WINSLOW DRAKE

1st Quarter Indexes

S&P 500	6.1%
Dow Industrials	5.2%
NASDAQ	10.1%
Euro 600	6.3%
NIKKEI 225	-1.1%
10 Year Treasury	2.4%

Style Returns

Large Cap Value	3.7%
Large Cap Blend	5.6%
Large Cap Growth	8.6%
Mid Cap Value	3.5%
Mid Cap Blend	4.2%
Mid Cap Growth	7.3%
Small Cap Value	0.3%
Small Cap Blend	1.8%
Small Cap Growth	5.6%

Reversing 2016 patterns, growth - oriented stocks outperformed value-oriented stocks so far this year while larger companies outpaced their smaller counter-parts. This shift was a return to historic patterns for style-based funds.

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Questions? Call us at (213) 596-8399

The Bear Trap

Want to avoid the investment traps that many fall into?

The Bear Trap is where an investor is so concerned about market losses that they keep too much in cash. The problem here is that these investors seldom reenter the market when prices are low and only buy when the market is doing well. Smart long-term investors try and avoid bubbles but otherwise keep at least 90% of their long-term savings invested. Even when the market collapsed ten years ago leading into the greatest recession since the 1930s, stocks recovered almost completely within one year for those who did not sell.

Another investing misconception is to keep more of your money in bonds as you near retirement. The problem with this approach is that interest rates are going up. Higher rates means that money invested in bond funds will lose principal value. As such, consider putting more of your money in the stocks of companies with strong earnings, low debt and solid cashflows where valuations remain reasonable.

Lastly, remember to invest without emotion. When people let fear, exuberance or gut instincts determine their investment approaches, they are more likely to underperform the markets.

While you want to avoid stock valuation bubbles, disciplined diversification across many styles and sectors will lead to better returns over time.

1st Quarter Bond Returns

The Federal Reserve has increased rates twice over the last two quarters and given indications that two or three more rate hikes can be expected this year. So far, bond markets have taken these increases in stride causing the total return on bonds to decline at a measured rate.

Avoid long-term and high yield bonds while rates are increasing. Keep bond exposure short focusing on short-term and inflation protected holdings. Underweight holdings in medium-term, corporate and world bonds.

	2016	1Q17
Ultra Short Bond	1.3%	0.4%
Short-Term Bond	2.1%	1.7%
Medium Term Bond	3.2%	1.7%
Medium Term Govt	0.9%	-0.6%
Corporate Bonds	6.5%	1.4%
World Bond	3.5%	2.3%
High Yield Bonds	13.3%	2.3%
Long-Term Bond	4.9%	1.9%
Preferred Stock	4.6%	3.8%
Inflation Protected	4.4%	1.2%

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1st Quarter Sector Returns

	2016	1Q17
Technology	12.0%	12.4%
Healthcare	-4.4%	10.8%
Utilities	12.2%	6.4%
Consumer Discretionary	4.3%	6.4%
Consumer Staples	2.6%	5.7%
Industrials	16.1%	4.3%
Financials	20.7%	2.0%
Basic Materials	14.1%	1.2%
Energy	23.7%	-5.9%

Technology posted impressive returns in the 1st quarter due in large part to Apple's 24% gain in the 1st quarter, the continued march of businesses toward cloud-based solutions and consumers toward online retailers.

Healthcare reversed the 2016 slide as markets began to realize that reform, if any, is unlikely to impact profits for most in the industry.

Utilities were surprising strong and are likely overvalued at present given that higher interest rates typically reduce industry profits.

Look for energy, basic materials and financials to post lethargic returns in 2017. Energy prices seem capped as frackers increase productions whenever prices increase. Basic material prices are soft as Chinese demand is down significantly. Meanwhile, financial stock prices rose at an unrealistic pace in the 4th quarter. Interest rates will need to increase at least 0.50% across the yield curve for financial stocks to benefit.

Looking forward

Given the challenges that the GOP is having at implementing their agenda, expect greater volatility in the 2nd quarter with large cap value and blend stocks outpacing other segments. Use market declines as a chance to invest in previously overvalued stocks.

While a market correction could happen tomorrow, global economic growth appears to be underway. As such, stock prices for well run companies can be expected to move higher over the next few years.