SIA Perspectives

Stegner Investment Associates, Inc. **3rd Quarter 2017**

The production and delivery of our *SIA Perspectives* each quarter is an effort to engage Clients and to increase their knowledge of our time-tested, disciplined and successful investment strategies.

Last quarter we investigated why investors seemed fearful of a stock market that consistently moved higher with the theme *"Running with the Bulls"*. Our discussions addressed geopolitical, presidential, congressional and domestic policy concerns. Also with our commentary, we provided an explanation of our role as behavioral coaches and advised clients to ignore headlines touting "The Next Bear Market". This solid advice added value as the 3rd quarter posted further gains for portfolios.

What Happened in the 3rd Quarter?

While global economies showed continued signs of growth and central banks around the world confirmed policies designed to keep interest rates low, earthquakes, hurricanes, tornadoes, wildfires, and the "great eclipse" dominated headlines throughout the quarter.

On August 21st, a solar eclipse captivated Americans as it was visible in the United States for the first time in 38 years, making it the most viewed solar eclipse in history. Because this event usually occurs over water, most eclipses go almost entirely unseen. Often the narrow zone of totality — where the sun is completely blocked out — falls over the oceans and when on land, cloud cover usually blocks the precious minutes of totality.

The solar eclipse offered 93 minutes in totality, although each location only had exposure for about two minutes. This was a rare opportunity for our country to unite for the full hour-and-a-half that it took for the eclipse to traverse from Oregon to South Carolina and has offered us all the chance to have non-politically charged conversations about "where were you during the eclipse?"

However, this positive event was marred by a series of climate and weather disasters that literally shook communities around the world. Nearly every continent has been impacted in 2017 as major earthquakes, hurricanes and wildfires hit North America, monsoons and flooding hurt South Asia, landslides and drought impacted Africa, while a tsunami threatened Central America.

As SIA weighed the impact of these events on economic growth, the recent spate of natural disasters recalled similar emotions – exactly 12 years ago – when we were compelled to address concerns regarding the potential impact of natural disasters on economies worldwide.

Because our analyses today are quite similar, we provide our commentary from the 3rd Quarter 2005 SIA Perspectives:

Our thoughts obviously include a deep concern for those who have suffered the devastation wrought by Hurricanes Katrina and Rita. Given the magnitude of destruction and the region's important role in oil refining and shipping, obviously the economic impact will be negative – initially. The 3rd quarter earnings reports are sure to cause investor uncertainty as corporate executives try to assess the economy's future.

This uncertainty could exert a powerful drag on the economy in the 4th quarter as well. However, the economic risks are not clearly negative long-term as a result of these natural disasters. Positive economic factors include a resilient economy that has been experiencing job growth and strong corporate profits.

There are many factors which make it nearly impossible to forecast economic growth and the direction of the financial markets. Natural disasters, such as the recent hurricanes, are reminders of the futility of such predictions.

These thoughts from 2005 and the *Time* magazine covers below serve as good reminders to investors that natural disasters are unpredictable and may be emotional in the short-term, but economies and financial markets have always rebounded longer-term.

1985

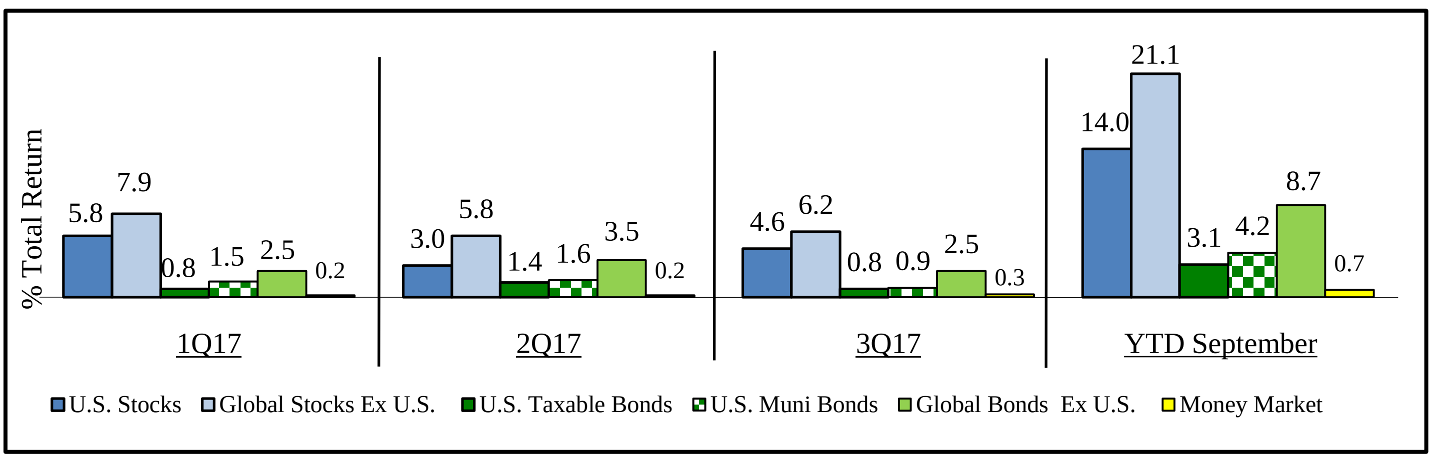
1996

2005

2017

How Did Financial Markets React?

This year's string of natural disasters did not weigh heavily on economic outlooks or investment performance. Most major asset classes marched higher in the 3rd quarter and continued a streak of quarterly gains for the year. As noted in the table below, disciplined investors were rewarded yet again, as many stock markets reached new record levels and bonds provided additional sources of appreciation, despite warnings of inevitable downturns.



What Happened to Stock Prices?

"When is the Next Big Dive?" *USA Today 6/12/17*

The next big dive certainly has yet to take place in 2017, as all major stock market segments, listed in the table on the following page, marched steadily higher during the 3rd quarter. These advances, combined with 1st half gains, generated outstanding returns year-to-date in 2017.

Large caps and mid caps were leaders in the U.S. for the first half of the year, but small caps made a huge comeback late in the 3rd quarter as hopes for tax reform were reignited. Year-to-date, double-digit results for all major stock segments continued to surprise investors and strategists.

Representative benchmarks for all charts are detailed on the last page of this SIA Perspectives.

In markets outside the U.S., both international developed and emerging market stocks produced consistently good quarterly returns this year. Improving corporate earnings and a weakening U.S. dollar, relative to other currencies, are major factors that pushed international prices higher. These markets have been winners so far in 2017, posting returns that are almost double those of domestic segments.

1st Half 2017	STOCKS	%Total Return July	Aug	Sept	3rd Qtr	YTD 2017
9.3%	Large Cap	2.1%	0.3%	2.1%	4.5%	14.2%
8.0	Mid Cap	1.5	-0.8	2.8	3.5	11.7
5.0	Small Cap	0.7	-1.3	6.2	5.7	10.9
13.8	International	2.9	0.0	2.5	5.4	20.0
18.4	Emerging Mkts	6.0	2.2	-0.4	7.9	27.8

All U.S. stock segments provided gains so far this year, but the path of performance was significantly different when viewed by market cap and investment style. The style box grids of U.S.-only benchmarks (shown below) illustrate the powerful switch in performance from 2016, when small cap value reigned, to the current best performing large cap growth segment.

2016

	Value	Blend	Growth
Large	17.3%	12.0%	7.1%
Mid	20.0%	13.8%	7.3%
Small	31.7%	21.3%	11.3%

YTD 9-30-17

	Value	Blend	Growth
Large	7.9%	14.2%	20.7%
Mid	7.4%	11.7%	17.3%
Small	5.7%	10.9%	16.8%

Indicates worst performer

Indicates best performer

What Happened to Bonds?

As noted in the table to the right, yields remained low throughout the world and reflected the accommodative policies of central banks.

Investors worried about the impact of inflation reports on the Federal Reserve's interest rate decisions. The economy is doing well, but the low unemployment numbers failed to push inflation higher, as expected by Janet Yellen and her team.

As of 9/30/2017	Aggregate %Yield
Japan	0.2
Germany	0.4
Global ex-U.S.	1.1
Italy	1.3
U.K.	1.6
U.S	2.6
Emg Mkts (lcl)	6.0

The impact of these events led to some volatility in the bond market, as reported in the monthly results for the 3rd quarter listed in the table on the following page. As noted, despite paltry yields and questions about inflation, bond investors have earned reasonable total returns this year.

1st Half 2017	BONDS & MONEY MARKET	July	Aug	Sept	3rd Qtr	YTD 2017
		%Total Return				
2.3%	Taxable U.S.	0.4%	0.9%	-0.5%	0.8%	3.1%
6.1	Taxable Global-ex U.S.	2.7	1.1	-1.3	2.5	8.7
3.2	Municipal Intermediate	0.7	0.7	-0.5	0.9	4.2
4.9	High Yield	1.1	0.0	0.9	2.0	7.0
0.4	Money Market	0.1	0.1	0.1	0.3	0.7

It might be tempting for investors to question their allocation to bonds as stock markets around the world have soared this year. A disciplined asset allocation strategy requires matching risk and return objectives for each Client. Most allocation strategies will include utilizing bonds to generate low to negative correlations relative to stocks. This allocation will benefit portfolios should stock market advances stall or if stock markets decline.

Does Recent Performance Impact SIA's Investment Strategies?

Yes, throughout the year outsized performance from several of our managers has allowed us to implement several strategic ideas which included:

1. Taking advantage of our outperforming bond strategy by selling and rebalancing the credit risk and duration exposure of portfolios.

2. Using proceeds from sales of outperforming growth stock managers in large cap and small cap to replenish money market and bond fund allocations.

3. Deciding by year-end to reduce exposure to an international growth fund in favor of two other existing funds.

Given that the strategies outlined above (known as "rebalancing") are a critical part of our investment process, we have selected this as our topic for the continued review of SIA's value-added practices.

What is Our Role as Investment Consultants?

Last quarter, we began to outline our seven value-added practices with the discussion of Behavioral Coaching. In summary, we explained in detail our approach to providing a consistent, disciplined investment approach, with special emphasis on our role in tempering emotions during both market highs and market lows.

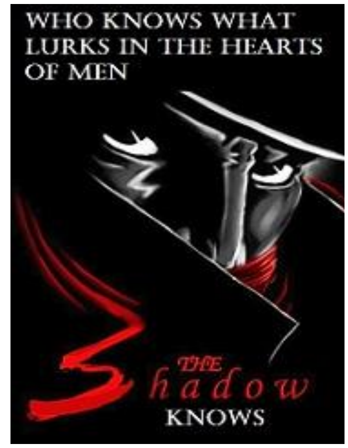
Rebalancing is a timely topic this quarter due to our recent strategy implementations. While our asset allocation decisions may differ for each Client, the strict oversight of portfolio adherence to these allocations is vital to improving each Client's ability to meet short and long-term investment objectives.

Because various investments may produce different returns over time, and Clients may add or withdraw monies from their portfolios, SIA conducts regular portfolio reviews to ensure that each Client's portfolio adheres to agreed-upon strategic and tactical asset allocations. We are opportunistic at times and invoke this time-tested strategy by moving monies from one asset class to another, thus the term "rebalancing".

Why Are Investors Worried About What Might Be Lurking?

Currently, good news for investors includes projections of a continued pickup in global growth and a rare but favorable interest rate and inflation environment. In addition, with the unemployment rate in the U.S. falling to a 16-year low, more people are working, meaning there will be more money spent and economies can grow.

Many analysts fear that this so-called “Goldilocks” scenario is unlikely to last. Bad news could be lurking as geopolitical tensions mount, Congress fails to pass tax or healthcare reform and/or is unable to come to an agreement on budgets and debt ceilings.



What might also be lurking in the minds of investors is that this time of year evokes memories of poor stock market performance in the month of October. This year will be no exception as October 19th marks 30 years since the market crash of 1987. On that day, the Dow Jones Industrial Average dropped 23%. “Black Monday” marked a new era of distrust and fear of “what’s lurking” for a generation of investors.

Reviewing Enclosed Reports

The positive impacts of SIA’s investment decisions and the benefit of this year’s good financial market performance on your portfolio is detailed in the Portfolio Review mailed with this *Perspectives*. On the page titled Portfolio Overview we indicate how capital appreciation plus income equals the dollar amount of your Investment Gain. Note that your Portfolio Return is listed in percentage terms.

Also, please take time to review your portfolio’s allocation to stocks, bonds, money markets and other asset classes as of September 30, 2017, illustrated in the Portfolio Overview’s pie chart. The pages after this report are the Portfolio Holdings which list each of your investments, the current market value and percentage weight in the portfolio.

Our role as an investment consultant is most successful for us when our Clients are involved in the investment process and understand our portfolio strategies. We enjoy sharing our thoughts through written communications and in-person meetings. SIA provides Clients with insight into financial markets, and the impact that economic policies and world events can have on a portfolio’s performance.

Behind the Scenes at SIA

SIA is proud to announce that we were included in a list of “Top Ranking Financial Advisors” in Kentucky by AdvisoryHQ. AdvisoryHQ News launched in 2015 and has since become one of the fastest-growing review and ranking media for the financial advisory, wealth management, and accounting sectors. AdvisorHQ’s selection criteria is based on a wide range of filters including fiduciary duty, independence, transparency, level of customized service, history of innovation, fee structure, quality of services provided, team excellence and wealth of experience.

SIA strives to protect Client information and works closely with custodians to ensure that our systems and procedures are aligned to combat the ever-evolving cybersecurity threats. We are encouraging our team this quarter to focus on training, anticipating and educating clients about how to combat cybersecurity. In the table on the following page, we provide a list of recommendations gathered from trusted sources to assist you in protecting your identity.

Our nine Associates enjoyed witnessing the solar eclipse, sharing the wonder of a few hours of anticipation, a few minutes of excitement and then back to work. We look forward to hearing your eclipse experience and thank you for being part of our firm’s success!

Benchmark Indexes used in this SIA Perspectives include: *Dow Jones Total US Stock Market Index, MSCI ACWI- ex US, Bloomberg Barclays US Aggregate Bond, Global Ex-US and Municipal Bond Index and US Corporate High Yield, US Treasury Bill Index, S&P 500 Index, Russell Mid Cap and Small Cap Index, MSCI EAFE and EM Index.*

AVOIDING IDENTITY THEFT – RECOMMENDATIONS

DO	DO NOT
• Create passwords that are long and strong, using 8-12 characters, upper and lowercase letters, numbers, and symbols. Try using a phrase that only you will know.	• Use information that can be easily found about you online or otherwise.
• Change your passwords often. (General rule is every 90 days.)	• Use the exact same password for all accounts and do not store this information in your computer or share passwords with others.
• Use a unique password for each account to prevent a quick and invasive attack on all of your accounts.	• Store your passwords online.
• Only use wireless networks that you know and trust.	• Send personal, identifiable information about yourself or account names and numbers by email or text.
• Use secure websites that start with: http**s** – not just with http only.	• Use any part of your Social Security number, birth date, or other personal data when creating passwords.
• Auto lock with passwords mobile devices, laptops and computers (if you have Apple products, set-up "find my iPhone" for each.)	• Open documents sent via email unless from a trusted source, but even then question that source by texting or calling. "Attached resumes" are a frequent source of danger.
• Hand deliver personal information or fax (when absolutely necessary) only to trusted sources – or use snail mail.	
• Make a photo copy of "what's in your wallet", including credit cards (front and back), driver's license, passport and insurance cards – store in locked fireproof cabinet. *Tell family members where you hid the key.*	
• Install or update antivirus software on a regular basis and back-up your data – as often as possible.	