

KACHKOVSKY & FISHER, INC.

Registered Investment Advisor

Phoenix Office

3610 N. 44th Street
Suite 220
Phoenix, AZ 85018

Arizona Phone: 602.604.9711
Colorado Phone: 303.674.9711
Fax: 602.604.9712

Evergreen Office

30752 Southview Drive, Suite 290
Evergreen, CO 80439

Email : garry@kachkovskyandfisher.com
kris@kachkovskyandfisher.com
emily@kachkovskyandfisher.com
website : kachkovskyandfisher.com

Winter 2017

Winter officially began on Wednesday, December 21, with the arrival of the winter solstice. Recall that solstice means "standing-still sun;" and on December 21 at 5:44 a.m. (EST) the sun "stood still" over the southern Pacific Ocean at the Tropic of Capricorn. At that time, the sun's rays were directly overhead, giving the impression that the sun was truly standing still. No one is quite certain how long ago humans began heralding the solstice as a turning point, but a turning point it is: the sun sets a minute or two later each day from there until the summer solstice on June 21. Let's review the numbers.

	(As of 12/31/16)
Dow Jones Industrials	+ 13.42 %
S&P 500 Index	+ 9.54 %
NASDAQ Composite	+ 7.50 %
MSCI EAFE Index	- 1.88 %

Major Bond Indexes	(As of 12/31/16)
Lipper U.S. Government	+ 1.40 %
Lipper Short-term Investment Grade	+ 2.03 %
Lipper Corporate A-Rated	+ 4.86 %

Major Mutual Funds Indexes	(As of 12/31/16)
Lipper Large-Cap Core	+ 12.25 %
Lipper Mid-Cap Core Index	+ 15.73 %
Lipper Small-Cap Core Index	+ 22.55 %
Lipper International Index	+ 1.74 %

Source: The Wall Street Journal and Barron's

*Inclusion of these unmanaged indexes is for illustrative purposes only. Keep in mind that individuals cannot invest directly in any index and index performance does not include transaction costs or other fees, which will affect actual investment performance. Individual investor's results will vary. Past performance does not guarantee future results.

FINANCIAL AND INVESTMENT PLANNING

“The only place success comes before work is in the dictionary.”

— Vince Lombardi

As we welcome 2017, let's look back on last year's world events, global growth trends, major political developments, changes to policy and market activity to see what all this tells us about the year gone by and the year ahead. Significant political events resonated in the capital markets in 2016, most notably the U.S. presidential election and the United Kingdom's vote in June to leave the European Union, a move that sparked a two-day downturn in the equity market as investors pondered the decision's effect on the European and global economies. Calm was quickly restored, however, and the equity market rallied just seven days later.

Geopolitically, the world seems more complicated than ever. As of late, tensions seem to have reached a fever pitch between U.S. and Russia. In response to accusations of Russia meddling in the presidential election, United States expelled 35 Russian Diplomats. After many months of intense fighting and involvement from regional and global players, the civil war appears to be winding down in Syria (or at least in Aleppo). ISIS continues to have a stranglehold on parts of Syria and Iraq while the civilized world attempts to restore order in the region. In December alone 151 terrorist incidents were reported, with the assassination of a Russian Ambassador to Turkey and the Berlin Christmas market attack garnering much of the attention in the developed world. These events accentuate the brittle balance that new U.S. administration will inherit after the transition of power this month.

After a historically slow start, U.S. equity markets enjoyed a prolonged rally for most of 2016, surging after the U.S. presidential election, with major U.S. indices hitting record highs in late November. The U.S. Federal Reserve's plan to increase interest rates up to four times in 2016 was thwarted by timely events, such as the equity market downturn that began the year, the Brexit vote over the summer and the U.S. presidential election in the fall. In December, for just the second time in a decade, the Federal Reserve had enough faith in the U.S. economy to raise rates. The 0.25% rate hike and prolonged interest rate rally following the election created headwinds for the bond market, pushing investment-grade yields up and driving prices down. Taking a more “hawkish” stance, policymakers signaled for three rate hikes this year. A tightening labor market (unemployment rate falling to 4.6%) and a revised Q3 GDP to 3.5% were contributing factors to mounting consumer and business confidence indicators.

As the current economic recovery celebrates its 9th year, making it the 3rd longest in U.S. history, it still feels young at heart. Jim Paulson, Wells Fargo Chief Equity Strategist, states, “It has not yet sustained a real growth rate above 3%, has never been driven by excessive borrowing or lending nor produced a significant capital spending or housing cycle. Moreover, because it has only recently returned to some semblance of full employment, it has yet to seriously aggravate inflation. Yields around the globe remain near all-time record lows and the Federal Reserve is only now beginning to finally normalize monetary policy.”

The global economy continues along its low-growth path, but there are a number of bright spots. In the U.S., despite the political uncertainty, a strengthening consumer is driving stronger growth. A large fiscal stimulus under the new administration could well provide another boost to the U.S. economy. The risk rally continues into 2017 in anticipation of the incoming administration's effect on tax reform, infrastructure spending and comprehensive deregulation. Valuations in many areas of the U.S. market appear stretched, but with a pickup in earnings, the market may not remain so expensive.

Europe remains highly challenged, with uncertainty about the future of the European Union, low growth and high unemployment. Yet many companies are rising above regional woes and valuations appear relatively compelling. By December, in the Eurozone as a whole, unemployment receded beneath 10% for the first time in seven years and the ECB (European Central Bank) declared a 25% taper to the quantitative easing program which was extended through end of the New Year.

Regarding the emerging markets, they are finally bouncing back after a tough stretch over the past few years. “During the next 10 years, developing countries are expected to add about a billion people to the middle class and above. These emerging economies will account for nearly half of total global consumption. I believe that is going to have a transformational impact on the world's economy”, according to Noriko Chen, American Funds Portfolio Manager. Valuations in emerging markets are more attractive compared to developed markets.

One of the bright spots within emerging markets is India. Nick Grace, American Funds portfolio manager, states “India embarked on a journey about 25 years ago, opening its doors to globalization and world markets. Since then, the country has become one of the most important components of the global economy. India's growth has overtaken that of fellow Asian giant China. One of the key components of the country's economic growth is brisk consumer spending, which propelled growth in India's economy to 7.3% for the 12 months ended September 30.

When it comes to being an economic powerhouse, India may just be getting started. The chart below shows the country still lags much of the world in owning items such as refrigerators and air conditioners. But modernization is progressing at a relatively rapid rate. Under Prime Minister Narendra Modi, highways, airports and railways are being improved, which could provide opportunities for companies and boost the economy.”

Households that own durable goods as of 2015

	<u>Air conditioners</u>	<u>Washing Machines</u>	<u>Refrigerators</u>	<u>Televisions</u>
Global Average	40%	67%	77%	90%
India	13%	9%	25%	67%

Source: Euromonitor International. Data are based on possession rate, which is a measure of how many of the population units used (e.g., households) own at least one unit of a certain product, as defined by Euromonitor.

Outside of India, many other emerging countries have started seeing improvements from implementing supply-side reform, fiscal consolidation and market deregulation. China, due to its sheer size, is probably the most visible emerging market. Overall, their government has done a good job thus far guiding the economy through a soft transition from an infrastructure-based (government spending) economy to a service-based (consumer spending) economy.

Here at home, many investors have been disappointed with the interest rate environment since the credit crises – i.e. low yields. However, compared to other developed countries around the world, the U.S. doesn’t look as bad. We expect the Fed to continue its slow and telegraphed path of raising rates in the years to come. The rate of change should continue to be modest.

Global Interest Rates

	<u>2-Year Rate</u>	<u>10-Year Rate</u>	<u>30-Year Rate</u>
United States	1.246%	2.49%	3.081%
United Kingdom	0.042%	1.227%	1.855%
Canada	0.770%	1.719%	2.319%
France	-0.729%	0.647%	1.516%
Germany	-0.832%	0.178%	0.874%
Switzerland	-1.181%	-0.257%	0.329%
Japan	-0.176%	0.029%	0.702%

Source: Bloomberg, as of 12/29/2016

As we look forward to 2017, U.S. GDP appears to be on solid footing thanks to consumer spending growth. While the U.S. still has demographic constraints to deal with, some potential policy changes that could act as new tailwinds for the economy include infrastructure spending, deregulation and tax reform. The biggest risk to the economy going forward is the possibility of global trade wars through the rise of protectionism. There’s a strong belief that cooler heads will prevail before we see major disruptions to global supply chains.

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Yield and market value will fluctuate with changes in market conditions. There is an inverse relationship between interest movements and fixed income prices. Generally, when interest rates rise, fixed income prices fall and when interest rates fall, fixed income prices generally rise. Diversification does not insure a profit or a guarantee against a loss. Investing involves risk and you may incur a profit or loss regardless of strategy selected. Please note that international investing involves special risks, including currency fluctuations, differing financial accounting standards, and possible political and economic volatility.

PERSONAL

Crunch, crunch, crunch was the sound coming from the front door. Then a loud bang. Kris opened the door and was greeted with a 500 pound female elk eating one of their pumpkins for Halloween. She looked at the surprised homeowner and continued her mid-morning snack. He declared, "Get out of here." Her head rose up, she stared at him with a look as if to say, "You get out of here." After a few moments into their staring contest (and being outweighed by 300 lbs), Kris blinked first and shut the door. The next day, arriving home for lunch Kris couldn't proceed up the driveway because that female elk apparently told her friends about the available feast. There were elk and pumpkins all over the driveway. The Fisher family loves seeing all the wildlife in the mountains.

In December, Macy (4) put on her first pair of skies. Kora (6) was excited to teach her little sister everything she ever wanted to know about skiing – how to go fast, how to slow down, how to get up after you fall, how to dismount the chair lift, what pizza to order for lunch and where the hot chocolate is. Angie and Macy were signed up to take their first ski lessons. Mother and daughter were both a little nervous and excited. However, after Kora's tutorial, Macy didn't think she needed a ski class anymore. While mother and daughter spent the day in separate lessons, Kris and Kora were trying to remember what they learned from their first ski lessons last year. The father daughter duo had an absolute blast skiing together at Winter Park! While everyone in the family is new to the sport, the two young and energetic sisters are convinced this is the best family tradition.



(Macy and Kora - Winter Park, Colorado)

Naughty? Nice? These two words were used a lot in the Fisher household in the days leading up to Christmas. A classmate of Kora's told her if you've ever been naughty, Santa will skip your house. That was devastating news. Kora, normally a very sweet and confident young girl, has had some moments that wouldn't fall into the "nice" category and she knew it. Macy has too, but she claims she has never, ever, ever been naughty. Christmas morning arrived, Santa found the house and all was good in the world. After opening presents, the family jumped in the car and made the one hour drive to Winter Park to go skiing!

In early January, Garry and Emily made the heartbreaking decision to put their beloved Rhodesian Ridgeback down. Duke almost made it to twelve - pretty good for a large breed. He was a lazy gentle giant, spending days lounging around, jumping out of his comfy bed for an occasional bark at the passerby's. He loved his brother Stoli - an old timer himself, turning fourteen later this January – and his family. The Kachkovsky girls adored him, especially Elle. We'll always remember her running around the house screaming, "Duuuuka". Cancer took his life but he will always be in our heart.



Like most years, the Kachkovsky Family spent Thanksgiving in Chicago visiting Garry's parents, who loved every minute of the raucous that invaded their quiet home for a week. Despite every plea and wish from Ava and Elle, father winter did not bless the Midwest with a white blanket this Thanksgiving. A trip would not be complete without the rousing of competitive spirits in a game that has become a tradition in the U.S. on Thanksgiving morning for nearly 150 years – Football. Neighborhood Turkey Bowls are tradition in many towns and families across America. This was number 26 for the high school friends from Chicago's Northwest Suburbs, and might have been the last for Garry. Tackle football should be left to the young. Emily is skeptical of this retirement announcement so early in the year. The competitive fire still burns deep in the underbelly.

Like the Fisher girls, Ava did her best to be good for Santa. At almost two Elle is still an innocent by-stander in these celebrations. A letter sent to the North Pole addressed to the bearded one explained in fine detail how many cars (ten to be exact) each girl was looking for this Christmas. Yes, the auto passion continues and is quickly spreading to the younger sister. Santa apparently had time to swing to the West Coast after visiting Colorado. However you celebrated this Holiday Season, we hope you had one filled with fun memories.

“Be kind whenever possible, and it is always possible.”

- Dalai Lama

Thank you for your trust, confidence and friendship.



Garry Kachkovsky, CFP®
Financial Planner



Kristian R. Fisher, CFP®
Financial Planner