FINITY GROUP, LLC

4380 SW Macadam Avenue •Suite 245 • Portland, OR 97239

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First Quarter Market Update

Picking up where they left off at the end of 2016, the financial markets are off to a strong start in 2017. Domestic markets, measured by the S&P 500, ended the quarter up 6%, but were upstaged by broader international markets, measured by the MSCI EAFE, which were up 7.25%. Lagging other indices, but still positive for the period, fixed income markets, measured by the Barclay's Aggregate Index, ended up .8%, While risks remain in global markets over the first quarter of the year, markets once again proved their resiliency and rewarded disciplined investors.

Don't Stop Believin'...

Keeping up the torrid pace of the back half of the fourth quarter 2016, which saw the S&P 500 jump approximately 7% in the first quarter of 2017, the index continued its upward momentum ending up 6.07% for the period. As the CEO of JP Morgan, Jamie Dimon, put it in an interview with Bloomberg Television referring to President Trump's election victory and the equity markets, "It seems like he's woken up the animal spirits". Looking behind the John Maynard Keynes reference is important as there may be fundamental reasons the market can justify the increased prices, and that this is not just another case of irrational exuberance, to throw another financial cliché into the mix.

The important concept to remember is that the market is trying to price in, not what is happening today, but what it thinks will happen tomorrow. Looking at the growth over the last two quarters through this lens, it becomes more understandable. From a fundamental standpoint, we are expecting the highest year over year growth rate in S&P500 earnings since Q4 2011. When you factor this growth expectation in and magnify it by increased infrastructure spending and tax reform, the current levels in the markets, despite being elevated over their historical averages, begin to look more reasonable. There are risks to this narrative. Beyond the traditional fundamental risks of investing in equity markets, there is the possibility that expected reforms are not as meaningful as anticipated which warrants continued monitoring, but we continue to believe that domestic equity markets remain an attractive opportunity for diversified investors.

International markets, measured by the MSCI EAFE index, had a good quarter and outpaced domestic markets ending the period up 7.25%. Despite what appeared to be macro level head winds for international markets heading into the quarter from global populist/protectionist policies, we feel this out performance is an important reminder in the benefits of being/staying diversified and rebalancing back to targeted allocations. While the macro storyline is still arguably less favorable then domestic markets, the valuations reflect this as the forward P/E for the S&P500 is around 17.5 vs international markets forward metric of 14.8x. As a reminder, domestic markets outperformed international markets by about 10% over the course of 2016 and, despite the one period of outperformance we would encourage investors to look at their portfolios to determine if any rebalancing is needed as domestic markets may remain at elevated levels relative to their targeted allocations.

Fixed income markets had a slightly positive quarter as market participants continued to focus on the Federal Reserve. In a much expected move, the Federal Reserve raised the federal funds rate (the interest rate off which other interest rates are based) by .25%. At this point, provided that the labor market remains stable to improving and inflation remains at modest levels, we believe the market is expecting two more rate hikes in 2017.

As we end all our investment notes, and a core tenet of our investment philosophy, we remind investors with diversified portfolios, invested in multiple asset classes, to focus on their goals and regularly rebalance back to their targeted asset allocation, which is designed to match their time horizons and risk tolerances. In our opinion, this is the best way to position yourself for the risks and volatility that are inherent with investing.

We are always ready to assist you and answer any questions regarding this newsletter or anything else that may come up. If any changes to your situation have occurred, please contact us at your convenience.

	Closing Price: 12/30/2016	Closing Price: 3/31/2017	Q1 2017 Return %	CY 2017 Return
S&P 500 TR USD	2238.83	2362.72	6.07%	6.07%
MSCI EAFE NR USD	1684	1802.11	7.25%	7.25%
Barclays US Aggregate Bond TR	1976.37	1992.51	0.82%	0.82%

Written by Finity Group

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