



FINANCIAL SENSE

	LAST MONTH	LAST 3 MONTHS	YTD
S & P 500 Index	0.12%	6.07%	6.07%
Russell Midcap Index	-0.16%	5.15%	5.15%
Russell 2000 Index	0.13%	2.47%	2.47%
Dow Jones Industrial Average	-0.60%	5.19%	5.19%
Morgan Stanley EAFE Index	2.75%	7.25%	7.25%
MSCI US REIT Index	-2.37%	0.99%	0.99%
DJ UBS Commodity Index	-2.66%	-2.33%	-2.33%
Barclays Aggregate Bond Index	-0.05%	0.82%	0.82%



INDEX RETURNS

The first quarter continued to produce solid gains across most asset classes. This was partly due to economic data improving in September and October of last year. It was also due to improved business confidence with the new administration in Washington D.C.

U.S. Large cap stocks ended the quarter up 6.07% following a 3.82% gain in the 4th quarter. So far growth has outperformed value with the S&P 500 growth index gaining 8.53% in the first three months vs. a gain of only 3.29% for the S&P 500 value index.

Mid cap stocks produced a solid 5.15% gain in the first quarter while small cap stocks were only up 2.47% according to the Russell 2000 index. Real Estate posted a positive gain of 0.99% in the first quarter, while commodities declined 2.33% in the first three months of the year.

The bond market was positive in the first quarter with the Barclays Aggregate Bond index gaining 0.82%. Meanwhile, the JP Morgan Emerging Markets Bond Index rose 3.97%.



ECONOMIC REVIEW AND OUTLOOK

The U.S. economy grew at a 2.1% annualized rate in the fourth quarter of last year. This followed the 3.5% growth rate in the third quarter. Early estimates for the first quarter are in the range of 0 . 1.5%. The first quarter has produced slower growth over the last few years, and most economists expect that to occur again in 2017.

The Leading Economic Index increased in February by 0.6 percent to 126.2 following a 0.6% increase in January and a 0.6% increase in December. After six consecutive monthly gains, this index is at its highest level in over a



decade. Economic output should continue to improve in 2017. Industrial Production was unchanged in February following a 0.1 percent decrease in January. The Capacity Utilization rate dropped to 75.4 percent. This is 4.5 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 98,000 in March and the unemployment rate was at 4.5%. Initial weekly unemployment claims were 234,000 for the week ending April 1st. According to the JOLTS survey, there were 5.6 million job openings in March. Average hourly earnings increased to \$26.14 for private non-farm payrolls with a year-over-year increase of 2.7%. American workers should continue to see decent wage growth with this very tight labor market.

Manufacturing fell in March to 57.2 from 57.7 on the ISM PMI index. However, this marks the 94th consecutive month of expansion. The ISM Non-Manufacturing index decreased by 2.4 points to 55.2 percent in March, but this also marks the 87th consecutive month of expansion. The Business Activity Index was at 58.9% and the New Orders Index was also at 58.9%. All numbers point towards continued economic growth in 2017.

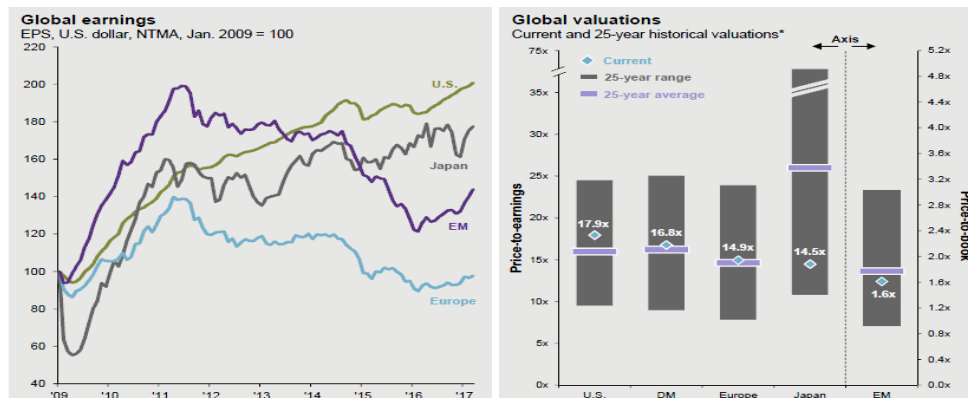
Global economies continue to improve. The JP Morgan Global PMI is at 53.0 in March up from 52.7 in December. The Euro area is at 56.2 lead by Germany and Italy who are at 58.3 and 55.7 respectively. Emerging markets continue to turn around with a March reading of 51.6 lead by Taiwan at 56.2 and India at 52.5. Growth outside of the U.S. continues to be a big story as we head further into 2017.

EQUITY AND BOND MARKETS

Earnings for the S&P 500 took a beating in late 2015 and early 2016 as the energy sector was hit with a huge drop in oil prices. When oil prices rebounded back above \$45, the energy sector improved and other areas of the economy began to recover. Thus, earnings for the S&P 500 bounced in the third quarter of 2016 (prior to the election) and are projected to improve throughout 2017.



Source: Thomas Reuters, Yardeni Research, Inc., as of April 7, 2017. 1Q17-4Q17 based on estimated earnings growth.



Although earnings are improving domestically and abroad, valuations are getting frothy in the U.S. The S&P 500 is now trading at a P/E ratio of 17.9, which is about 10% higher than its 25 year average of 16.2 times earnings. However, international stocks are trading right at their 25 year average. In addition Emerging Markets are trading quite a bit under their historical average valuation. The prior chart shows that U.S. earnings are at an all-time high, but earnings outside of the U.S. have a long way to go before they get back to their 2011 levels.

There are a few big developments to watch in 2017. The United Kingdom is beginning its transition out of the European Union. It is important to note that when the UK entered the precursor to the EU in 1973, their economy slipped into a recession just four months later. The Federal Reserve has raised short term rates three times in the last 18 months. The expectation is for 3 more hikes over the next twelve months. And finally, keep an eye on policy from the new Trump administration. Although the market is applauding potentially lower corporate and personal tax rates, the Census Bureau reported that 50% of the growth in the working population over the last ten years was from immigrants. New workers have accounted for about 1/3 of GDP growth over those ten years.



PORTFOLIO MANAGEMENT

The investment committee made a change in the first week of 2017 that has really helped returns. Domestic small-cap and mid-cap exposure was reduced and moved to international emerging markets. This change was made for two reasons. First, this U.S. bull market and economic expansion began in 2009, so it is now 8 years old. We believed it was prudent to take a little risk off the table domestically. Second, valuations for emerging markets were too compelling to pass up. While our U.S. indexes are all trading at a decent premium to their long-term averages, emerging markets are trading roughly 20% below their 25 year averages.

So far this move has worked out well. The Emerging Markets index was up 11.44% in the first quarter and our funds were up near those levels. Meanwhile, International Developed returns have been just as strong with the MSCI EAFE index posting a 7.25% gain in Q1 of 2017 and our funds were up a bit more than that.

The bond side of the portfolio continues to do very well. We recognize that we are in a rising interest rate environment which can be challenging for bond investors. However, we know that clients need principal protection and income in the portfolio for those times when equities retreat. Our unique bond strategy did great in 2016 and continues to do well in 2017. The Market Neutral fund was up roughly 1.8% in Q1 and our bonds as a whole were up about 1.2% while the Barclays Aggregate Bond Index was only up 0.82%.



FINANCIAL PLANNING




Are you retiring soon? Will you need to determine what to do with your retirement plan account? Do you have after-tax contributions in your retirement plan? Should you convert some of your retirement assets to a Roth IRA? These are just a few questions that might be important to you at this time of the year.

You have three main options to consider regarding your retirement plan when you retire or change jobs. You can leave it in the existing plan, roll it to an IRA, or take some/all of it as a distribution. The distribution option is the least attractive as it more than likely all taxable income and could include additional penalties depending on your age. This means that your two main options are to leave it in the plan or roll it over to an IRA.

If you have after-tax contributions in your retirement plan, that portion will typically be sent to you in a separate check. This is more than likely eligible to be rolled into a Roth IRA at your new custodian. Make sure you discuss all of your options in detail with your Fee-Only planner.

Also, if you converted money to a Roth IRA in 2016, you will have until October 15, 2017 to recharacterize (undo) this conversion. This is indeed much later than the tax filing deadline of April 18, 2017.

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.

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Mile IQ: This application keeps track of mileage for taxes or business purposes, or for any reason that requires a mile log. This application automatically logs drives and calculates mileage value. The application is free on most platforms.
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Google Trips: This application makes it easier than ever to plan and organize your trips. All of your travel information like reservations and confirmation numbers are in one place. Google Trips pulls the information from your Gmail and Inbox and organizes it automatically. It can also map out a half day or a full day agenda with suggestions for things to see and do. It is a free application.
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Runkeeper: This application allows you to track your workouts (walks, runs, rides, etc.) on a GPS map. You can set goals, race friends, or track your pace. It will also develop a workout plan for you to keep you motivated. You can use it with your phone or your watch. It is a free application.



Company News

We are sad to announce the departure of our Asset Management Specialist Ross Causley. Ross has been with Galecki for 8 years managing the service department. He relocated two years ago to Washington D.C. when his wife received a job opportunity in that area. He continued working remotely for us over that time frame and the transition was seamless. Many clients were unaware that he was not physically in our office. However, he does miss the human interaction of being in an office and he found a great opportunity close to his new home. We will definitely miss Ross and thank him for his many years of service.

Moving forward, client service needs will be directed to their designated Client Service Representative (CSR). Each Advisor has a dedicated CSR that he/she works with. This CSR will handle service requests such as check requests, new forms, general information, etc. If you have a service item that used to go to Ross, please direct the request to your dedicated CSR listed below.

Advisor	Client Service Rep	Email Address
Greg Galecki	Chloe Blythe	Chloe@galecki.com
A.T. Kohout	Nicole Muzzilo	Nicole@galecki.com
Brady McArdle	Alex Martin	Alex@galecki.com
Melanie Colwell	Jessica Roach	Jessica@galecki.com
Kevin Chandler	Nicole Allison	NAllison@galecki.com
Andy Young	Nicole Allison	NAllison@galecki.com
Chloe Blythe	Chloe Blythe	Chloe@galecki.com

We are very confident that our staff will be able to continue the excellent service that clients have become accustomed to in recent years. Please contact our office at 260-436-8525 if you have any questions about this transition.

- 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.