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MARKET COMMENTARY

Stocks continued to defy pessimists and reached new highs in the third quarter. Large cap US stocks in the S&P 500 are up 4.5% for the quarter and 14.2% year-to-date. Small cap stocks were up more with a return of 5.7% to bring their year-to-date gain to 10.9%. International stocks in the MSCI EAFE were also up 5.4% for the quarter and 20.0% for the year. Emerging market stocks continued to surge with a 7.0% return for the quarter bringing their year-to-date total gain to 25.5%. Meanwhile, longer-term yields remained at 2.3% resulting in a 0.9% return for the quarter for the Barclays US Aggregate Bond Index. It's year-to-date return was 3.1%.

Growth oriented stocks are still outperforming value oriented stocks. However, the industries within each have had very diverse performance. For value stocks, the energy and financial sectors outperformed this quarter as the price of oil has recovered back near \$52 per barrel and banks have had better earnings. Industrials and materials have also been strong in this growing economy. But, utilities and telecom have been a drag this quarter for value stocks and the once popular dividend paying consumer staples sector has actually had negative returns for the quarter. For growth stocks, technology continues as a leading industry. Biotech has been very strong but healthcare has just been okay. The consumer discretionary sector has been slightly negative.

Corporate profits continued to strengthen in the second quarter. The S&P 500 had 12 month year over year earnings growth of 11.1%. Revenue growth was a healthy 5.5%. Looking forward, third quarter earnings are expected to grow about 3% while revenues are expecting 5.1% growth according to Zacks Investment Research.

The final estimate for second quarter GDP growth was 3.1%, the fastest growth in more than two years. However, analysts expect slower growth in the third quarter due to the hurricanes. The hurricanes could trim GDP growth by 0.6% in the third quarter as retail sales, industrial production, homebuilding and home sales were negatively affected. However, wholesale inventories were up 0.6% in July and 1% in August which could help offset the hurricanes' impact. The current estimate for

third quarter GDP growth is about 2.5%. Looking forward, rebuilding efforts are expected to boost GDP growth in the fourth quarter and into 2018.

Congress and the President have now turned their attention from healthcare to tax reform. President Trump and Republican leaders have come to agreement on much of the framework which they revealed in late September. Many of the features were anticipated as they have been talked about extensively in the media over the past year. Congress will now need to write the legislation and bring it to a vote. Because budget deadlines have been extended, it looks like tax reform will not be accomplished until late first quarter or early second quarter in 2018, but it is expected to be retroactive to the beginning of the year.

After moving in a wide range, Treasury yields ended the quarter about where they began at 2.3%. Initially the yield on the 10-year treasury climbed to almost 2.4% before plummeting to a 2017 low of 2.06% only to recover in less than a month. (The bond market seemed to recognize the threat of the hurricanes and geopolitical tension even as the stock market shrugged off these threats.)

The Federal Reserve paused in its rate raising activity and left rates unchanged in September. The committee did confirm, though, that they plan to reverse quantitative easing efforts by reducing the size of the Fed's balance sheet. As bonds mature, they won't reinvest all of the proceeds and instead will let the assets roll off the balance sheet. The amount they don't reinvest will start at \$10 billion per quarter and increase every quarter by \$10 billion until the amount reaches \$50 billion. The Fed is expected to raise rates once more in 2017 and three times in 2018.

Geopolitical tensions have escalated with North Korea and could pose a risk even though stock markets have not yet reacted. Barring an event, earnings growth, economic expansion, and the promise of tax reform continue to fuel momentum in stocks. Pullbacks in stock valuations may create attractive buying opportunities for those who desire a higher allocation to equities while the current strength has provided an opportune time to trim back positions that may have grown to an unwanted overweighting. As short-term yields rise, we could see a flattening of the yield curve before long-term yields would rise. Diversification continues to be prudent and a good way to reduce risk.

2017 BENCHMARK RATES of RETURN

<u>INDEX</u>	<u>THIRD QUARTER</u>	<u>YTD</u>
S&P 500	4.5%	14.2%
DJIA	5.6%	15.4%
NASDAQ	5.8%	20.7%
Russell 2000	5.7%	10.9%
International	5.4%	20.0%
Fixed Income	0.9%	3.1%

We value our relationship with you, and we are always available to meet with you in person or by phone. Please do not hesitate to call or email us with any questions that you may have.

ATTENTIVE ♦ TRUSTED ♦ ACCESSIBLE

FINANCIAL PLANNING*Protecting Your Private Information*

The Equifax incident is the latest wide scale event showing how vulnerable private information can be as hackers become more and more sophisticated and emboldened. An estimated 143 million people in the US could be affected by the Equifax data breach. Equifax is one of three national credit-reporting companies which collects data from credit card companies, banks and retailers so has delicate information including names, social security numbers, birth dates, credit card numbers, and more.

If you have not already checked to see if you were affected (Equifax will not be contacting everyone affected), you should go to www.equifaxsecurity2017.com and click on the Check Potential Impact tab and follow the instructions. In a minute, they will be able to tell you whether or not you may be impacted. Equifax is offering free credit file monitoring and identity theft protection for one year through TrustedID Premier even if you haven't been affected. However, if you sign up, know that you may be limiting your ability to be part of a class action lawsuit. Other companies like LifeLock also provide these services for a monthly fee.

You can also monitor your credit report yourself to look for unusual activity like a new account, a change in personal information, or inquiries from lenders you are not using. Through AnnualCreditReport.com you have the right to receive a free credit report from all three credit reporting companies once per year.

For further protection, you could sign up at TransUnion and place a Fraud Alert on your credit report. This alerts potential creditors or lenders that you may be a victim of identity theft and to take extra precautions when new credit is applied for using your information. TransUnion will notify the other two credit reporting companies so they can place an alert also. The alert is good for at least 90 days at which time you place another fraud alert if you felt you were still at risk.

You could even place a credit freeze on your credit report. The freeze prevents lenders and others from accessing your report for credit applications. You would be given a PIN to use to lift the freeze when needed. The freeze can be more of a hassle if you will be applying for a new credit card, loan, or even a new cell phone plan because you will have to plan ahead to unfreeze your account. There may also be fees to place or lift the freeze each time.

Don't forget to also check for fraud or identity theft for your children. Child identity theft can go undetected for a long time because children are issued a social security number after birth which can be all that's required to open a credit account. This account could go undetected until the child is older and starts to apply for credit themselves. Nebraska does not but other states allow a parent of a minor child to place a protected consumer freeze on the child's credit file.

As always, you should review your bank and financial accounts for unusual activity. Some banks may also have additional alert features you can activate.

Over the years, Schwab and Cambridge Advisors have also taken additional measures to help protect your accounts under management. You'll notice that the reports you receive in the mail from

us now only show the last four digits of your account numbers. In addition, we are in the final stages of developing our client portal where we will be able to exchange information with clients in a secure manner online rather than through regular mail for clients who are concerned about the mail system. Schwab already has the ability to provide electronic rather than paper statements for clients with these concerns or for those who just want less paper. If you would like this set up on your accounts, you can do so by logging in through www.schwaballiance.com and clicking Paperless Services and following the instructions. Schwab also has increased their scrutiny on wire transfers, especially to third parties. Now, the client must talk directly with Cambridge Advisors to confirm the request as emails and online requests are not sufficient.

We recognize that cybercrime is a real and ever present threat and will continue to evaluate our processes and systems to help protect your information. In addition, we will continue to work with companies who share this commitment and have high standards and robust cybersecurity controls.

CAMBRIDGE ADVISORS NEWS

At Cambridge Advisors, we plan to continue providing our clients a high quality, personalized service for many years to come. Our past success has hinged on our commitment to our clients and the client experience and this will continue to be a pillar of our culture going forward.

In recent years, we have upgraded our portfolio management and reporting software, added new financial planning software that integrates with the portfolio management software, and partnered with a new company that provides extensive research. This summer Cambridge Advisors went through a technology refresh where we replaced our computers and server. We are now running on the Windows 10 operating system with the Intel Core i5 processor and 16 GB RAM. As part of our commitment to keep client information private, the upgrade included several new security measures for added protection. Last year we added the FortiGate 60D Network Security/Firewall Appliance which helps protect against hacking. This year we added encryption to our hard drive. Our Office 365 has Advanced Threat Protection as an extra layer of protection against viruses. Now all attachments to email are pre-opened before they are accessible to us to ensure no viruses are present or potentially passed on to others. Also, our IT provider has increased the frequency of updating Microsoft patches to weekly from monthly. The old computer hard drives were also destroyed before being recycled.

Each year, we are required to offer you the most recent version of our Form ADV Part II which describes our business and how we work for our clients. When you first became a client, you received a copy. Each year in March, we send you a report of anything that has changed on our Form ADV Part II. If you would like to receive a complete copy, please give us a call. A copy of our Proxy Voting Policy is also available upon request.



Serious about your future