deployment of our ignorance."

So keeping our long-term goals in mind, we take one step at a time knowing that the journey will inevitably present obstacles. Combining diligence, prudence, and perseverance will allow us to successfully navigate the trail.

We hope you had an enjoyable Independence Day. While hiking the aforementioned trail at the Grand Canyon, I encountered a gentleman walking with his wife, taking lots of photos. While making small talk as we stopped to catch our breath, he mentioned that he was from Germany, but was born in the Ukraine. He said, "This is my dream come true; as a boy growing up in the Soviet Union, I could never have imagined that I would get to see the Grand Canyon!"

Raise a glass to freedom. Have a great summer.

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