THE UNITED COMPANIES

Planning for the Possibilities®

Dear Clients and Friends,

January 2017

Equity markets ended the year at all-time highs driven by a strong post-election rally, particularly in stocks that are expected to benefit from the incoming administration's policies. But equity performance in 2016 did not follow a trend or pattern. To this end, the S&P 500 was up 2.0% from year-end 2015 to the week of the U.S. election in November. From that point on, the Index returned 7.4%, comprising the bulk of the overall return (+9.5%) for the year. Looking back, the month of January was among the worst on record for the S&P 500 Index as investors worried about a slowing global economy and looked forward nervously to significant events such as the BREXIT vote in Europe and the U.S. elections. Through February 11, the S&P 500 was down more than 10%, followed by a sharp recovery in March. For the year, there were 5 "down" months for the S&P and 7 "up" months. While domestic equities generated solid returns overall for 2016, other asset classes didn't participate. For example, the muni bond index was down 3.1% for 2016 and the EAFE index declined by 1.9%.

Diving deeper into 2016, there were significant rotations among asset classes throughout the year, as well as within various segments/sectors of the equity markets. One example is the strong performance of yield-oriented equities during the first half of 2016, followed by a rotation into growth stocks that fueled the rally to close the year. Utilities are a great example – the sector (as measured by the utility sector ETF) was up sharply through the first half of the year but then dropped by 8% in the second half, including a 2% drop during the post-election rally. This pattern is similar for other yield-oriented assets, such as REITs, telecomm services and municipal bonds.

With the market rotation outlined above prevalent during 2016, our sector rotation strategies were less effective than the low-cost indexing strategies we employ, as well as the tax-efficient buy-and-hold robo strategies we manage. With our focus on risk management and the negative signals we were observing in the global economy early in the year, we were conservatively positioned through the downturn. As the election unfolded, our indicators gave us an all-clear signal, and our growth-oriented equity strategies participated in the post-election rally.

After years of fiscal gridlock and cautious Fed policy, we do think that government policy will have an outsized impact on the stock market this year. This is likely to include impacts from changing regulatory, fiscal and monetary policy. While we do agree that the new administration's policies are likely to fuel higher growth in the U.S. going forward, we don't throw caution to the wind and are watching developments closely. We do see current equity valuations as lofty and are monitoring corporate earnings to ensure they are supportive of the higher-growth thesis. While bond yields have also changed to reflect a higher growth outlook, various items will impact the future direction of interest rates. These include the implementation of fiscal reforms, likely rate hikes from the Federal Reserve and quantitative easing by the ECB. We believe the Federal Reserve will look to get ahead of potential inflationary pressures by raising rates over the next several months. Our actively managed bond portfolios are positioned to outperform in the event the Federal Reserve follows through. We stand ready to take advantage of new opportunities that present themselves throughout the year.

Having both internal equity and fixed-income research teams allows us to stay close to key trends and make tactical decisions as economies and markets evolve. We believe that being able to dive deeper into policy developments will be a key part of determining asset and sector exposures in 2017. We are pleased to have been asked to share our investment views by both Forbes and Investor's Business Daily in recent weeks.

Given the challenge of predicting the outlook for various markets in the global economy, we recommend constructing a sound financial plan that allows you to meet your financial objectives while managing risk in weaker markets. We welcome your call to ensure you have a plan in place that accomplishes your life's goals.

Respectfully submitted by the Professional Staff at United Asset Strategies, Inc.

UNITED ASSET STRATEGIES | UNITED FINANCIAL GROUP | UNITED RETIREMENT CONSULTANTS | UNITED WEALTH PLANNING
unitedasset.com unitedfinancialgroup.com unitedpensions.com unitedwealthplanning.com
666 Old Country Road Suite 104 Garden City NY 11530 TEL: 516.222.0021 FAX: 516.222.0163