Third Quarter 2017

GALECKI FINANCIAL MANAGEMENT FINANCIAL SENSE

	LAST MONTH	LAST 3 MONTHS	YTD
S & P 500 Index	0.62%	3.09%	9.34%
Russell Midcap Index	0.99%	2.70%	7.99%
Russell 2000 Index	3.46%	2.46%	4.99%
Dow Jones Industrial Average	1.74%	3.95%	9.35%
Morgan Stanley EAFE Index	-0.18%	6.12%	13.81%
MSCI US REIT Index	2.13%	1.62%	2.66%
DJ UBS Commodity Index	-0.19%	-3.00%	-5.26%
Barclays Aggregate Bond Index	-0.10%	1.45%	2.27%

INDEX RETURNS

The second quarter produced strong gains across most asset classes. A fully employed labor market, low inflation and high consumer confidence has created a great environment for equities. Although there has been some recent softness in the data, the overall trend continues to be higher.

U.S. Large cap stocks ended the quarter up 3.09% following 6.07% gain in the 1st quarter. So far growth has outperformed value with the S&P 500 growth index gaining 13.33% on the year vs. a gain of only 4.85% for the S&P 500 value index. International stocks are now up 13.81% on the year as measured by the EAFE Index.

Mid cap stocks produced a solid 2.70% gain in the second quarter while small cap stocks were up 2.46% according to the Russell 2000 index. Real Estate posted a positive gain of 1.62% in the second quarter, while commodities declined 3.00% and are now down 5.26% on the year.

The bond market was positive in the second quarter with the Barclays Aggregate Bond index gaining 1.45%. Meanwhile, the JP Morgan Emerging Markets Bond Index rose 2.27% and is now up 6.33% on the year.

ECONOMIC REVIEW AND OUTLOOK

The U.S. economy grew at a 1.4% annualized rate in the first quarter of this year. This followed the 2.1% growth rate in the fourth quarter. Early estimates for the second quarter are in the range of 2-3% range. This slow growth rate has allowed the current expansion to last for 96 months when they typically only last about 4 years.

The Leading Economic Index increased in May by 0.3 percent to 127.0 following a 0.2% increase in April and a 0.4% increase in March. This index is now at an all-time high.

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1990-2015 25 YEARS

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Industrial Production was unchanged in May following a large increase in April. The Capacity Utilization rate dropped to 76.6 percent. This is 3.3 percentage points below the historical average over the last forty years.

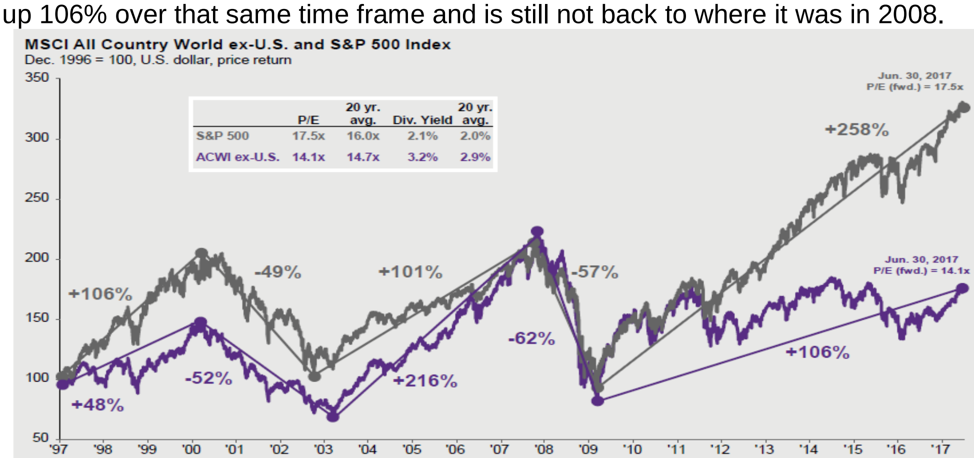
Non-farm payrolls increased by 222,000 in June and the unemployment rate was at 4.4%. Initial weekly unemployment claims were 248,000 for the week ending July 1st. According to the JOLTS survey, there were 6.0 million job openings in April. Average hourly earnings increased to $26.18 for private non-farm payrolls with a year-over-year increase of 2.5%. American workers should continue to see decent wage growth with this very tight labor market.

Manufacturing expanded in May to 57.8 from 54.9 on the ISM PMI index. This marks the 97th consecutive month of expansion. The ISM Non-Manufacturing index increased by 0.4 points to 57.4 percent in May which marks the 90th consecutive month of expansion. The Business Activity Index was at 60.8% and the New Orders Index was also at 60.5%. All numbers point towards continued economic growth in 2017.

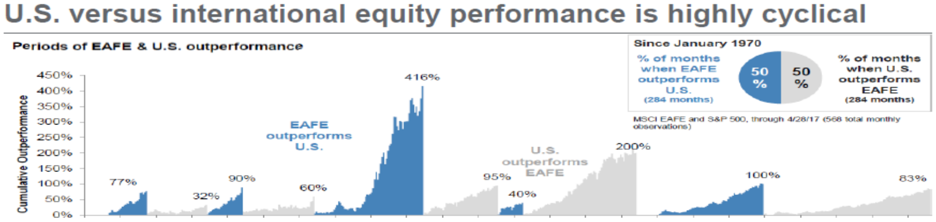
Global economies continue to improve. The JP Morgan Global PMI is at 52.6 in June up from 50.8 two years earlier. The Euro area is at 57.4 lead by Germany and Ireland who are at 59.6 and 56.0 respectively. Emerging markets continue to turn around with a June reading of 50.8 lead by Taiwan at 53.3 and Mexico at 52.3. Growth outside of the U.S. continues to be strong as we head into the second half of this year. Many of these international economies are still early on in their expansion cycle, while the U.S. cycle is more mature in duration.

EQUITY AND BOND MARKETS

The U.S. Market has had a great run since October of 2016 and even going further back to March of 2009. In fact the S&P 500 is now up 258% off the low in 2009. It is interesting to note that the MSCI All Country World Index ex-US is up 106% over that same time frame and is still not back to where it was in 2008.



U.S. versus international equity performance is highly cyclical



U.S. Outperformance		
Time Period	Outperformance	Duration
Jul '73 – Oct '76	32.2%	3.3 yrs.
Nov '78 – Oct '82	59.6%	4.0 yrs.
Dec '88 – Jan '93	94.6%	4.2 yrs.
Jul '94 – Oct '00	200.3%	6.3 yrs.
Dec '07 – May '16	83.3%	9.3 yrs.
Average	**94.0%**	**5.4 yrs.**

EAFE Outperformance		
Time Period	Outperformance	Duration
Feb '71 – Jun '73	77.5%	2.4 yrs.
Nov '76 – Oct '78	89.6%	2.0 yrs.
Nov '82 – Nov '88	416.0%	6.1 yrs.
Feb '93 – Jun '94	40.0%	1.4 yrs.
Feb '02 – Nov '07	100.2%	5.8 yrs.
Average	**144.7%**	**3.6 yrs.**

Source: PB CIO Quant Research. Bloomberg, MSCI, as of 3/31/2017.

The second chart above shows that since 1970, the U.S. market has outperformed international markets (EAFE) 50% of the time (Exactly half of the time). And yet, we just finished 9 straight years in which the S&P 500 outperformed international markets. The outperformance was substantial and clocked in at 83%. Note that these periods are cyclical and we believe we are entering a new phase where international stocks could do quite well.

Meanwhile, the bond market remains challenging. The Fed has indicated that they are going to raise rates three times in 2017 and again in 2018 and 2019. In addition, they are going to be reducing the size of their balance sheet. This should put pressure on domestic bonds.

The good news is that back in 1987, the U.S. represented 61% of the global bond market. That number is now 39% which means that 61% of outstanding bonds are outside of the U.S. We believe that keeping a decent exposure to international bonds will help mitigate domestic interest rate risk over the next few years.

PORTFOLIO MANAGEMENT

The Investment Committee has now made two major moves in the portfolio for the year. The first move came in the first week of the year as we increased our international emerging markets exposure. This was due to relatively low valuations and recent underperformance. This move paid off nicely as our international returns were up around 15% in the first quarter. We are still looking to increase our international exposure by the end of the year.

The most recent change occurred in the middle of June. The Technology sector has grown to now represent 23% of the overall weighting of the S&P 500. With our U.S. large cap growth funds appreciating about 15% in the first half of the year, we determined that it was time to reduce our exposure to technology. Therefore, we kept the money in U.S. Large companies, but moved it over to value companies which are cheaper at these levels.

We have been very pleased with the bond side of the portfolio. It is difficult to manage bonds in a rising interest rate environment, but our strategy has worked quite well. Through the first half of the year, our bonds are up roughly 2.5-2.7% while the Barclays Aggregate bond Index is up 2.27%. Convertible Bonds were up more than 9% and our Market Neutral fund continues to perform nicely with a 2.78% rate of return. We are confident that our fixed income allocation will hold up in this difficult rising rate environment.

FINANCIAL PLANNING

We are at the midway point already for 2017. It is time to do a check up to make sure that your plan is on track. Take the following steps to prepare for your plan review:

1. Review your income and expenses for the first 6 months. Make sure you are keeping expenses low.

2. Look at ways to save money and use tax efficient strategies. If possible, defer the maximum into the following areas:
   a. Health Savings Account: The maximum contribution for an individual is $3,400. The maximum for a family is $6,750. In addition, a catch-up contribution of $1,000 is permitted for those 55 and older.
   b. Retirement Plan: The maximum contribution for a 401(k) or a 403(b) is $18,000 with a $6,000 catch-up contribution for those 50 and older. SIMPLE IRAs have a maximum deferral of $12,500 with a catch-up amount of $3,000 for those 50 and older. SEP IRAs are limited to a maximum contribution of 25% of your net earnings, or $54,000. An additional $6,000 may be contributed for those 50 and older.

3. Schedule a meeting with your Fee-Only Planner to review the progress you are making on your plan.

Here are some additional planning items to consider for your mid-year review:

1. 529 Plan Recapture Rules: All non-qualified withdrawals from an Indiana 529 plan account are subject to recapture rules as it pertains to your Indiana tax credit. You will not be able to take the full amount of the credit if non-qualified withdrawals are made in the same year. Rollover distributions to another states plan are also considered a non-qualified withdrawal for these purposes. Please contact your financial planner or tax professional for further details and calculations.

2. Long Term Care costs are currently estimated to be about $97,455 a year for a private single room in the Fort Wayne area (time and place will differ). It is important that you consider these costs in your long term planning needs. At Galecki Financial Management this is an analysis that we often run to see if the assets you have accumulated will support these additional costs. By running multiple scenarios on various lengths of time in an extended stay facility, we can provide you added comfort that your savings and assets will be sufficient or if additional planning is needed.

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.

- **Mobile Passport**: This application allows you to use special mobile passport lanes in 23 major U.S. airports. A few questions must be answered on the app when you land, but the mobile line is usually far shorter than normal customs lines. The application is free on most platforms.
- **The Great Courses Plus**: This application allows you to stream over 8,000 college level videos and lectures on your phone or tablet. You can also download and watch offline. Ideal for general learning at home or while you are traveling. The app is free, but some courses have a fee.
- **Microsoft To-Do:** This application is a very simple and straight forward way to manage your daily task list. Whether the items are for work, school, or home, the To-Do app will help you organize your list and make you more productive. It is a free application.

- 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.