1782 Orange Tree Lane • Redlands, CA 92374 • 909.307.8220 *office* • 909.307.8221 *fax* • 800.478.8934 *toll-free*

nurturing your wealth

KWB & Associates, Inc.

Wealth Managers Group

WEEKLY COMMENTARY

April 3, 2017

The Markets

Happy birthday!

Toward the end of the first quarter, the bull market celebrated its eighth birthday. David Kelly, Chief Global Strategist at *J.P. Morgan Asset Management* wrote:

> "Eight years ago, on March 9, 2009, the S&P 500 closed at 677, down 57 percent from where it had been just 18 months earlier. 10-year Treasury yields had fallen from 3.6 percent to 2.9 percent over the previous year… Investors were depressed and scared. However, good long-term returns from stocks were almost inevitable at that point since economic and market fundamentals were at unsustainably low levels…Eight years later, the financial landscape has changed completely…it still makes sense to be in long-term investments including both domestic stocks and bonds. However, it is time to adopt a more diversified and thoughtful approach that recognizes the importance of valuations…"

Valuations were heady during first quarter

Stock valuations reflect how much a share of a company's stock, or shares of companies in an index, may be worth. Valuations can help investors understand whether shares are expensive, reasonable, or inexpensive. One way to measure valuation is to look at trailing 12-month price-to-earnings (P/E). This gauge reflects how much an investor must pay to receive one dollar of the company's earnings.

For instance, on March 31, *FactSet* reported the trailing 12-month P/E of the Standard & Poor's 500 Index was 21.8. That's well above the 10-year average of 16.6 and the five-year average of 17.1. This suggests shares of the overall index are expensive. Keep in mind, even when the index appears to be expensive, the valuations of specific companies or sectors within the index may still be attractive.

Animal spirits abounded

The CEO of *JPMorgan* attributed investors' enthusiasm for stocks during the first quarter to 'animal spirits,' reported *CNN Money*. Animal spirits is a term coined by John Maynard Keynes. It describes "…a spontaneous urge to action rather than inaction, and not as the outcome of a weighted average of quantitative benefits multiplied by quantitative probabilities." Investors were inspired by the new administration's growth agenda, including promises of lower taxes and less regulation.

The U.S. economy grew (but we're not sure how much)

People and businesses may have been more enthusiastic than data suggests they should be. *Financial Times* cited research from *Morgan Stanley* that shows a growing gap between 'hard' economic data (like slowing corporate spending and lower retail sales) and 'soft' economic data (like consumer and business optimism). The disparity has created uncertainty about the pace of economic growth during the first quarter of 2017. "The Atlanta Federal Reserve's model, which…focuses on hard data, projects an annualized rate of just 1 percent. However, the New York Fed's model, which 'incorporates soft data into its tracking,' forecasts 3 percent growth."

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The Federal Reserve acted

With employment and inflation data approaching Fed targets, the Federal Open Market Committee raised rates in March, pushing the Fed funds target rate into the 0.75 percent to 1 percent range, reported *Financial Times*. More rate hikes are expected during 2017.

Brexit was launched

The end of the first quarter of 2017 marked a new beginning for Britain. On March 29, Prime Minister Theresa May officially launched Britain's exit from the European Union. The United Kingdom now has two years to negotiate terms with the European Union (unless all members of the EU unanimously approve an extension).

When you consider how long trade agreement negotiations normally take, it appears the task ahead for Britain and the EU is akin to running a marathon in 30 minutes. For example, Canada and the EU began discussing a trade agreement in 2007. It has yet to be finalized.

United States and European national stock market indices finished the quarter higher.

Data as of 3/31/17	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 (Domestic Stocks)	0.8%	5.5%	14.7%	7.8%	10.7%	5.2%
Dow Jones Global ex-U.S.	-0.4	7.4	10.6	-1.2	2.1	-1.0
10-year Treasury Note (Yield Only)	2.4	NA	1.8	2.7	2.2	4.6
Gold (per ounce)	-0.2	7.4	0.6	-1.2	-5.8	6.6
Bloomberg Commodity Index	1.0	-2.5	8.3	-14.1	-9.9	-6.7
DJ Equity All REIT Total Return Index	1.0	2.5	5.2	10.6	10.2	4.9

S&P 500, Dow Jones Global ex-US, Gold, Bloomberg Commodity Index returns exclude reinvested dividends (gold does not pay a dividend) and the three-, five-, and 10-year returns are annualized; the DJ Equity All REIT Total Return Index does include reinvested dividends and the three-, five-, and 10-year returns are annualized; and the 10-year Treasury Note is simply the yield at the close of the day on each of the historical time periods. Sources: Yahoo! Finance, Barron's, djindexes.com, London Bullion Market Association. Past performance is no guarantee of future results. Indices are unmanaged and cannot be invested into directly. N/A means not applicable.

THE TOOTH FAIRY IS AWFULLY GENEROUS THESE DAYS. Since 1998, an insurance firm has conducted a poll to determine how much swag the tooth fairy or, depending on your country, the magical mouse, elf, brownie, or tooth rat has been leaving behind for children who've lost their teeth.

When the poll began, the going rate for a tooth was about $1.50. The most recent survey found that, in the United States, a tooth was pulling in about $4.66! The going rate in other nations was similar:

- C$6.11 in Canada ($4.59 U.S.)
- ¥525.82 in Japan ($4.72 U.S.)
- €4.38 in Ireland and Spain ($4.67 U.S.)
- £3.75 in England ($4.70 U.S.)
- R$14.47 in Brazil ($4.63 U.S.)
- ₡2613.42 in Costa Rica ($4.66 U.S.)

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NPR's Planet Money examined whether the value of lost teeth has kept pace with inflation. They posited a tooth was worth about $0.50 in the 1970s. If the value of a tooth had risen with inflation, it would be worth less than $3.00 today. So, the value of a lost tooth has increased faster than the rate of inflation – similar to college tuition!

Weekly Focus – Think About It

"But the real magic and the secret source behind collaborative consumption marketplaces…isn't the inventory or the money. It's using the power of technology to build trust between strangers…Because, at its core, it's about empowerment. It's about empowering people to make meaningful connections, connections that are enabling us to rediscover a humanness that we've lost somewhere along the way…" — *Rachel Botsman, Business consultant*

Sincerely for the firm,

Kerrick W. Bubb

President, KWB Wealth Managers Group

LPL Registered Principal

* Government bonds and Treasury Bills are guaranteed by the U.S. government as to the timely payment of principal and interest and, if held to maturity, offer a fixed rate of return and fixed principal value. However, the value of fund shares is not guaranteed and will fluctuate.
* Corporate bonds are considered higher risk than government bonds but normally offer a higher yield and are subject to market, interest rate and credit risk as well as additional risks based on the quality of issuer coupon rate, price, yield, maturity, and redemption features.
* The Standard & Poor's 500 (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general. You cannot invest directly in this index.
* The Standard & Poor's 500 (S&P 500) is an unmanaged index. Unmanaged index returns do not reflect fees, expenses, or sales charges. Index performance is not indicative of the performance of any investment.
* The Dow Jones Global ex-U.S. Index covers approximately 95% of the market capitalization of the 45 developed and emerging countries included in the Index.
* The 10-year Treasury Note represents debt owed by the United States Treasury to the public. Since the U.S. Government is seen as a risk-free borrower, investors use the 10-year Treasury Note as a benchmark for the long-term bond market.
* Gold represents the afternoon gold price as reported by the London Bullion Market Association. The gold price is set twice daily by the London Gold Fixing Company at 10:30 and 15:00 and is expressed in U.S. dollars per fine troy ounce.
* The Bloomberg Commodity Index is designed to be a highly liquid and diversified benchmark for the commodity futures market. The Index is composed of futures contracts on 19 physical commodities and was launched on July 14, 1998.
* The DJ Equity All REIT Total Return Index measures the total return performance of the equity subcategory of the Real Estate Investment Trust (REIT) industry as calculated by Dow Jones.
* Yahoo! Finance is the source for any reference to the performance of an index between two specific periods.
* Opinions expressed are subject to change without notice and are not intended as investment advice or to predict future performance.
* Economic forecasts set forth may not develop as predicted and there can be no guarantee that strategies promoted will be successful.
* Past performance does not guarantee future results. Investing involves risk, including loss of principal.
* You cannot invest directly in an index.
* Stock investing involves risk including loss of principal.
* Consult your financial professional before making any investment decision.