



July 2017

2nd Quarter 2017 Market Commentary

The Quarter in Review

The second quarter saw international stocks continue their outperformance versus domestic equities, with the MSCI EAFE index up 6.1% during the quarter versus the S&P 500 return of 3.1%. The Barclays US Aggregate, which is an index that measures the performance of the U.S. investment grade bond market, returned 1.4% as interest rates remained relatively range-bound. Health care led equity sectors higher in the quarter, gaining 7.1%, while the energy sector continued its underperformance, dropping an additional 6.4%. This marked the second consecutive quarter of declines in energy and telecommunications sectors.

Period Ending June 30, 2017

Table with columns: YTD, Annualized Total Returns (1 year, 3 year, 5 year, 7 year, 10 year), and Calendar Period Total Returns (2016, 2015, 2014, 2013, 2012, 2011, 2010). Rows include Dow Jones Industrial Average, NASDAQ Composite Index, S&P 500, Russell 2000, MSCI EAFE, Barclays US Aggregate, and Barclays Global Agg. Ex-US.

Based on U.S. dollars

Source: RBC Wealth Management

Small Caps versus Large Caps

Large Cap stocks continued their outperformance versus Small Cap stocks in the quarter, however, from a pure valuation perspective, Small Cap stocks currently appear more attractive than their Large Cap counterparts. If you look at the attached chart, you'll see that Large Cap stocks are trading at valuations well above their historical average, while Small Cap stocks are trading more closely in line with their historical average. We will continue to monitor this divergence and make appropriate portfolio changes where and when necessary.

Portfolio Focus Changes

In our mutual fund model, you may have noticed a few portfolio changes last quarter. On the equity side, we increased our exposure to global and international markets from a neutral weighting of 20% to an overweight of 30% of the equity allocation. In doing so, we purchased iShares China Large Cap ETF (FXI), John Hancock International Growth Fund (GOGIX), and American Funds New World Fund (NFFF). As you might recall from our newsletter last quarter, we feel that international equities may be poised for a period of outperformance when compared to domestic stocks. In our investment stock model, we purchased McKesson Corporation (MCK) which is a medical supply, pharmaceutical, and health service provider.



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Current Strategies

In our fixed income allocations, we continue to be positioned for a flat-to-rising interest rate environment. The Fed has indicated that they anticipate a total of three interest rate hikes in 2017. After rate increases in March and June, it appears as if the Fed may hit this objective. However, domestic inflation continues to be stagnant and below the Fed's 2% target. During her July press conference, Federal Reserve Chair Janet Yellen testified that the board's monetary policy will continue to remain "accommodative," indicating a willingness to only gradually increase rates over time, as the economic recovery of the Financial Crisis continues into its eighth year.

Lastly, we continue to monitor our positions in the iPath Bloomberg Coffee Index (JO), which is a play on coffee futures in coffee producing countries, primarily in South America. We may consider initiating positions in the Health Care and/or Biotechnology sectors going forward, as these sectors have bottomed from recent weakness and may be poised for outperformance in the future.

What's New with Us?

For those who remember reading in our 3rd Quarter 2015 newsletter, Mike and his dad watched a game in every major league baseball stadium in 1996. Since then, they continue to catch a game whenever a new team stadium is built.

Next month, Mike and his father, Larry, will be heading down to Atlanta to watch the Braves take on a series against the Cincinnati Reds. The Braves moved to SunTrust Park to begin the 2017 season after spending 20 seasons at Turner Field. Why Mike has chosen to visit Atlanta in August instead of April or May continues to perplex the rest of the team.

Dana and her husband, Chad, have been biking their way through the Midwest this summer, spending a week biking through Minnesota and will ride the first two days of RAGBRAI as it stops in their hometown of Algona.

Colby's beekeeping project hit a bit of a snag earlier this spring when the queen bees in each of his two hives died. The worker bees, however, laid queen eggs and the hives were able to get back on track once the new queens emerged.

Kirk and Dianna are eagerly anticipating a late summer visit from their daughters, Kylie and Laney. The girls are living in Denver, Colorado, where they work as a team in the residential real estate market.

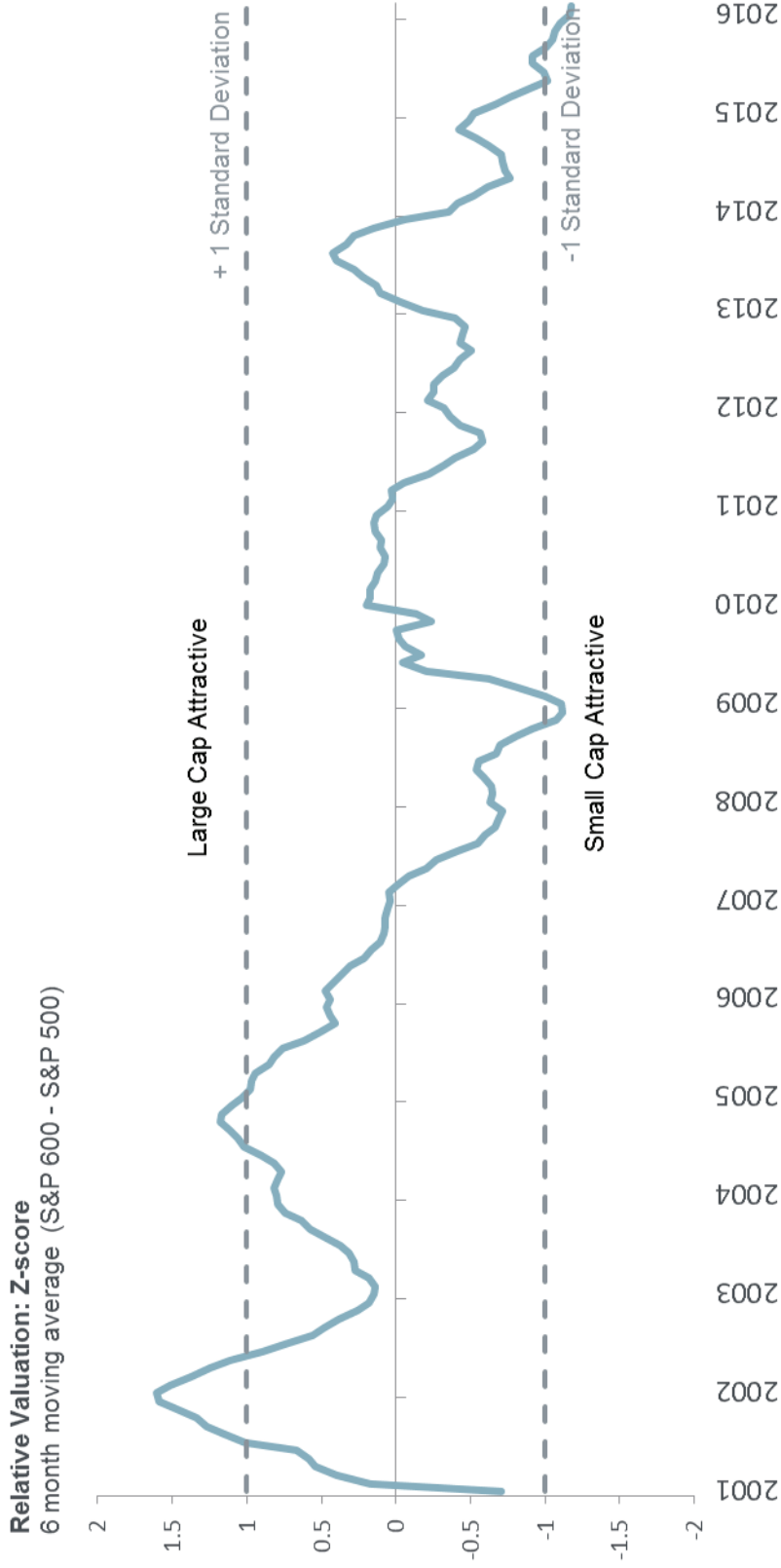
We hope you enjoyed this quarter's newsletter and are enjoying your summer! If there is anything we can help to provide or questions we can help to answer, please don't hesitate to reach out.

Warmest Regards,

-The Abrahamson Investment Group
Kirk, Mike, Dana, & Colby

U.S. Large Caps VS. U.S. Small Caps

Relative Valuations – 6 month average z-score



Data through 06/30/2016. Data Source: Bloomberg.

Large Caps represented by the S&P 500 Index and Small Caps represented by the S&P 600 Index.

Z-score is a statistical measurement of a score's relationship to its mean. A Z-score of 0 occurs when the current score is equal to the historical mean.

A Z-score of a 1 represents a 1 standard deviation event, 68% of all events fall within 1 standard deviation (assuming a normal distribution curve).

Composite Valuation for each index is made up of the following metrics which are adjusted by sector:

Price/Earnings: Reflects the closing price for the company at fiscal quarter end divided by earnings per share before extraordinary items for last twelve months.

NTM P/E: Price to Next Twelve Months Earnings . Calculated as the current market price over the estimated earnings for the next twelve months for the index.

Price/Book: Displays the book value per share for the ending month divided by share price.

Free Cash Flow Yield: Trailing 12 month free cash flow divided by the price.



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