3rd Quarter Recap

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FINANCIAL ADVISORS NETWORK, Inc.

3rd Quarter 2017 Recap

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While political stories continued to dominate the headlines, investors again enjoyed another positive quarter. The third quarter extended the upward movement of U.S. equity markets from the first half of 2017, allowing equity investors to continue to enjoy reasonable returns for 2017.

As reported by Bloomberg Markets, equities just capped an eighth straight quarter of gains, the longest winning streak since the start of 2015. The S&P 500 climbed 4% as corporate earnings posted the first back-to-back, double-digit, advance in six years. Despite mounting tension with North Korea, a deadly U.S. hurricane season and escalating political turmoil, the third quarter of 2017 marked the eighth straight quarter in which both the DJIA and S&P 500 have risen. *www.BloombergMarkets.com (9/27/17)*

Morningstar reported that during the third quarter, stocks continued to climb with the help of the Fed's announcement that it would begin to normalize its balance sheet. They felt that investors focused on the prospects of lower corporate tax rates while absorbing the news of escalating tensions with North Korea and a series of devastating storms.

In the third quarter of 2017 the Dow Jones Industrial Average (DJIA) passed 22,000 for the first time. The DJIA closed the third quarter at 22,405.09 up 4.9%. The DJIA has come a long way from its 2016 closing high of 19,974.62, set on December 20, 2016. *www.Thebalance.com (9/22/17)*

MONEY RATES
(as posted in Barron's 10/2/2017)

	LATEST WEEK	YR AGO
Fed Funds Rate (Avg. weekly auction -c)	1.16	0.40
Bank Money Markey -z	0.12	0.11
12-month Cert -z	0.40	0.31

c- Annualized yields, adjusted for constant maturity, reported by the Fed Reserve on a weekly average basis. z- Bankrate.com (Source: Barron's; bankrate.com)

Market Records Continue

New highs for equity indexes seem like old news. This "old" bull market is now the second longest one in history. Having said that, investors always need to proceed with caution. History doesn't always repeat itself, but it's often helpful for investors. In the final quarter of a year in which the market made highs in September (statistically the market's worst-performing month) stocks have typically finished stronger.

Since 1928, there have been 29 Septembers in which the S&P 500 made a 12-month high. Following those 29 instances, the market rose over 80% of the time in the fourth quarter, averaging a 3.7% increase, says Doug Ramsey, Chief Investment Officer of the Leuthold Group. Additionally, 15 of those 29 September price highs were also accompanied by 12-month advance/decline line highs—as is the case now. Stocks increased an average of 5.9% in the fourth quarter in those 15 instances. Ramsey says, "We expect higher highs in the fourth quarter." *www.Barrons.com (9/30/17)*

History shows that the S&P 500 has risen seven times since 2009 in the final three months. Many analysts feel that a bear market or significant correction in the fourth quarter is not likely. U.S. economic growth has been accelerating and continues to come in better than expected, a bracing factor for stocks, says Keith McCullough, CEO of Hedgeye Risk Management, an independent research firm. This quarter should prove to be another strong profits season, he adds. Corporate earnings reporting starts in mid-October, and the consensus is calling for a 6% rise in S&P 500 earnings per share. *www.Barrons.com (9/30/17)*

Not everyone is as bullish. Ten of 18 Wall Street strategists surveyed by Bloomberg see the S&P 500 ending the year at 2,500 or below. David Kostin at Goldman Sachs Group Inc. reiterated his call for 2,400, saying the start of the Fed's balance sheet reduction will result in higher bond yields, weighing on equities.

There is also concern regarding high stock market valuations. Currently, the S&P 500 trades at about 19 times consensus estimates of $131.38 this year, according to Thomson Reuters. That's above the market's long-term average of about 15. On a historic basis, this multiple is not cheap. According to Barron's, high valuations alone don't cause bear markets. They suggest investors also need to also see a factor change. To convince investors tomorrow that a 19 market multiple is too expensive when it isn't today, there needs to be a material and decisive shift to the negative. They write that a fourth-quarter rally isn't assured. Absent of a big change in economic and monetary conditions, they feel the bear case isn't strong. They share that the bull market will at some time die, but probably not in the fourth quarter. The holiday season could be a good one for equity investors.

Interest Rates

For the rest of 2017 and beyond, interest rates should remain high on an investor's lookout list. Fed Chair Janet Yellen asserts that reducing the central bank's balance sheet from its crisis levels should be as uneventful as watching paint dry. She also says that the Fed's main policy tool will continue to be the federal-funds rate. The Federal Open Market Committee currently has targeted for another quarter-point hike in December, from the current 1% to 1.25% target range. This may or may not happen because its counterparts abroad continue to expand their assets.

The Federal Open Market Committee has also penciled in three more hikes for 2018, based on its current so-called dot plots. Less certain for investors now is who will be making those calls next year. Fed Chair Yellen's term ends February of 2018. In addition, until the Senate confirms Randal Quarles' nomination, there will be four other vacancies on the seven-member Board of Governors after Vice Chairman Stanley Fischer retires in October 2017. According to Marketwatch, "the most important fact to emerge from the most recent Federal Open Market Committee meeting is that the panel further lowered its estimate of the long-term neutral federal-funds rate by a quarter-point, to 2.75%." They also wrote, "the diminishing effect from foreign central banks on the Fed's balance-sheet reduction points to bond yields remaining lower for longer, which is consistent with a low-growth U.S. economy."

Minneapolis Fed President Neel Kashari (a non-voting member of the Fed's policy-setting committee) on Monday October 2nd urged Federal Reserve policy makers not to raise interest rate again until inflation hits central bank's 2% annual target. While speaking at a

Key Points

1. Quarter 3 continued for equities adding to a strong 2017.
2. Equity markets continue to break records.
3. The Federal Reserve might raise rates again in December and penciled in three rate hikes for 2018.
4. Concerns continue over how global issues will affect markets.
5. Budget battles and potential Tax Reform could influence markets.
6. Investors need to be cautious and watchful.
7. Focus on your personal goals and call us with any concerns.

moderated Q&A at the Fed's El Paso, Texas, branch, Dallas Fed President Rob Kaplan (a voting member) said the Fed should be "patient" with monetary policy and that the central bank should wait to see a rise in inflation to justify a rate hike. *(www.marketwatch.com 10/2/17)*

For the final quarter of 2017 and continuing in 2018, interest rates need to be monitored carefully.

Global Watch and Concerns

Geopolitical unrest still remains. Political gridlock and further interest rate movement can also be impactful on the U.S. and world investment markets. As always, if you are planning on making any investment changes, it is helpful to discuss these changes and your personal situation with us.

U.S. equities still remain historically highly priced, and that opens the possibility that they are susceptible to a swing in the other direction. U.S. Treasuries remain at low rates and there are many additional factors that can directly create an uncertain and cautious perspective with investors including:

- Policy gridlock and the potential roadblocks that President Trump's administration will face when attempting to pass a stimulus plan.
- Geopolitical unrest, especially with South Korea; and,
- Potential terrorist attacks.

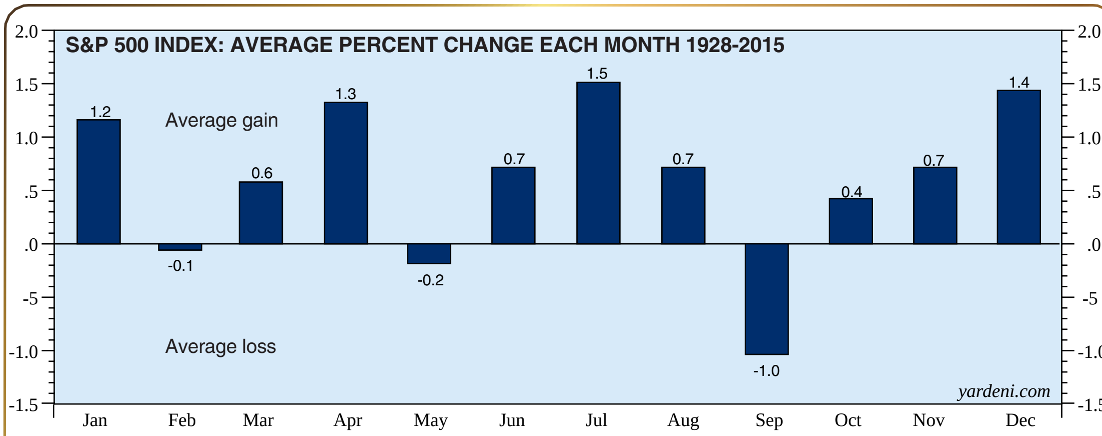
Market Outlook

According to Fidelity Investments, current conditions have been a good backdrop overall for most assets. They feel that moving forward, investors are watching for progress toward tax reform and tax cuts. In fact, they are advising that the potential exists for an upside surprise in sentiment if tax progress occurs.

Dirk Hofschire, Senior Vice President of Asset Allocation Research with Fidelity Investments, thinks that there's not a ton of optimism now and low expectations about whether or not Washington D.C. is really going to be able to pass major tax reform. This means there's some potential for an upside surprise in sentiment if you do see some progress from Capitol Hill. Hofschire's guess on the tax outlook is he thinks, "there's a really strong political imperative; it's a priority for both the White House and congressional Republicans to get something done on taxes. I do think it'll be messy in the near term but I think that there will be hopes over the next few months and very possible that we will get some tax relief at some point. This is likely to extend into 2018 before we know for sure may not be a real game changer for the economy overall of where we are in the business cycle, but if you did see something happen, especially something like lower corporate taxes it would be a positive, more positive outlook for earnings and something positive for investors from a sentiment perspective to hang their hats on."

Now that the third quarter is over, it's time to look ahead. Typically, the fourth quarter sees quite a bit of investor activity. The United States is preparing for budget battles from both political and corporate arenas. There is also the fourth quarter announcements of: hiring and firing for the next fiscal year, money manager positioning for year-end, and the all-important holiday shopping season.

The seasonal movements of equities are also a factor to consider. Since 1928, September has historically been the worst month of the year. However, in 2017 it brought little in the way of weakness. October has historically been the worst performing month of the fourth quarter, while November and December have both been kind to investors. That said, 2017 brings the 30th anniversary of the Crash of '87, which could spook some investors, however many analysts are entering the month of October with fairly optimistic outlooks. For the first three quarters, 2017 has been marked by historically low volatility and there doesn't appear to be an imminent catalyst for a challenge to that status. Investors still have to be on guard because a potential military escalation of the war of words between President Trump and North Korea's Kim Jong Un could change that landscape quickly. In the meantime, so far this year we have only seen 5% of trading days with a move in the S&P 500 of greater than +/- 1%; by far the lowest level since 1982, when intra-day data began to be recorded. In addition, for the first time in a dozen years, there have been no +/- 2% days this year. So far so good, but please remember the year's not over.



* No change (0.00%) month of September 1979.
Data are through August 2015.
Source: Standard & Poor's Corporation and Haver Analytics.

Dow 1,000,000

Warren Buffett offered a rosy long-term forecast in September. He predicted that the Dow Jones Industrial Average will reach 1,000,000 in a century. That's correct, 1,000,000 with six zeros, a seemingly unconceivable feat, relative to the current quarter's close of 22,405.

The Sage of Omaha actually was proving Einstein's observation that "compound interest is the eighth wonder of the world." To reach 1,000,000, the Dow would have to increase at a compound annual rate of just 3.87% for the next century. That moved another longtime legendary investor, Mario Gabelli, to tweet, "Has Buffett turned bearish?" In actuality, over the past 100 years, the Dow's compound annual growth was 5.5%, boosting the index from 95 at the end of 1916 to 20,069 this past January.

That doesn't take into account the effect of inflation, however. With inflation averaging 3.1%, the Dow's real compounded annual growth rate was 2.3%, according to the R Street Institute, a free-market think tank. Inflation over that span meant that at the end of 2016, it took $2,116 to buy what $100 did in 1916, based on Bureau of Labor Statistics data.

Although Buffett's prediction represents a relatively modest goal for 2117, given the magical math of compounding, the mention of such big, round numbers for the Dow is not new. Buffett's mathematically calculated expectation of a 3.87% compounded annual rate of return is not totally insane. Assuming 2% inflation, the Fed's current target, means roughly 2% real growth is needed to produce 4% nominal growth.

Buffett suggests that it is foolish to ever bet against America. Attainment of a 4% nominal growth rate for the U.S. economy, implied by his Dow 1,000,000 prediction, may seem like a modest goal, but to many people it sounds outrageous.

Conclusion: What Should an Investor Do?

Theories abound as to why the fourth quarter could be often the best one for equity bulls. They include the fact that fund managers need to catch up with returns, holiday spending could spread cheer and sometimes investors celebrate the January effect in December.

Some feel that with the stock market hitting yet another series of record highs, some investors may be inclined to take the money and run. Another possibility could be that investors will start to worry about the rally's sustainability.

Not the legendary investor Laszlo Birinyi. For five decades Laszlo Birinyi has been sharing his thoughts on the stock market. As a panelist on Louis Rukeyser's Wall Street Week, he was voted into that show's Hall of Fame. Birinyi is bullish and currently disagrees with some of the most popular bear arguments floating around, like the stock market being too expensive.

So where does that leave us?

Analysts at Schwab feel the term "cautiously optimistic" seems appropriate, although admittedly overused. With no shortage of pundits looking for a correction, they feel that the "wall of worry" stocks like to climb is still intact. They say, "ultimately, we believe the next cyclical bear market will come when stocks begin sniffing out the next recession—likely still in the distance—and/or if the Fed is forced to tighten monetary policy more quickly than what's currently baked into assumptions. In the meantime, our advice is to remain diversified and disciplined, and stay focused on long-term goals—not always exciting, but historically tends to be profitable."

So far in 2017, stocks have climbed higher, bond yields have remained low and volatility has not been an issue. Investors have not experienced any dramatic up or down swings in 2017. However, that does not mean investors should become complacent.

J.P. Morgan Asset Management feels that, “overall, despite all the political noise, markets continued to focus on the improving economic fundamentals. While the world worried about North Korea, markets cheered rising company earnings and improving global growth.” They add that, “It’s not at all unusual for equity returns to be very strong in the later stage of an economic expansion. While no expansion lasts forever, we think this one has further to go and that investors should enjoy the good times while they last. However, they should watch particularly carefully for any signs that the currently rosy global growth picture is starting to deteriorate.” *www.JPMorgan.com (10/2/17)*

As we have been saying all year, today’s current fixed rate returns might not help most investors reach their financial goals so they probably will need to include equities in portfolios. We are carefully monitoring equity markets and interest rates so we can best communicate with clients.

Volatility might return and therefore investors should proceed with caution.

Market volatility is a part of investing and instead of being worried about potential volatility, it is best to be prepare for it.

Focus on your own personal objectives.

During times that call for caution, it is always wise to create realistic time horizons and return expectations for your own situation and to adjust investments accordingly. We strive to understand your personal commitments so we can categorize your investments into near-term, short-term and long-term.

The fourth quarter is typically an active one and we don’t think this one will be any different. Solid economic growth and good corporate earnings could allow the bull market to continue but investors may experience periods of volatility and/or market pullbacks. During times like these investors should to stay focused on their long-term objectives.

This is the ideal time to ensure that you fully understand your time horizons, goals and risk tolerances. Looking at your entire picture can be a helpful exercise in determining your strategy. We always welcome the opportunity to discuss any updates to your thoughts or situation.

Please discuss any concerns with us.

Our advice is not one-size-fits-all. We will always consider your feelings about risk and the markets and review your unique financial situation when making recommendations.

We pride ourselves in offering:

- **consistent and strong communication,**
- **a schedule of regular client meetings, and**
- **continuing education for every member of our team on the issues that affect our clients.**

A good financial advisor can help make your journey easier. Our goal is to understand our clients’ needs and then try to create a plan to address those needs. We continue to monitor your portfolio. While we cannot control financial markets or interest rates, we keep a watchful eye on them. No one can predict the future with complete accuracy, so we keep the lines of communication open with our clients. Our primary objective is to take the emotions out of investing for our clients. We can discuss your specific situation at your next review meeting or you can call to schedule an appointment. As always, we appreciate the opportunity to assist you in addressing your financial matters.

REMINDER: Daylight Saving Day will fall on November 5 this year!

- *The idea of daylight saving was first conceived by Benjamin Franklin in 1784, in an essay, “An Economical Project”.*
- *Daylight Saving Time (DST) was first enforced in the U.S. during the WWI to save fuel by reducing the need to use artificial lighting.*
- *The Uniform Time Act of 1966 established the system of uniform DST in the United States.*
- *States are allowed to exempt themselves. Hawaii and most of Arizona do not observe DST.*

FAN TEAM UPDATE

Fall 2018

The Financial Advisors Network Team has been busy working hard and having some fun too!

Here's what we've been up to lately...

Happy Birthday Alexander!

First Day of School
Allie- 10th grade
Avery- 6th grade
Lexie- 4th grade

Go Galaxy!

The whole family at One Way Out

Allie's Volleyball team!

Upcoming Events

Property Inheritance Seminar

Wednesday, November 1 • 6:30pm-8:30pm

This seminar will be presented by Nicole Newman of Newman Law Group, our partner attorney. She will provide important details on how to choose the right successor trustee. This is a great opportunity to plan for your loved ones. Nicole's specialty is guiding families on how to choose the right successor Trustee, even in the most difficult circumstances. Family members and heirs welcome.

Nicole Y. Newman and Newman Law Group and Financial Advisors Network, Inc. are separate entities. There is no obligation to use their services. The information to be discussed is not intended to be a substitute for specific legal advice. We suggest that you discuss your specific situation with a qualified legal advisor.

Tax Planning Seminar

Wednesday, November 15 • 6:30pm-8:30pm

Have you ever felt like you are paying too much in taxes? We will demonstrate some common year-end tax planning strategies to help legally minimize your tax liability now, and in the future. Join us for this event to cover important tax planning strategies.

Alexander Krivosheev, Partner and CPA at Kamps and Associates Accounting Services, LLC, will teach the seminar. He graduated from Georgetown University with a Global Executive MBA. In addition to his MBA, Alexander has received degrees in management, economics and accounting. Alexander's knowledge and tangible experience will provide students with a great resource to answer any tax or economic questions.

The seminar will help to answer the following questions:

- When is it optimal to make a Roth conversion?
- Can I build tax free assets even if I have high income?
- How do I build tax free assets?
- Do my investments cause taxes?
- How would the new tax reform affect me?
- How will Required Minimum Distributions affect me?

Register today to begin your financial education. It is never too late to plan for your financial future.

The information to be discussed is not intended to be a substitute for specific individualized tax or legal advice. We suggest that you discuss your specific situation with a qualified tax or legal advisor. During this presentation, investments will be discussed, such as stocks and bonds, which have various risks including loss of principal and may not be suitable for every investor.

For more information or if you would like to attend any of these complimentary seminars, please contact Cherise-cherise@fanwmg.com (714) 597-6510

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This year, our goal is to offer services to several other clients just like you!
If you would like to share this report with a friend or colleague,

Contact Cherise Wheeler

(714) 597-6510 or cherise@fanwmg.com

and we would be happy to assist you!

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