GALECKI FINANCIAL SENSE

GALECKI FINANCIAL MANAGEMENT

	LAST MONTH	LAST 3 MONTHS	YTD
S & P 500 Index	0.18%	2.53%	3.65%
Russell Midcap Index	0.46%	3.18%	5.50%
Russell 2000 Index	-0.06%	3.79%	-2.22%
Dow Jones Industrial Average	0.95%	2.07%	4.31%
Morgan Stanley EAFE Index	-3.36%	-1.46%	-4.42%
MSCI US REIT Index	6.90%	6.81%	13.56%
DJ UBS Commodity Index	4.13%	12.78%	13.25%
Barclays Aggregate Bond Index	1.80%	2.21%	5.31%

INDEX RETURNS

The second quarter continued to be volatile for major markets around the world. Great Britain's vote to leave the European Union caused a swift global sell-off followed by a strong rebound. Uncertainty regarding economic growth in the U.K. and most of Europe will be with us for a while as we move down this new path.

U.S. Large cap stocks ended the quarter up 2.53% following a 1.5% gain in the 1st quarter. The S&P 500 is now up 3.65% on the year. Value stocks have outperformed growth stocks this year with the Russell 3000 Value index posting a 6.29% gain while the Russell 3000 Growth Index is only up 1.14%.

Mid-cap stocks and small-cap stocks both had a strong second quarter by advancing 3.18% and 3.79% respectively. On the year however, the Russell Midcap Index is up 5.5% yet the Russell 2000 Index is still down 2.22%. Real Estate and Commodities both have been strong with returns of more than 13% year to date.

The bond market had another big quarter with the Barclays Aggregate Bond Index posting a 2.21% quarterly return. This index is now up an impressive 5.31% year to date.

ECONOMIC REVIEW AND OUTLOOK

The economy grew at a 1.1% annualized rate in the first quarter of this year. This followed the 1.4% growth rate in the fourth quarter. Early estimates for the second quarter are in the 2.0-2.5% range. This is an economy that continues to expand, but at a slow pace. This slow growth is keeping inflation in check.

The Leading Economic Index declined 0.2% in May to 123.7 following a 0.6% increase in April and a 0.1% increase in March. These numbers suggest that the economy will continue to grow at a slow-moderate pace over

GALECKI FINANCIAL MANAGEMENT 1990-2015 25 YEARS the next few quarters. Industrial Production decreased 0.4% in May after increasing 0.6% in April and the Capacity Utilization rate dropped to 74.9 percent. This is 5.1 percentage points below the historical average over the last forty years and suggests that there will not be much pricing pressure in manufacturing over the next few quarters.

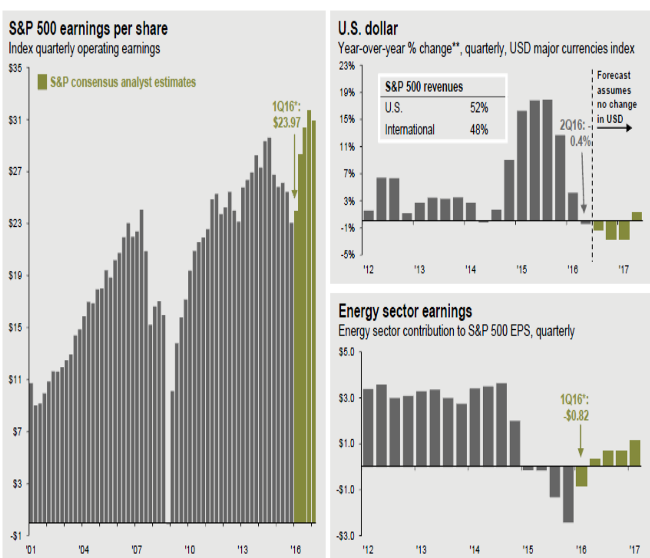
Non-farm payrolls increased by 287,000 in May and the unemployment rate is 4.9%. This suggests that the economy is near full employment. Initial weekly unemployment claims were 254,000 for the week ending July 2. According to the JOLTS survey, there were 5.8 million job openings in April. We expect to see an increase in hourly earnings over the next twelve months as the labor market remains tight.

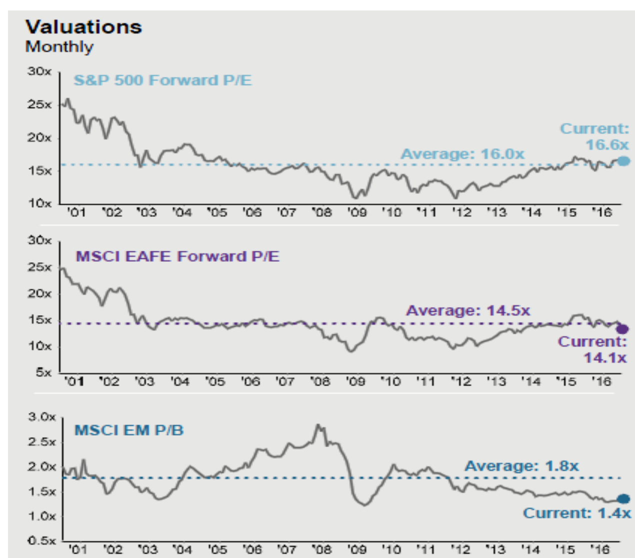
Manufacturing is improving with the ISM Manufacturing Index at 53.2% in June. This means the manufacturing sector expanded for the fourth consecutive month. The ISM Non-Manufacturing index came in at 56.5% in June. The New-Orders Index came in at 59.9%, which was up by 5.7% from May of this year.

Global economies continue to be mixed. The JP Morgan Global PMI Index was at 50.4% in June, which does represent global expansion. However, Developed Economies were at 50.9% while Emerging Economies were at 49.3%. The Euro area came in at 52.8% despite the uncertainty around Brexit. Specifically, Germany was at 54.5% and Ireland was at 53.0%. China's economy continues to cool with a PMI in June of 48.6% and Brazil's PMI has dropped all the way to 43.2%.

EQUITY AND BOND MARKETS

Earnings for the S&P 500 have dropped steadily since 2014. This coincides with the increase in the value of the U.S. Dollar versus other major currencies. Roughly 48% of revenue for S&P 500 companies comes from outside of the U.S. A stronger dollar acts as a headwind to these companies trying to compete around the globe. If the Dollar can stabilize at current levels, we should see a recovery in earnings for the S&P 500. In addition, the energy sector should return to profitability with oil now back above $45 per barrel.





Equity earnings and valuations will be critical to drive further advances in the market. The forward P/E ratio for the S&P 500 is at 16.6, which is slightly higher than the 20 year average of 16.0. Developed Markets as measured by the MSCI EAFE Index have a forward P/E ratio of 14.1 versus their average of 14.5. Emerging Markets as measured by the MSCI EM Index have a forward Price/Book ratio of 1.4 versus their average of 1.8.

This means that international equities are indeed attractive from a valuation perspective. The challenge for international investors continues to be managing the currency risk. In 2015, the surging U.S. Dollar negatively impacted international returns. The EAFE index was up 5.8% from a local currency perspective but was down 0.4% in Dollar terms. The EM Index was down 5.4% last year in local currency but was down 14.6% in Dollar terms. If the U.S. Dollar stabilizes at these levels, international stocks could be due for a recovery.

The Federal Reserve raised interest rates in December by 0.25%. However, they have been on hold as conflicting data continues to emerge. The yield on the 10-year Treasury has dropped to about 1.5%. We expect that long-term rates will remain low for an extended time frame. Approximately 75% of government bonds from developed countries around the world are under 1%. Roughly 36% of government bonds have negative yields! This means that our Treasury bonds are likely to remain attractive relative to other issues around the globe.

PORTFOLIO MANAGEMENT

We began the year with a defensive strategy. Our cash position helped the portfolios navigate the turbulent start to the year extremely well. The GFM Investment Committee was patiently waiting for the right opportunity to get back in line with our long-term investment objectives. The selloff in the markets after the British vote to leave the EU was the opportunity that we were looking for.

The preferred portfolio is now fully invested. Exposure to domestic small and mid-sized companies is still minimal given the age of this bull market. Most of our domestic exposure is in large companies with funds that have historically protected on the downside. This gives us the ability to participate in market advances without taking on too much risk.

Our alternative allocation has provided a welcome boost in 2016. The MLP and energy fund is up roughly 20% on the year and the DFA Real Estate fund is close behind. Although this is only about 6% of the portfolio, the gains have been a welcome addition.

The bond side of the portfolio has also done fairly well so far this year. Our Calamos Market Neutral fund is up about 3.5% on the year providing a nice boost to the fixed income side of the portfolio.

FINANCIAL PLANNING

Special Needs Planning: ABLE (Achieving a Better Life Experience) 529 accounts are now available in 4 states (Ohio, Tennessee, Nebraska, and Florida) for those individuals who have been diagnosed with a disability by their 26th birthday. ABLE accounts are similar to college savings 529 accounts as they allow for tax free growth and tax free withdrawals for qualifying expenses. A maximum of $14,000 can be contributed annually with a maximum account balance of $100,000. ABLE balances will not jeopardize eligibility for government benefits such as Medicaid and Social Security.

Beneficiaries of Retirement Accounts: Did you know that you can have a Trust be a beneficiary of a retirement account and still have it qualify under the ñstretch rulesò to prolong the distributions to your individual beneficiaries over an extended time frame? There are specific provisions that need to be followed when drafting this type of Trust, but it can be done. This type of planning can provide you the comfort to know that your assets will be retained by the individual beneficiaries for many years.

Contact your Fee-Only advisor to discuss the ABLE 529 accounts or to review your beneficiary designations.

Here are some smart phone apps that we think you might enjoy. Please let us know if you have any new apps that you would like to share with everyone.

- **iExit**: This application helps you decide which exit to use while traveling U.S. interstates. It finds your current location and then displays upcoming exits ahead with detailed amenities. You can find gas, food and lodging information within seconds. The application costs 99 cents.
- **Unroll.me**: This application is the best way to quickly unsubscribe from unwanted emails or consolidate them into a daily digest. Swipe to the left to unsubscribe or swipe right to keep. Swiping up will bypass your inbox and be included in a daily roundup It is a free application on most platforms.
- **Waze:** This is the world's largest community-based traffic and navigation app. Get community reported alerts including accidents, hazards, police traps, and road closures. Turn-by-turn voice guided navigation. This application is free on most platforms.

Company News

Kacie Wright

Kacie joined our team in March of this year as an Administrative Assistant. She is working in our front office completing various duties and assisting other team members as needed.

Kacie graduated from IPFW in May of 2014 with an Associate's of Science degree in Organizational Leadership and Supervision. She is currently working on her Bachelor's degree in OLS with a concentration in Human Resource Management. During her time at IPFW, she played on the Division 1 women's golf team. Prior to working at GFM, she has worked in multiple medical offices in the Fort Wayne area.

In her spare time, Kacie enjoys spending time with her fiance Jason and their five children: Logan (2001), Nick (2003), Wyatt (2005), Lucas (2009), and Addison (2010). She enjoys watching Notre Dame football and Indiana University basketball. She also enjoys playing golf, reading, and spending time outside with her family in warm weather.

- Galecki Financial Management Investment Committee

Special Note: If you would like to schedule an appointment with a Certified Financial Planner™ Professional, please visit www.galecki.com.