JJ BURNS

2017: 2nd Quarter Summary

"In engineering if you do not know what you are doing you should not be doing it." Richard Hamming

Our financial engineers, also referred to as central bankers, helped Investors enjoy another strong quarter in Q2. Fixed-income investors enjoyed strong municipal and credit returns, and U.S. equity owners benefitted from a strong Q-1 earnings season and a still-growing economy. Foreign-stock investors had much to cheer as well, as growth results and expectations have been improving in both developed and emerging economies, leading to better earnings.

It's clear that the U.S. is in the later stage of its post-crisis recovery. Despite worries about President Trump's policy direction, expectations are for a long expansion with little threat of recession on the horizon. This is also the time when markets tend to get 'exuberant,' and our 'engineers' must now look to the future rather than dwell on past success. Here's a summary of recent market results:

Index Returns
as of 6/30/2017

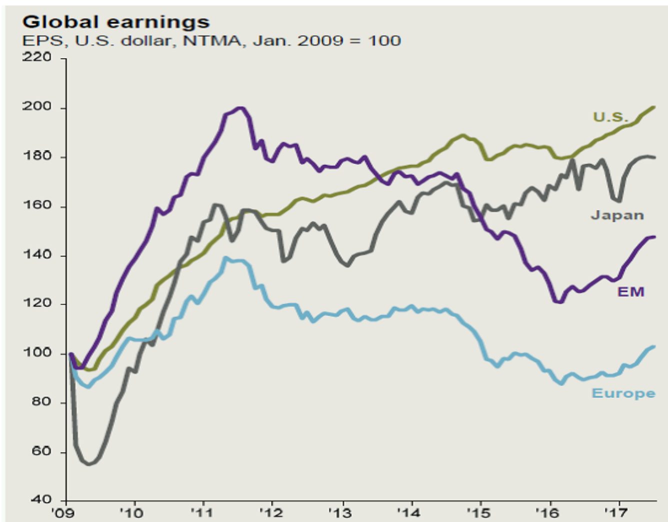
Index	YTD 6/30/17	Q2 2017	Q1 2017	SINCE ELECTION
FIXED INCOME				
BbgBarclays US HY 2% Issuer Cap	4.92%	2.17%	2.70%	6.76%
BbgBarclays Municipal	3.57%	1.96%	1.58%	0.68%
BbgBarclays Global Aggregate	1.43%	0.98%	0.44%	0.09%
BbgBarclays US Agg Bond	2.27%	1.45%	0.82%	0.12%
U.S. STOCKS				
Russell 1000 [Large-cap Stocks]	9.27%	3.06%	6.03%	14.93%
Russell 2000 [Small-cap Stocks]	4.99%	2.46%	2.47%	19.54%
S&P 500	9.34%	3.09%	6.07%	14.79%
INTERNATIONAL STOCKS				
MSCI ACWI Ex USA NR [All Stocks]	14.10%	5.78%	7.86%	14.98%
MSCI EAFE NR [Developed Markets]	13.81%	6.12%	7.25%	16.21%
MSCI EM NR [Emerging Markets]	18.43%	6.27%	11.45%	13.54%
REAL ASSETS				
U.S. Dollar	<6.42%>	<4.68%>	<1.82%>	<2.26%>
Morningstar US Real Asset Index	<1.36%>	<0.34%>	<1.02%>	<0.53%>
Bloomberg Commodity	<5.26%>	<3.00%>	<2.33%>	<0.96%>
S&P GSCI Crude Oil Spot	<14.30%>	<9.01%>	<5.81%>	1.79%
S&P United States REIT TR USD	2.07%	1.48%	0.58%	6.72%
S&P Global Ex US REIT TR USD	6.83%	2.88%	3.84%	4.85%

Source: Morningstar, Inc. USD data with dividends and interest; YTD data through 6/30/17
Since Election data from 11/09/16 through 6/30/17

“We cannot solve our problems with the same thinking we used when we created them.”
Albert Einstein

Here’s a brief review of some interesting data and trends we’re following:

Global growth and earnings: Slowly but surely, global earnings are moving in sync, as shown below. IMF projections of global growth, though not as high as in past years, are trending slightly up. Regions outside the U.S., which were late to institute Financial Crisis palliatives similar to those managed by the U.S. government and the Fed, are finally showing their own ‘green shoots.’ Structural banking and employment issues were worse in Europe than in the U.S., but the ECB’s easing program and stimulative growth policies have spurred earnings and GDP growth. The U.S. may enjoy an earnings tailwind from a weakening U.S. dollar as the overseas rebound continues.



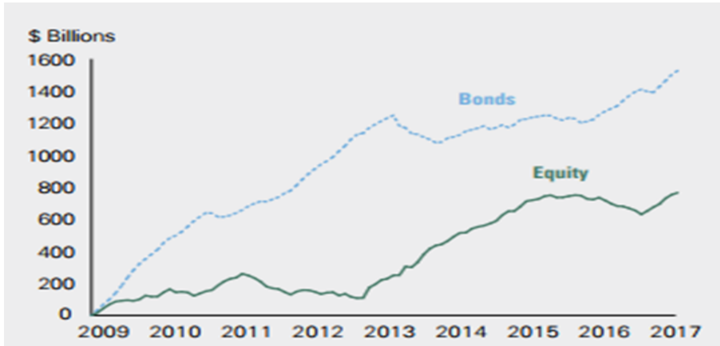
Source: FactSet, MSCI, Standard & Poor’s, J.P. Morgan Asset Management.

International stocks: The long-awaited economic rebound in ex-U.S. regions has promoted strong returns in developed- and emerging-markets stocks. While we think U.S. stock valuations are stretched, they still have room to run although they are more fully valued than overseas stocks. U.S. investors with foreign-stock exposure are experiencing the benefits of positive earnings, regional growth, a falling dollar and improving valuations. We believe the decline in rolling one-year correlations between U.S. and foreign stocks should promote positive portfolio effects as foreign markets continue to run.

Source: Goldman Sachs

Allocation decisions: Despite the long-lived bull market that started in 2009, investors have pushed a tremendous amount of net cash into bond ETFS and funds since the Global Financial Crisis. This has had several effects, including: (1) a shifting of risk from stock volatility to interest-rate volatility;

(2) an increase in accumulation risk, i.e. the risk that portfolios won't grow enough for retirement; and (3) timing risk, as investors may pull funds from bonds to buy stocks near this bull's peak. We believe in long-term, diversified portfolios to avoid this poor decision-making based on market timing, but the shift of assets from bonds to stocks should add support to the equity market.



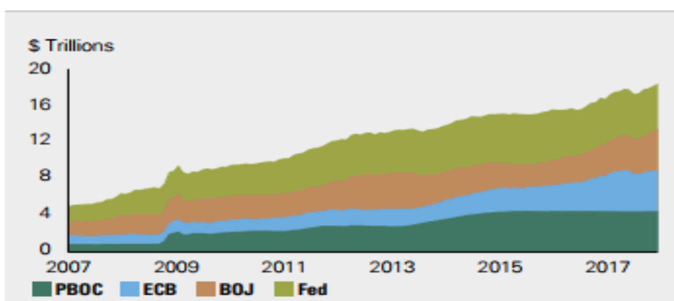
Indexed to 0 on March 31, 2009.

As of April 30, 2017. Time period is based on when the market reached its trough during the financial crisis. ETF stands for exchange-traded fund.

Source: Strategas

"Successful engineering is all about understanding how things break or fail." Henry Petroski

These encouraging global equity and GDP results weren't accomplished in a vacuum. Unprecedented central bank (CB) intervention in the form of low interest rates and bond purchases have reflated asset markets and repaired household balance sheets. These actions have assuaged investors, but have come at a cost, which is reflected in the graph below. This shows the balance–sheet growth of central banks to almost $20 trillion over 10 years. Charles Gave of Gavekal Research recently noted that, in the U.S., the money 'created' by the Fed simply 'stay[ed] in the financial markets' and did not flow in to the real economy. Ending this feat of financial engineering without causing a severe recession will be 'the most extraordinary exercise in fine-tuning they [the Fed] have ever attempted.' This same challenge faces all central banks, and, like building a bridge, requires precise estimations of stress and an appreciation of the effects of time on their decisions.



As of April 30, 2017. Central bank assets generally include cash, gold, short- and long-term corporate and government debt, and foreign currency-denominated assets, among others.

Source: Bloomberg, Bank of Japan, European Central Bank, Federal Reserve, The People's Bank of China

We think global equity markets and economies are finally in sync and have room to expand. Volatility and financial-market profit-taking will trend higher, however, and bonds will be more volatile than in the recent past. We advise clients to review their financial plans and portfolio allocations to prepare for the inevitable market pullbacks that lie ahead.

As always, we welcome your comments and questions.

—Your Wealth Management Team at JJ Burns & Company

Disclosure: J.J. Burns & Company, LLC is a registered investment adviser with the U.S. Securities & Exchange Commission and maintains notice filings with the States of New York, Florida, Pennsylvania, New Jersey, Connecticut, and California. J.J. Burns & Company, LLC only transacts business in states where it is properly registered, or excluded or exempted from registration. Follow-up and individualized responses to persons that involves either the effecting or attempting to effect transactions in securities, or the rendering of personalized investment advice for compensation, as the case may be, will not be made absent compliance with state investment adviser and investment adviser representative registration requirements, or an applicable exemption or exclusion.

Unless otherwise stated, performance numbers refer to indexes, which cannot be invested in directly and have no fees or trading expenses associated with them. All index data provided by Morningstar, Inc.

 Indices are not available for direct investment; their performance does not reflect the expenses associated with the management of an actual portfolio.

Past performance is no guarantee of future results. This information is provided for educational purposes only and should not be considered investment advice or a solicitation to buy or sell securities.

Investing risks include loss of principal and fluctuating value. Small cap securities are subject to greater volatility than those in other asset categories. International investing involves special risks such as currency fluctuation and political instability. Investing in emerging markets may accentuate these risks. Sector-specific investments can also increase these risks.

Fixed income securities are subject to increased loss of principal during periods of rising interest rates. Fixed-income investments are subject to various other risks, including changes in credit quality, liquidity, prepayments, and other factors. REIT risks include changes in real estate values and property taxes, interest rates, cash flow of underlying real estate assets, supply and demand, and the management skill and creditworthiness of the issuer.

The Russell 1000 Index measures the performance of the large-cap segment of the U.S. equity universe. It includes approximately 1000 of the largest securities based on a combination of their market cap and current index membership. The Russell 2000 Index measures the performance of the small-cap segment of the U.S. equity universe. It includes approximately 2000 of the smallest securities based on a combination of their market cap and current index membership.

The Barclays US Corporate High Yield 2% Issuer Capped Bond Index is an issuer-constrained version of the flagship US Corporate High Yield Index, which measures the USD-denominated, high yield, fixed-rate corporate bond market. The index follows the same rules as the uncapped version, but limits the exposure of each issuer to 2% of the total market value and redistributes any excess market value indexwide on a pro rata basis. The Barclays U.S. Aggregate Index covers the USD-denominated, investment-grade, fixed-rate, taxable bond market of SEC-registered securities. The Barclays US Municipal Bond Index is a broad-based benchmark that measures the investment grade, US dollar-denominated, fixed tax exempt bond market. The index includes state and local general obligation, revenue, insured, and pre-refunded bonds. The Barclays Global Aggregate Index is a flagship measure of global investment grade debt from twenty-four local currency markets. This multi-currency benchmark includes treasury, government-related, corporate and securitized fixed-rate bonds from both developed and emerging markets issuers. Returns hedged to various currencies are published for multi-currency indices.

The Morningstar® US Real Asset Index is a diversified portfolio of four different asset classes that have historically displayed high sensitivity to inflation. Real assets are defined as TIPS, commodity futures-based strategies, real estate investment trusts, and inflation-sensitive equities such as upstream commodity stocks and master limited partnerships

The S&P U.S. REIT Index defines and measures the investable universe of publicly traded real estate investment trusts domiciled in the United States. The S&P Global ex US REIT index is a comprehensive benchmark of publicly traded equity REITs listed in both developed and emerging markets, excluding the United States. The S&P 500® index includes 500 leading companies and captures approximately 80% coverage of available market capitalization. The S&P GSCI is designed as a benchmark for investment in the commodity markets and as a measure of commodity market performance over time. It is also designed as a tradable index that is readily accessible to market participants.

The MSCI ACWI ex USA Index captures large and mid-cap representation across 22 of 23 Developed Markets (DM) countries (excluding the US) and 23 Emerging Markets (EM) countries. The MSCI EAFE Index is an equity index which captures large and mid-cap representation across Developed Markets countries around the world, excluding the US and Canada. The MSCI Emerging Markets Index captures large and mid-cap representation across 23 Emerging Markets (EM) countries.

The Bloomberg Commodity Total Return index is composed of futures contracts and reflects the returns on a fully collateralized investment in the BCOM. The index currently represents 20 commodities, which are weighted to account for economic significance and market liquidity.