Foresight
Capital Management Advisors, Inc.

NAPFA-REGISTERED FINANCIAL ADVISOR

AIF® Accredited Investment Fiduciary®

Newsletter 4Q 2016 and Market Summary

FCMA's Model Portfolios have gains for 2016 as follows:
Conservative Model +3.93%, Moderate Model +6.05%, and Aggressive Model +4.94%. Given the many unexpected surprises of 2016, the Foresight Models managed to end with positive returns in step with their adjusted risk levels. Remember, our models are globally diversified and by definition diversification will not keep up with a bull market in the S&P 500, but diversification will also not suffer the drastic downs of the market either. In the Foresight company retirement plans there is a Best Screened List = B-List of mutual fund choices which can be utilized if you wish to add more focused investment picks. Please call us at any time if you wish to have assistance in how to utilize the B-List choices for your retirement investments.

Foresight is pleased to share our new office suite with you during our recent ribbon cutting:

Important Web Portal Access for All Quarterly and Billing Information at Foresight

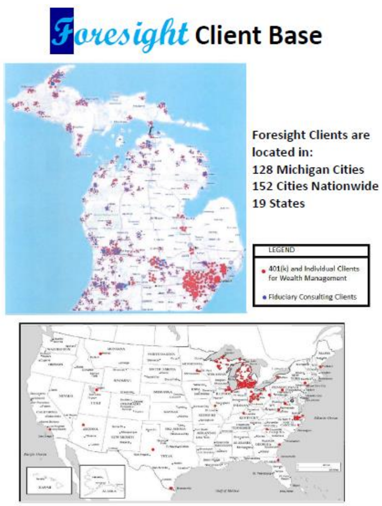
Currently all billings are now sent to your Web Portal. Go to https://cwp.morningstar.com to access them. If you need help on how to access this information please call or email us. Beginning in Jan 2017 we will begin billing quarterly to add efficiencies. Both of these have added security by utilizing the webportal.

HSAs at Foresight

We now offer Health Savings Accounts which can be invested in our Model Portfolio strategies of Aggressive, Moderate, and Conservative. The HSA savings is a triple win for the consumer because you get to save in the HSA and get a tax deduction, then it grows tax deferred, and when you use the HSA for medical expenses it is tax free! There are also optional debit cards with our HSA program. Please call if you are interested in further details 734-429-4680.

Retirement Plans Update Regarding Fund Selection:

Beginning in 2017 we are rolling out a larger 80 list of Best-Screened mutual funds. These will be available via your website access, as the year progresses some may be deleted from the list if they slip in ranking. The goal is to eliminate website viewing issues that have been experienced in the past. This process should make it more reliable for the website providers to accommodate.



FCMA Model Returns
Dec 31, 2016 YTD

Conservative Model	+3.93%
Moderate Model	+6.05%
Aggressive Model	+4.94%
Indexes:	
S&P 500 Index	+9.54%
MSCI EAFE Foreign	-1.88%
10Yr T-Bond Index	+0.18%

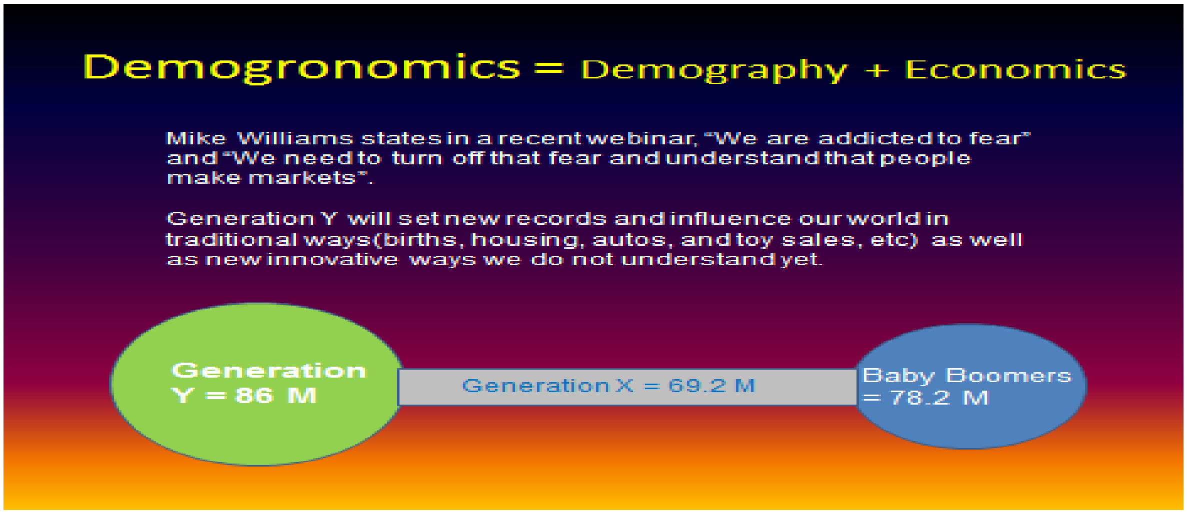
Future performance is not guaranteed; above returns are 2pt actual averages

Foresight's Outlook and Portfolio Strategies

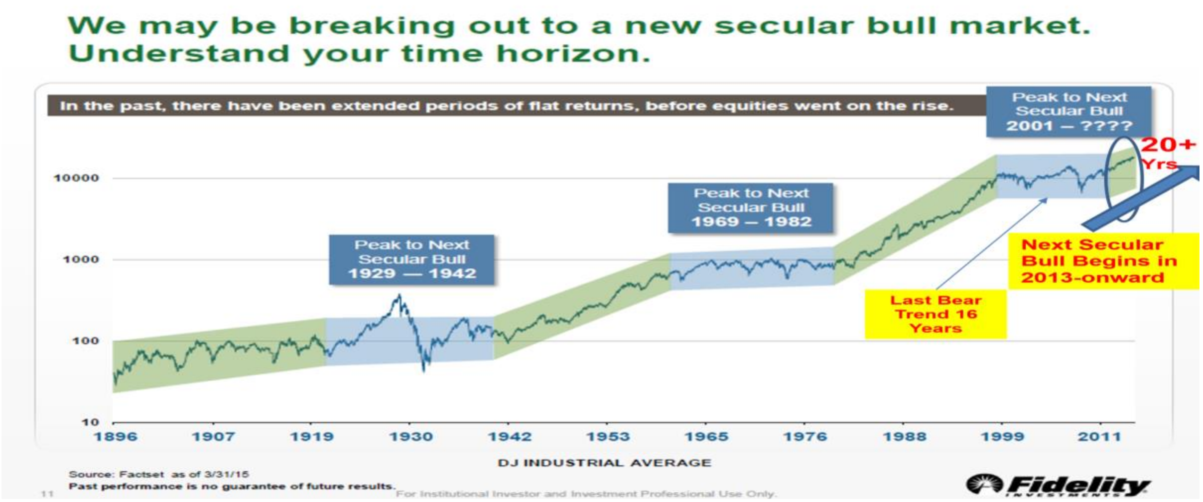
2016, a year to be remembered as full of surprises! It began with tumultuous volatility as oil plummeted in January and the market fell -10.5%, then Brexit hit in June and dropped the market again, the fall rolled out an election that was not greeted by most, and ended in an epic market rise to Dow 20,000 in just 42 days! Dr. David Kelly, Chief Global Strategist J.P. Morgan Funds, recently said in his webinar from 1/4/2017, our new President's agenda will be like trying to go on vacation on a diet because there is not much in the federal budget till. We are likely to see some action in lowering regulations in energy, immigration maybe the start of a wall, ACA changes will go slow by trying to amend it, infrastructure and defense spending likely, cut Corporate taxes, tariffs talk is probably bigger than doing. All this being said, it is likely favorable for stocks and it makes them more valuable!

The economy is a healthy tortoise, per Dr. David Kelly, with GDP ending at 1.91% for 2016, but according to Ed Lazear, of the Hoover Institute, GDP for 2017 is estimated to rise reaching 3.1%! Unemployment ended at 4.7% for 2016, but estimated to lower to 3.5% by end of 2017. Most expect the Federal Reserve to raise interest rates at least 3 times in 2017. PE ratios on stocks are at 16.9 which is the average for the past 25 years so stocks are not overvalued, but small caps are expected to do better. It is believed that foreign investments will grow back to their 2011 values. However, there are 3 foreign elections in 2017, Netherlands, France, and Germany, which if more Brexits happen could add risk. The overall belief is to be invested in stocks and real assets and less fixed income. 2017 is likely to be a decent market and showing no signs of a recession.

Additionally, a demographer and world renowned researcher, Mike Williams states in a recent webinar, "We are addicted to fear" and "We need to turn off that fear and understand that people make markets." He continues to explain that there is an epic change coming from the Millennials. Its is called Demogronomics=demography + economics. Over the next 50 years as the Millennials (generation Y) enter as the largest workforce and the largest population in the US at 86 million. (baby boomers =78.2 m, and generation X =69.2 m) Generation Y will set new records and influence our world in traditional ways (births, housing, auto and toy sales, etc) as well as new innovative ways we do not understand yet. The growth that is expected is epic! He is a best-selling author and his website is demogronomics.com. This further supports the secular bull market slide below.



Lastly, the secular view of the market is noted in the chart below. It begins at 1896 and goes through to 2016. The green periods of time are segments of 20+ years and the blue segments are also 10-20 year periods of time. These are called "Secular Periods" because they are generational segments of time. The green are Secular Bull markets (market rises) and the blue are Secular Bear markets (market decreases). Note in the green Bull markets the line is not straight up but there are bumps or recessions within the larger Secular Bull market. The key is the green segment, although it has some "mild recessions," it is an overall growth period of time. This theory is also supported by Mike William's research cited above called Demogronomics!



Notice the right side of the chart is showing, since 2013, that we are likely moving into the next Secular Bull market period of 20+ years of time where the market will rise! If this plays out to be true, then the next couple of recessions will likely be mild and short lived. We need to look at them as opportunities and not panic. It is very unlikely we will see another 2008 during our lifetimes. I hope this leaves you with a bit of comfort and something to really think about…Secular Bull Market and Demogronomics.

Foresight continues to monitor the geo-political situations and is optimistic at this point. Foresight has moved all our portfolios into their normal risk allocations. We reduced weightings in healthcare, telecom and utilities. We have added financials, energy and infrastructure to the portfolios. For clients with stock portfolios we have created three models (Aggressive, Moderate, and Conservative) and are moving all our clients into the appropriate risk they have chosen. We expect the market to have growth in 2017, but there could also be a correction which will not concern us as we believe the economy is healthy at this point. Please contact us if you have any questions about your portfolios.

Foresight Planning Ideas

New Health Savings Accounts-HSAs with Foresight at Schwab: . Foresight now offers HSA accounts for your Company or Individual HSA savings. An HSA with Foresight will allow you to choose the same 3 Model portfolios of risk either Conservative, Moderate, or Aggressive. If you have a High Deductible Health Plan then you can consider opening a HSA = Health Savings Account with Foresight. The HSA will allow you to save in 2016 up to $3,350 for single ($3.400 in 2017) and $6,750 for a family; if +55 then $4,350 for single and $7,750 for a family. The HSA savings are not subject to Federal Tax and will grow, much like a Roth IRA, with no tax due if used for all qualifying health expenses, note cannot be used to pay health insurance premiums. If you are interested in more information on this strategic investment idea for your healthcare savings please contact us. 2016 HDHP=minimum deductible for single $1,300 and family $2,600 and out of pocket maximum for single $6,550 and family is $13,100.

The B-List Expansion for Retirement Plans: To accommodate requests and ease the quarterly rebalance burden Foresight has decided to begin 2017 with 80 fund choices as our B-List. All these funds will be available on the website for your investment choices. The Foresight Models of Aggressive, Moderate and Conservative will also be available as Auto-Pilot choices. As the year unfolds if a fund on the B-List of 80 becomes undesirable we will remove it from the list so only top funds remain for investment. There are several new categories for investment so we think you will find this a great way to begin 2017!

Foresight's New WebPortal Reporting: The Web Portal is for your protection and information security. Beginning in Nov 2016 all of our quarterly information will be sent to the Web Portal. We want our communication to be timely and beneficial to you. Go to https://cwp.morningstar.com. If you have any access issues please call or email us at 1-877-429-4690 or mgallagher@fcmadvisors.net.

Tax Information will be put in your WebPortal for ease of access. Please be sure to check here first as this will help save you time when gathering data for your tax preparer. Go to https://cwp.morningstar.com.

Did you Know? you can give your Tax preparer access to download your tax information directly into the tax software and save them a lot of input time. This will also likely save you a lot of money in tax prep fees. It is worth asking your tax preparer how this might save you. However, be sure to change your access to your custodian accounts, UID and PW, after your taxes are completed to re-securing your investment accounts.

Quarterly Billing began January 2017

Did you Know?: Foresight has written two white papers. **Low Cost Investing- The Costly Approach?** and **Target Date Funds-The Next Retirement Dilemma**. Please email us at consultant@fcmadvisors.net if you would like a copies to read.

New White Paper Coming Soon: a new white paper on **A Study of Mutual Fund Share classes- and Why the Cheapest Fund Class May Not be the Best!**

IRS Contribution Limits for 2017! $18,000 deferral max and for 50+ $24,000 deferral, and IRA limits $5,500 and if age 50+ $6,500.

Did you Know? If you have Roth 401(k) it is wise to roll these funds to a Roth IRA before you turn 70 ½ because if the Roth funds are left inside a 401(k) they must take RMD (required minimum distributions) just like the pre-tax funds which defeats the purpose of letting the Roth grow! However if you roll it over into a Roth IRA before 70 ½ then you do not need to take the RMD from the Roth IRA. This is a very important hint to remember!

Exit Planning Newsletter. Foresight recently launched this newsletter which features topics on business succession planning and retirement planning we can assist you with. If you would like to be added to this newsletter list or know someone who would be interested in receiving the information please contact us at consultant@fcmadvisors.net. Did you know about 75% of all businesses do not have a succession plan. Please contact us if you are interested in completing this important planning for your business. Foresight can now assist with transition planning for your business!

Did you Know?: You can take a distribution from your 401(k) or 403(b) prior to age 59 ½ without a 10% penalty; if you have separated from service no earlier than age 55. Funds must be in a 401(k) or 403(b) and cannot be in an IRA. Additionally, if you retire and wish to begin normal distributions prior to 59 ½ then a 72-T calculation can be done to allow funds to be removed from your IRA without a 10% penalty as long as you have separated from service.

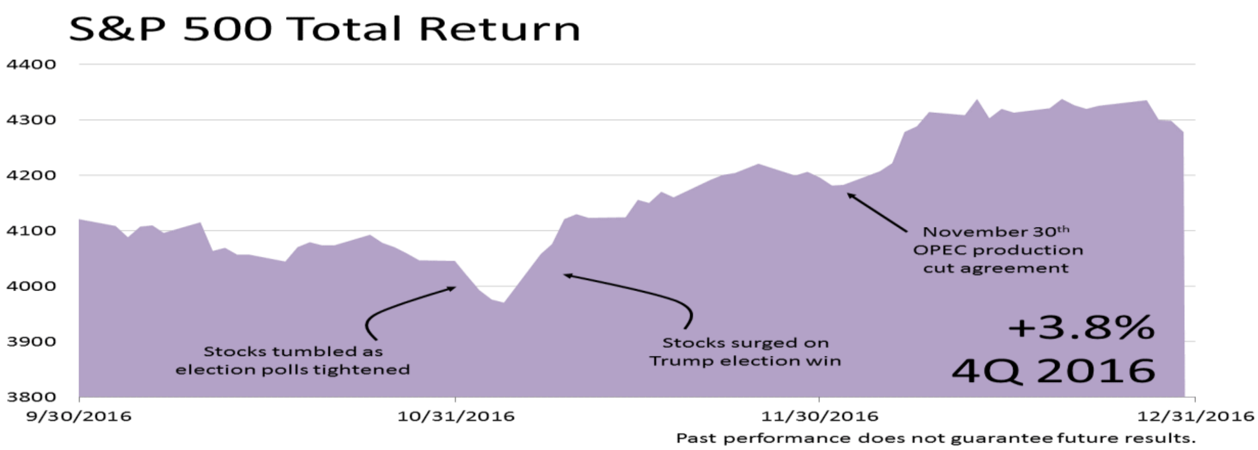
Roth IRA Ideas if interested in additional savings ideas consider opening a Non-deductible IRA. This will allow you to save the maximum in your 401(k) and also save an additional $5.5k in a Non-deductible IRA, and $6.5k if age 50+. Then convert the Non-deductible IRA to a Roth IRA! It is a way to obtain a backdoor Roth IRA funding even if you are not able to save directly into a Roth IRA.

Feeonlynetwork.com: Foresight is now a published advisor on-line at www.feeonlynetwork.com. This is a website to locate fee-only advisors in your communities. Check it out and see a video from the AIF® national conference when Laurie was interviewed about our investment processes at Foresight!

On-line Access each year we encourage everyone to test your on-line access to your account(s) at the custodian or third party administrator for your plan. Please visit **Journeyrps.com** or **Noblepension.com** if a retirement participant. For individual clients at TD Ameritrade access **Advisorclient.com** for Schwab Institutional Clients access **Schwaballiance.com.** To access your webportal for individual accounts go to https://cwp.morningstar.com . If you have any difficulty accessing your account, please email or contact us.

Quarterly Market Summary

4Q 2016

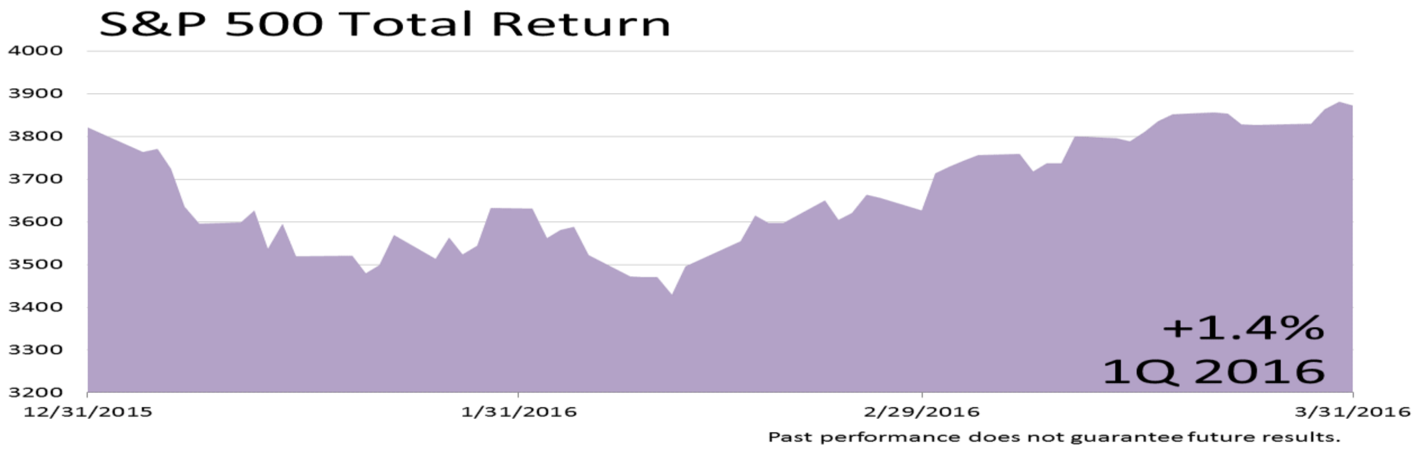


Large-U.S. company shares posted a 3.8% fourth-quarter total return following a 3.9% return in the third quarter, a 2.5% return in the second quarter, and a 1.4% return in the first quarter of 2016.

The strong fourth-quarter return was unexpected and followed the surprise election of Donald J. Trump as the 45th U.S. president.

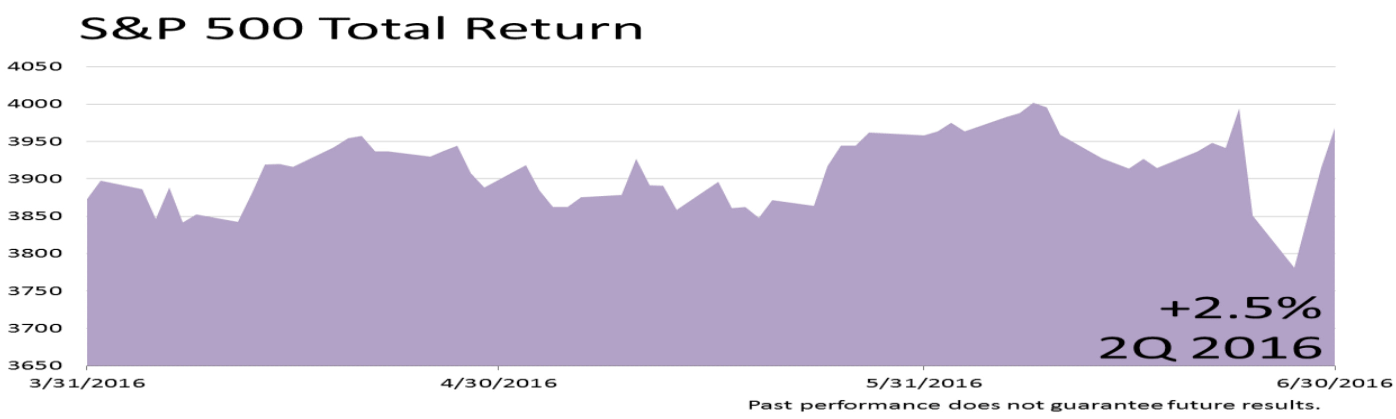
Unexpected events last quarter capped a year of surprises.

In fact, 2016 may be recalled in history as a watershed year of spectacularly confounding outcomes.



Fittingly, 2016 started with a surprise — and not a good one, the worst start ever to a year in Wall Street history.

In the first six weeks of the year, a crash in crude oil prices raised fears of a global slowdown, triggering an avalanche of selling and a 11% decline in the Standard & Poor 500 index, a measure of the value of America's largest publicly held companies. Abruptly, the blue-chip index rebounded in the quarter's closing six weeks, eking out a 1.4% return for the quarter.



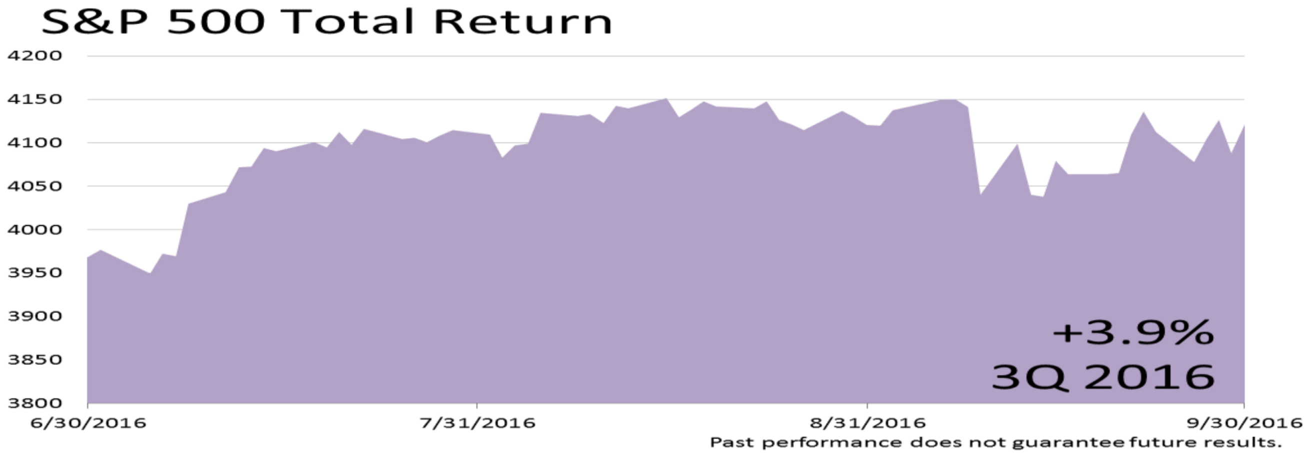
In the second quarter of 2016, stocks returned 2.5% — average gains, but they were fraught with fear.

On Friday, June 24, Great Britain's vote to exit the European Union caused a two-day, 5.3 percent plunge in stocks.

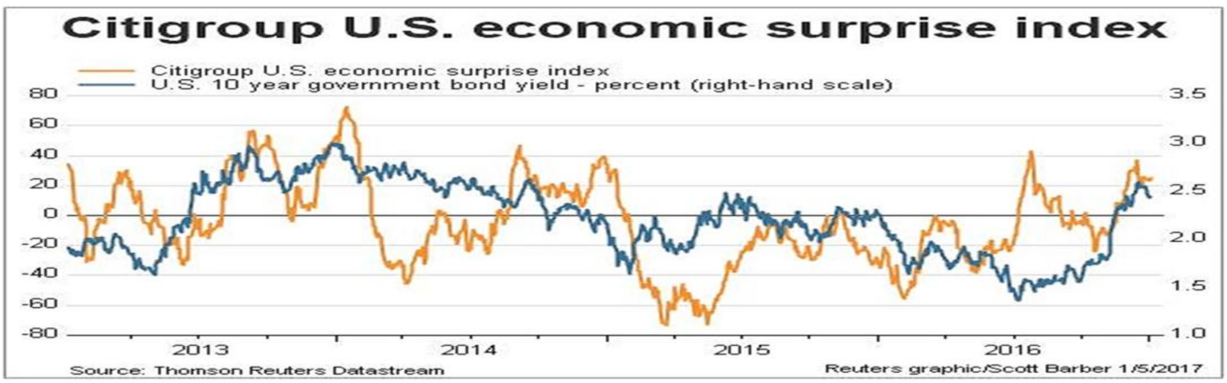
After a two-day Brexit bashing, investors realized they had overreacted.

Surprise! Brexit was not a consequential economic event to U.S. stock investors. It was political. Should the U.S. lose all trade with all of Europe — including Great Britain — it accounted for 2% of GDP and would not have a material impact on U.S. economic growth.

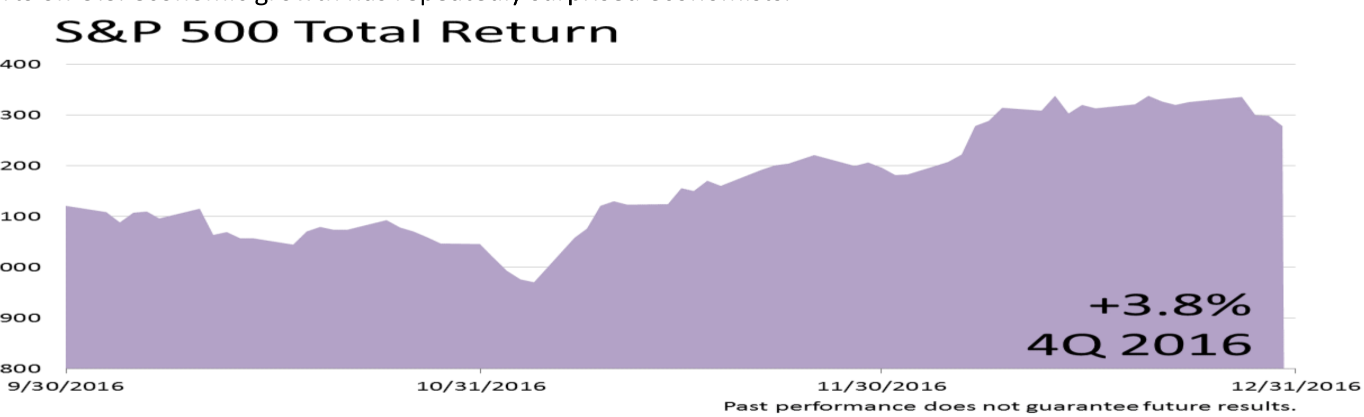
Three trading days after the surprise Brexit vote, stocks rebounded, bouncing back strongly to return 2.5% in a rocky second quarter.



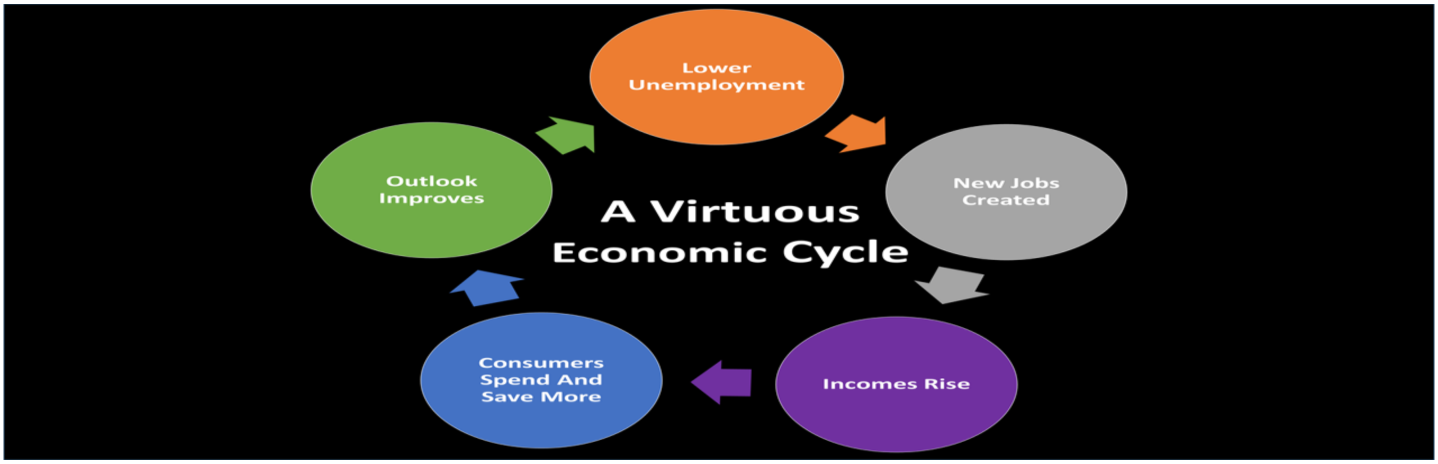
In the third quarter, stock returns surged 3.9%, and positive economic data continued to contradict forecasts by economists.



The surge since June 2016 in the Citigroup U.S. economic surprise index confirms that a stream of better than expected reports on U.S. economic growth has repeatedly surprised economists.

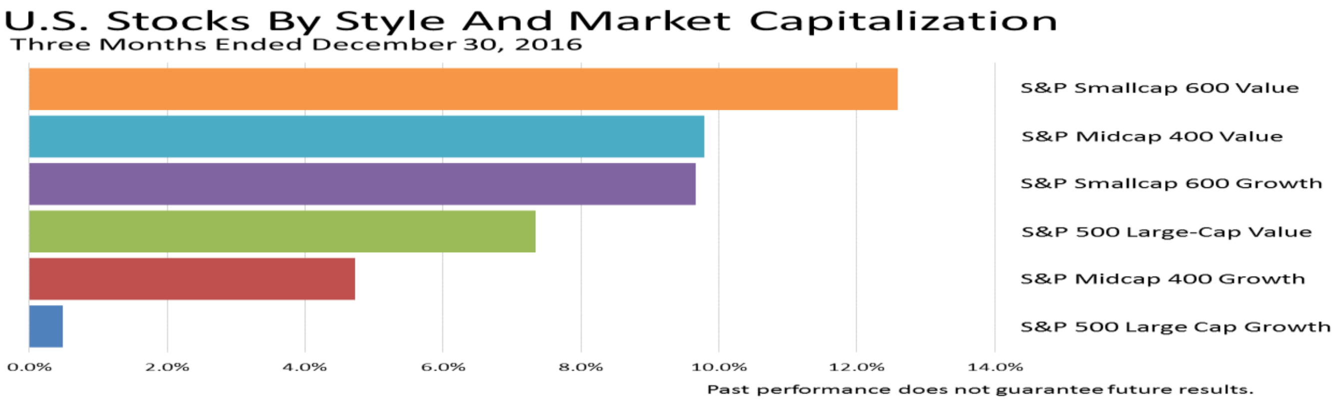


Capping the year, the strong final quarter was attributed largely to the "Trump rally," and it was aided by an exceptional 3.5% rate of economic growth in the third quarter, a strong earnings recovery in the S&P 500, and oil production cuts announced by OPEC.



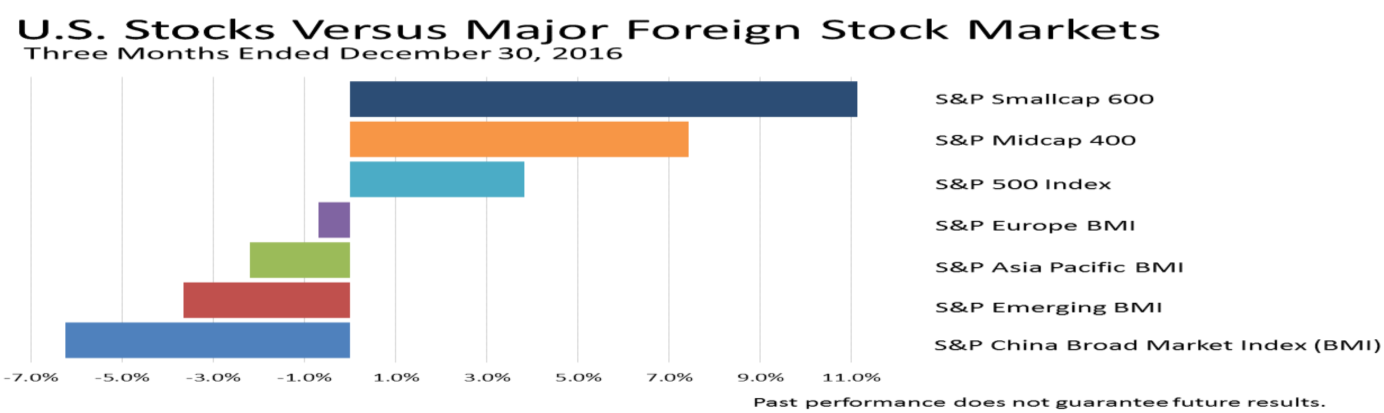
Markets are driven by economic fundamentals and the data underlying the economy fell into a virtuous cycle in the fourth quarter, with one good surprise feeding the next.

A new low in the unemployment rate was achieved, as job openings hit a record high. Strong personal income rose, fueling spending growth and strong retail sales. The index of leading economic indicators (LEI) rose, the forward-looking monthly purchasing managers indexes improved, and the Federal Reserve reiterated its intent to maintain a stimulative monetary policy, lowering the chance that a policy mistake by the Fed would cause a recession, as has happened in all recessions in the post-war era.



In the quarter ended December 30, 2016, a 10-point return gap separated the best from the worst.

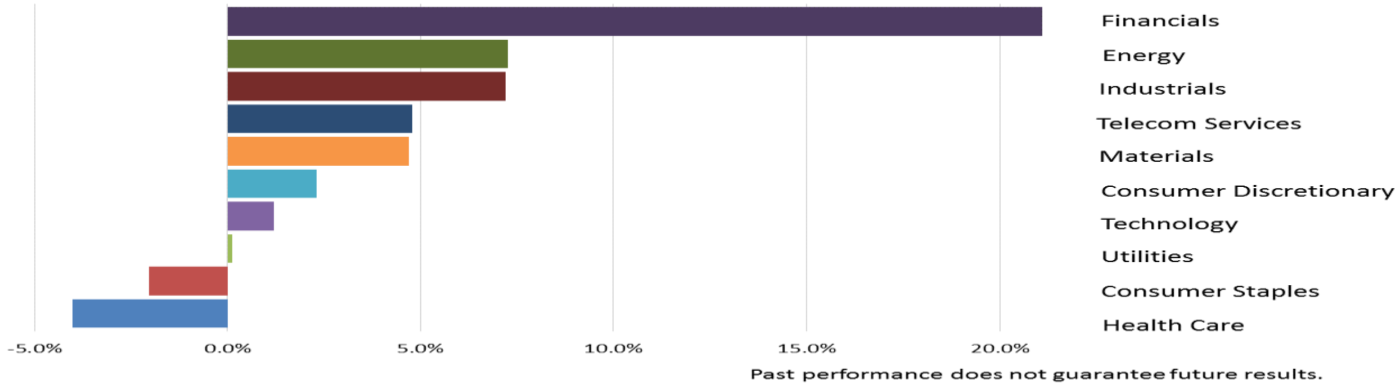
Small- and mid-cap value stocks beat large-cap growth stocks, the laggards of this three-month period. Small- and mid-caps historically have outperformed in the past when investors are bidding stock prices up, as happened following Donald J. Trump's election as the 45th U.S. president.



The fourth quarter of 2016 marked a reversal from the third quarter, with U.S. indexes outperforming major foreign stock indexes representing bourses in China, emerging markets, Asia Pacific, and Europe.

Foreign markets' U.S. dollar-calculated returns were handicapped by the dollar's surge in strength in the quarter.

Standard & Poor's 500 Sector Indexes
Three Months Ended December 30, 2016



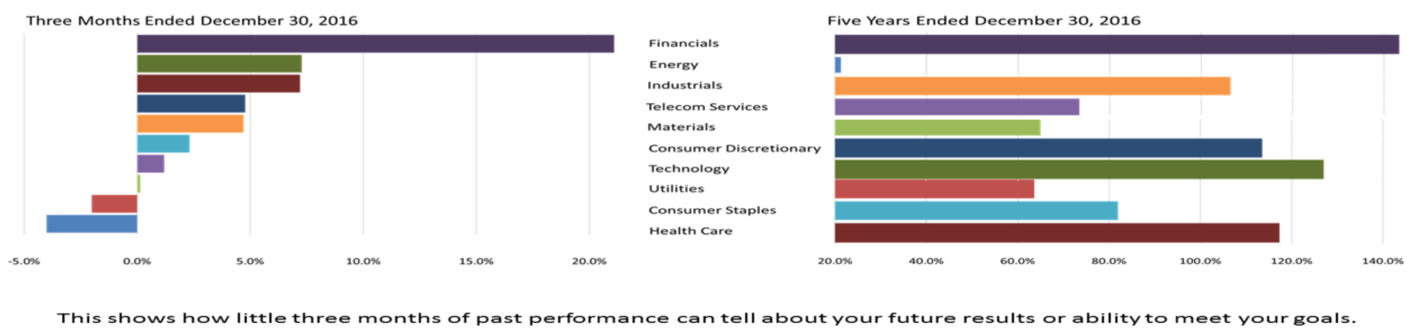
Financial stocks soared in the quarter ended December 30, 2016, after a surge in bond yields led investors to bet a steeper yield curve would improve profits at lenders. Also driving financials higher, investors began assuming that some of the costlier aspects of the Dodd-Frank legislation regulating financial services might be eliminated under a Trump administration.

The energy sector gained on a rise in oil prices, following OPEC's November announcement of a production-cut agreement.

At the bottom of the sector performance rankings in 4Q 2016 were health-care stocks, which sank on Mr. Trump's plan to rein in excessive insurance price increases.

Of course, analyzing one quarter's performance is of limited value. As a strategic investor, you want to understand quarterly performance but know how to put the recent short-term data in perspective.

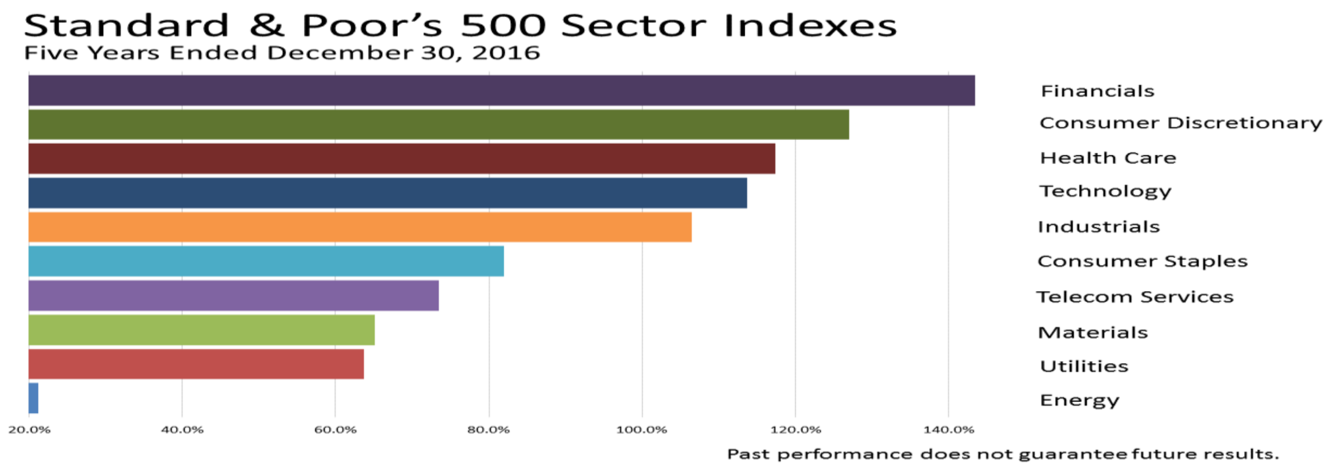
Standard & Poor's 500 Sector Indexes
Three Months Ended December 30, 2016



These two charts are placed side by side to show you the quarter's performance versus a long-term portfolio.

On the left is the performance of the 10 S&P 500 industry indexes for a single quarter and on the right is the corresponding sectors' five-year performance.

Financials were No. 1 in the quarter and also are top-ranked for the five-year period. However, the No. 2 sector of the quarter was energy, and that sector's paltry return earned energy stocks last place in the sector performance race over the five-year period.



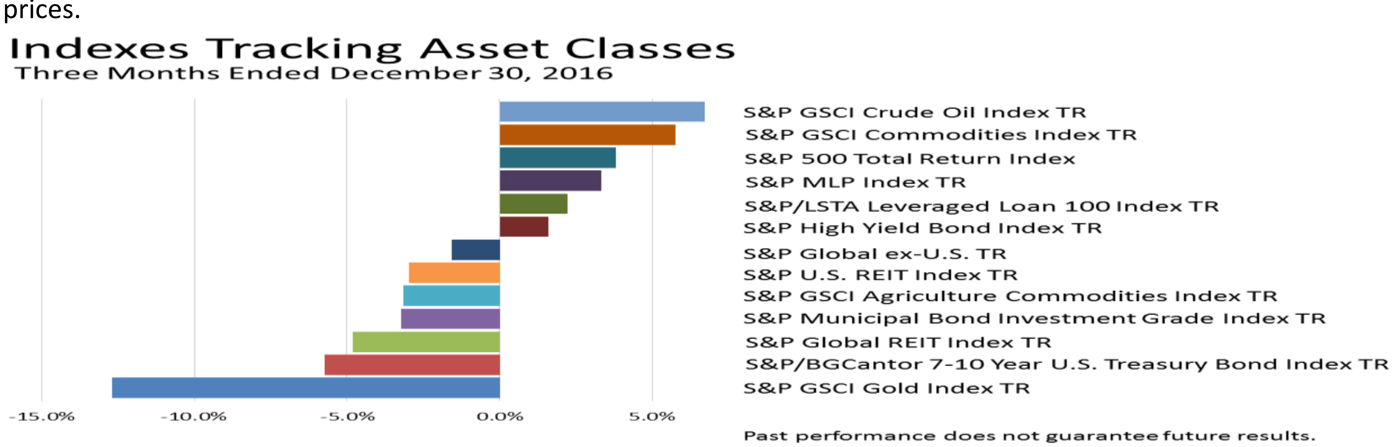
Think of the past five years in the context of the recovery that was ignited after the near-collapse of the global financial system in October 2008, during the global credit crisis, and historic global recession that ensued for the first three quarters of 2009.

Financials, as you might expect, sustained the worst losses in the Great Recession and, quite naturally, have the biggest bounce back recently to become the No. 1-performing sector over the past five years. As Nobel laureate, Bob Dylan would say, "The first one now will later be last."

The next three best-performing sectors — consumer discretionary, health care and technology — consist predominately of growth stocks, companies with strengthening earnings since the worst economic calamity of the post-war era, the Great Recession, this generation's Great Depression.

Conversely, the lagging sectors — energy, utilities, telecom services and materials — the value stocks, which have less sizzle and, as you might expect, share prices have not run as hot as investments in fast-growing shares.

The energy and material sectors were slammed by the collapse in crude oil, as were commodity prices generally in this five-year period. The price of a barrel of oil, while up 100% from its early 2016 bottom of $26 per barrel, still is priced at less than half its peak of $114 per barrel in 2014. The energy sector of the stock market is highly correlated with crude oil prices.



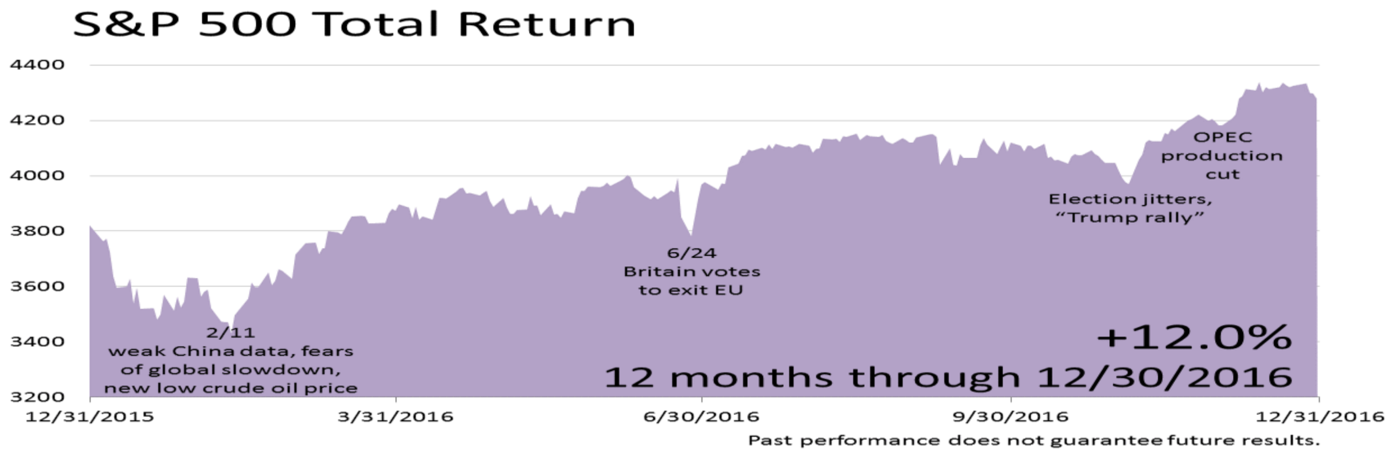
Looking at the performance in the fourth quarter of 2016, crude oil rallied on the strength of OPEC's November production-cut agreement, pushing up the GSCI commodities index, which has a heavy crude-oil weighting, and the MLP index with it.

The S&P 500 index rallied 3.8% in the fourth quarter in what the press tagged the Trump rally.

Leveraged loans and high-yield bonds rallied with investors' continuing their "risk-on" posture.

Fixed income, across the spectrum, posted negative returns, as bond yields surged post-election.

And, gold slumped as the U.S. dollar surged post-election.



In calendar-year 2016, the S&P 500 stock index gained a robust 12%, as U.S. companies recovered from last year's collapse in earnings in the energy and mining sectors.

The average share in the S&P 500 plunged 12% in February on fears that a global slowdown led by China would begin as crude oil prices sank below $30 per barrel.

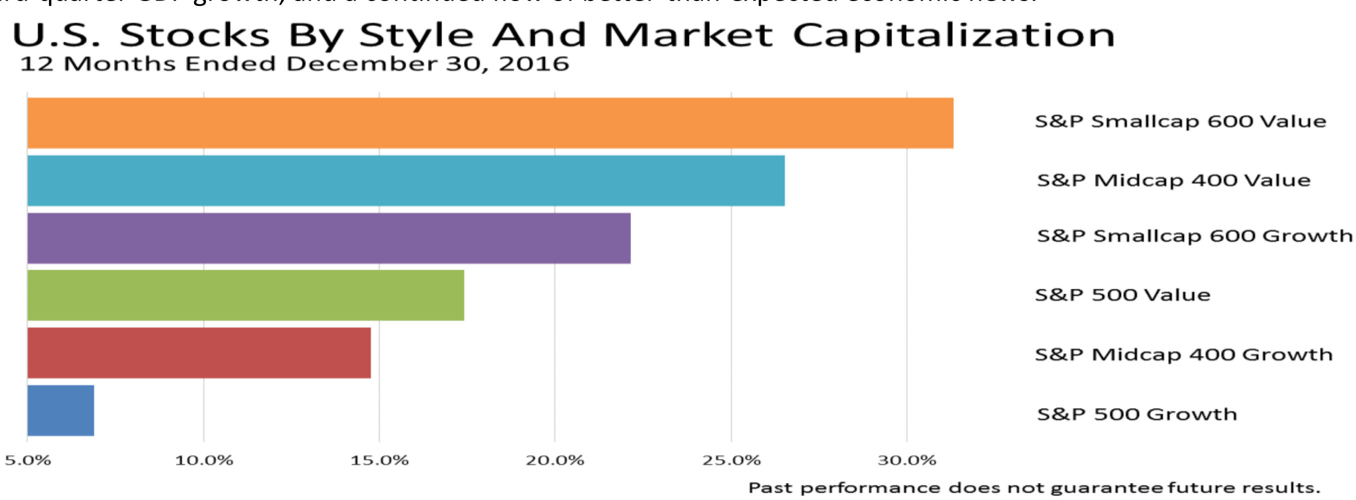
Those fears abated by the end of the first quarter of 2016 as global economic data firmed up.

Healthy monthly jobs reports, a declining unemployment rate, and a rising index of leading economic indicators buoyed stocks until — surprise! — Britain voted to exit the European Union in the last week of the second quarter of 2016, which rocked the S&P 500 with a loss that Friday, June 24, and the following Monday, totaling 5.3%.

On Tuesday, sentiment abruptly changed and the blue-chip stock index fully recovered by the second quarter's end, within a week's time.

Stocks rallied in the third quarter of 2016 on a surprisingly strong July jobs report and the S&P 500 trended more-or-less flat through September's end.

Stocks rallied again in the fourth quarter on the Trump election win, OPEC's announced production cut, strong 3.5% third-quarter GDP growth, and a continued flow of better-than-expected economic news.

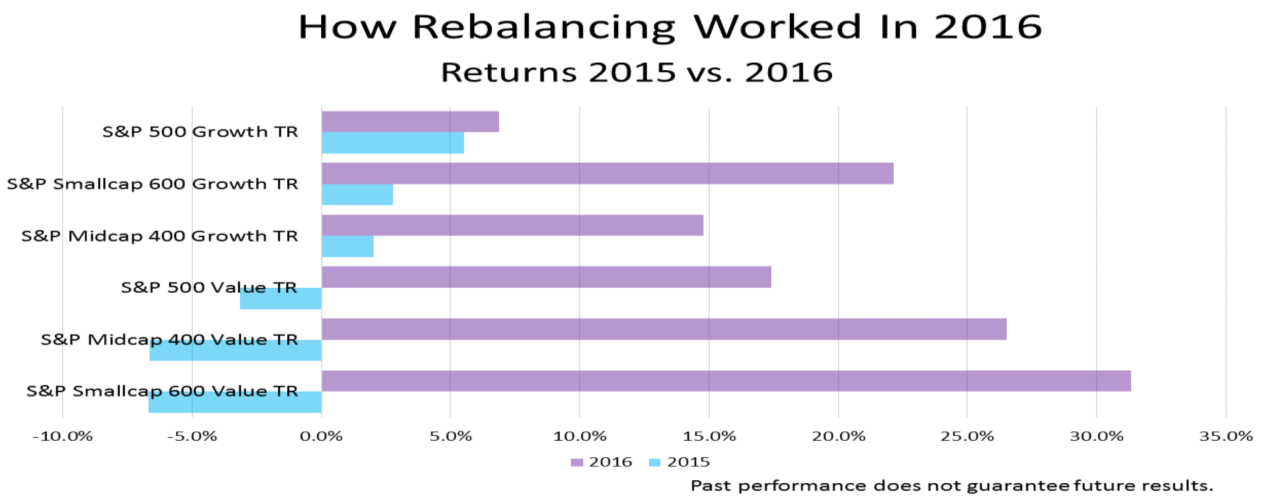


Examining stocks by their size and investment-style characteristics in the 12 months ended December 30, 2016, small- and mid-cap indices led U.S. stocks. They had been the laggards in 2015.

Investors, broadly speaking, bid up prices for risk as 2016 progressed and economic data strengthened both in the U.S. and globally.

Conversely, large-cap growth issues, which had huge runs in 2015, led by Facebook, Amazon, Netflix and Google, took a breather in 2016.

This was yet another illustration of how good performance among sectors, styles, and market cap routinely rotates.

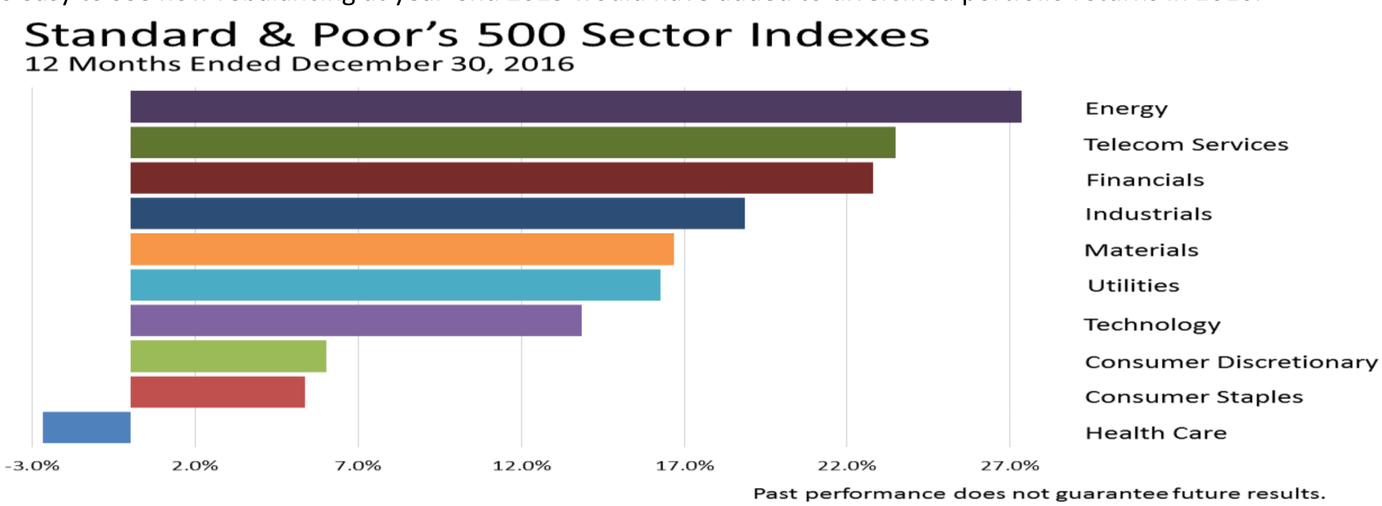


The purple bars show returns in 2016 for U.S. stocks with different styles and market capitalization, and the blue bars show the performance of that style in 2015.

Rebalancing once a year at the end of 2015 would have meant buying the biggest losers of 2015, which in 2015 were small-cap value and mid-cap value stocks.

In 2016, the purple bars indicate rebalancing would have worked well because those two styles were the best performers in 2016.

It's easy to see how rebalancing at year-end 2015 would have added to diversified portfolio returns in 2016.



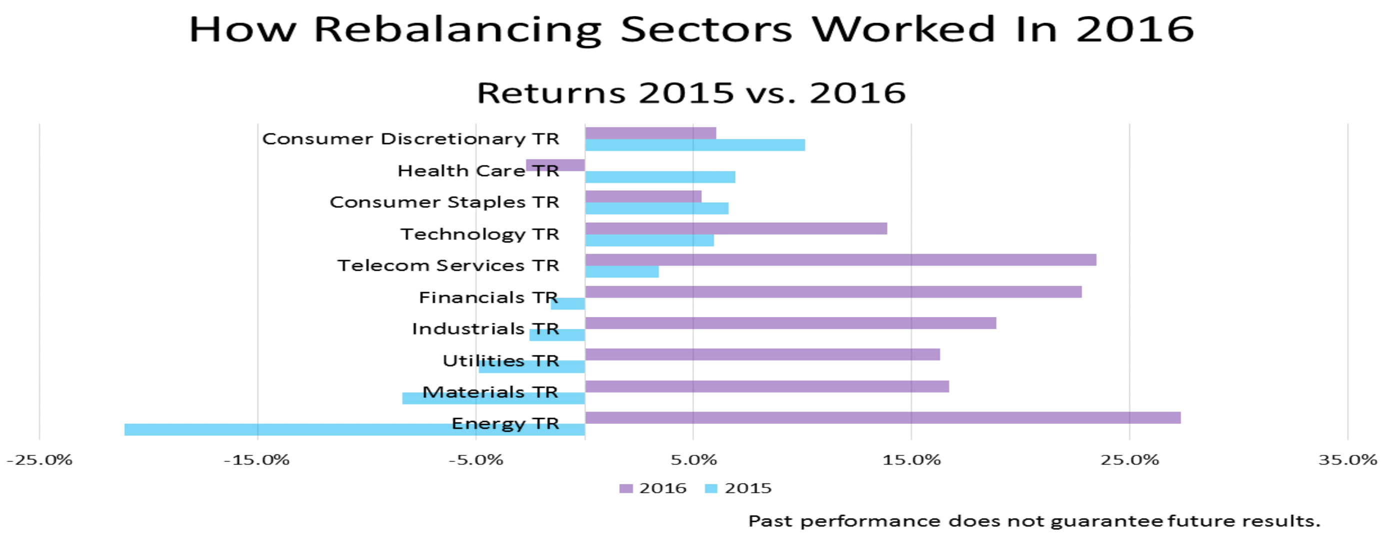
For the 12 months ended December 30, 2016, the energy sector was the standout as it recovered from the beating it took with 2015's oil price collapse.

Telecom, the No. 2 top-performing sector for 2016, showed a 23.5% gain as investors sought out dividend yield in lieu of record-low bond yields.

Virtually all of financials' 23% surge in 2016 occurred in the fourth quarter, with the post-election rise in bond yields encouraging investors to believe increased banking profits will result from a steeper yield curve.

Industrials and materials, cyclical sectors that are sensitive to perceptions of improving momentum in the economy, both had nice gains on signs of improving U.S. and global economic data.

The health-care sector took a hit in 2016 on heightened public sensitivity to excessive price increases.



This chart illustrates the impact of rebalancing a hypothetical portfolio across the Standard & Poor 10 industry sectors.

The sectors are ranked by their 2015 performance, which is in blue. The purple bars show 2016 return.

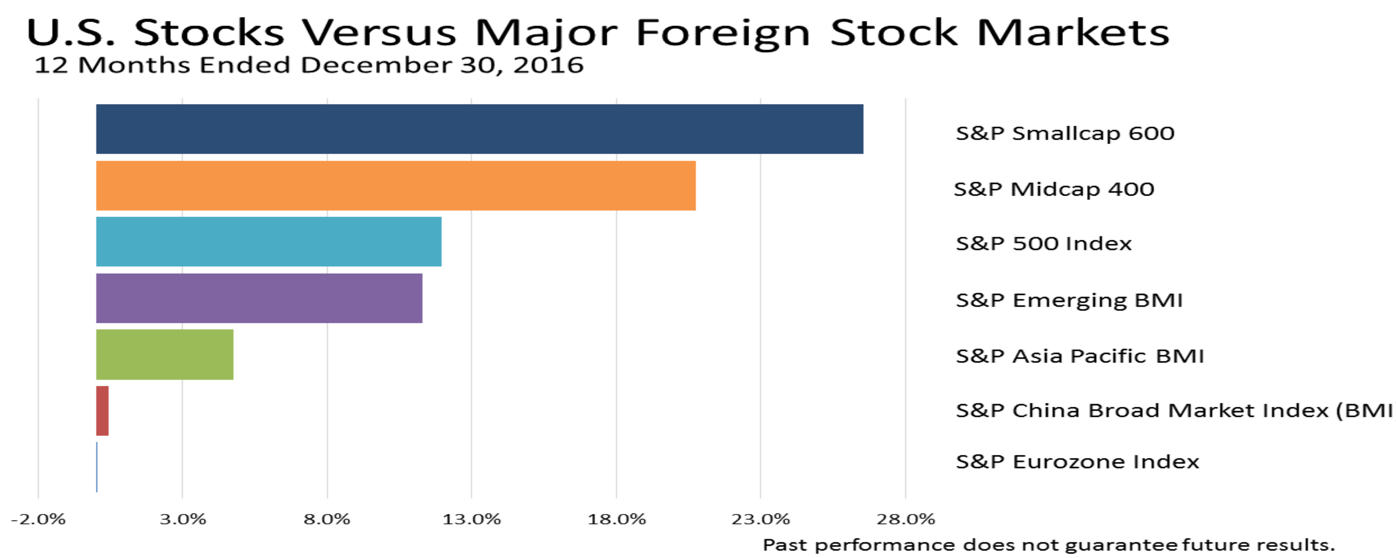
In 2015, the worst sector was energy. Rebalancing would have meant buying the biggest losers of 2015 to make up for the diminished influence in a diversified portfolio.

In 2016., energy was the top-performing sector.

Rebalancing at year-end 2015 would have added to diversified portfolio returns in 2016.

Diversification is no guarantee of investment success but it seems likely to improve the odds.

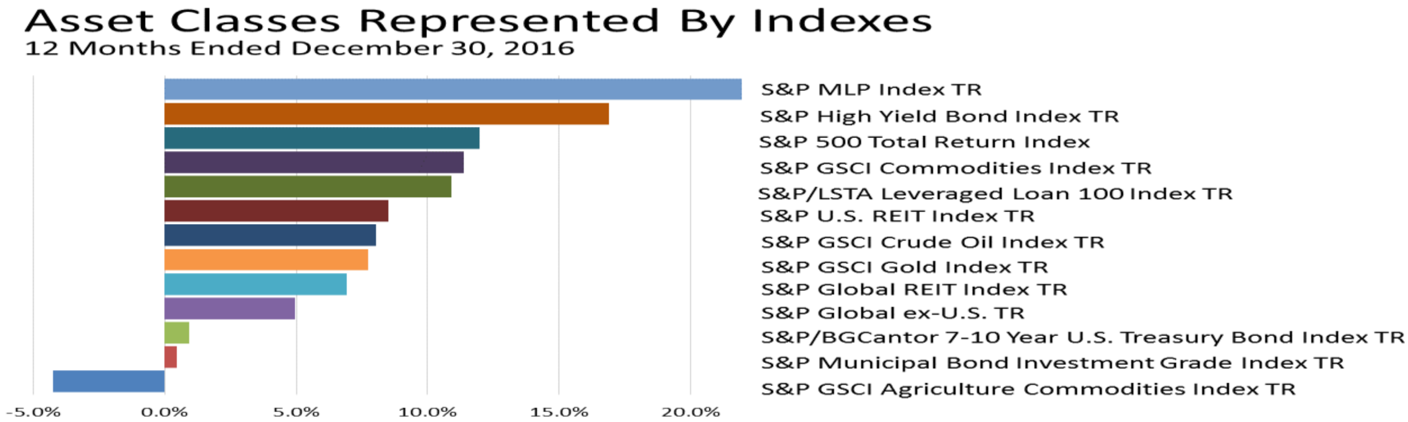
If you want to be sure you are rebalancing your portfolio properly, please contact us because this can be a really important investment technique over the long run.



For the 12 months ended December, 2016, in a turnaround from the third quarter, U.S. stocks outperformed rest-of-world on the strength of the "Trump rally" and the U.S. dollar's fourth quarter's surge of about 7%.

A strengthening dollar masks the foreign stock index gains. A strengthening dollar makes it tougher for foreign markets' indexes, translated into dollars, to keep up with returns on U.S. stock indexes.

Even though these markets showed gains in 2016 in their local currency, their share prices are reduced in their dollar value.

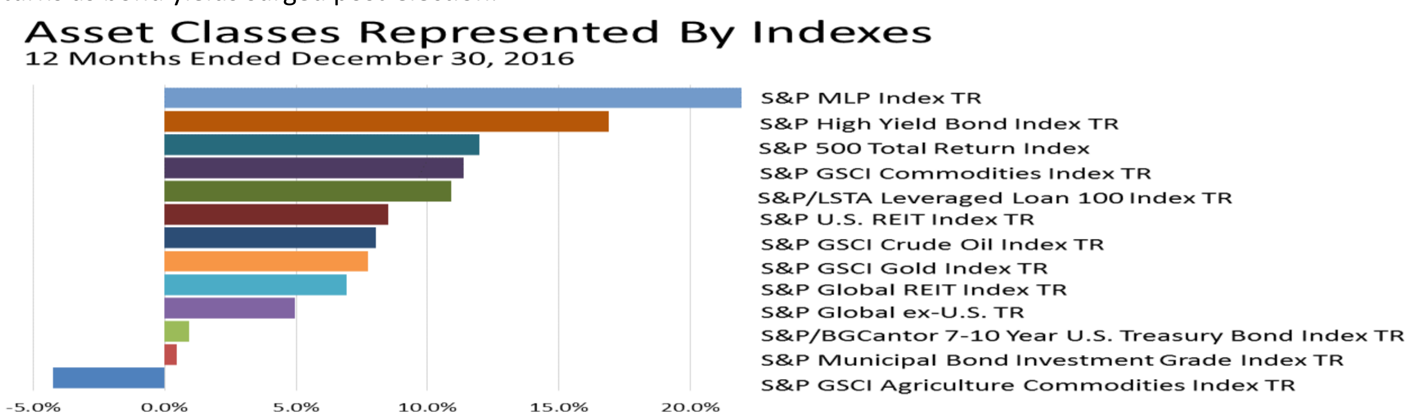


Past performance does not guarantee future results.

Over the 12 months ended December 30, 2016, crude oil doubled in price from its January bottom of $26 per barrel. Master Limited Partnerships (MLPs) and high-yield bond indexes surged. The high-yield index is significantly weighted in oil exploration company debt issues.

Third among asset classes in the 2016 performance rankings was the S&P 500 index, which returned 12%, exceeding most forecasters' expectations. The fourth-quarter post-election "Trump rally" accounted for 3.8 percentage points of the 12% gain. which means that the rest of the year was strong, too. That was because economic and corporate earnings data improved as the year progressed.

Near the bottom of last year's rankings were bond indexes, both taxable and tax-exempt, which posted only fractional returns as bond yields surged post-election.



Past performance does not guarantee future results.

Looking at the broad array of asset classes represented here, perhaps the biggest surprise was the 16.9% return on high-yield bonds in 2016.

For high-yield bonds to be the No. 2 performer among 13 different asset classes defies logic!

High-yield bonds are a fixed-income asset class, and fixed-income investments were among the worst performers for the year.

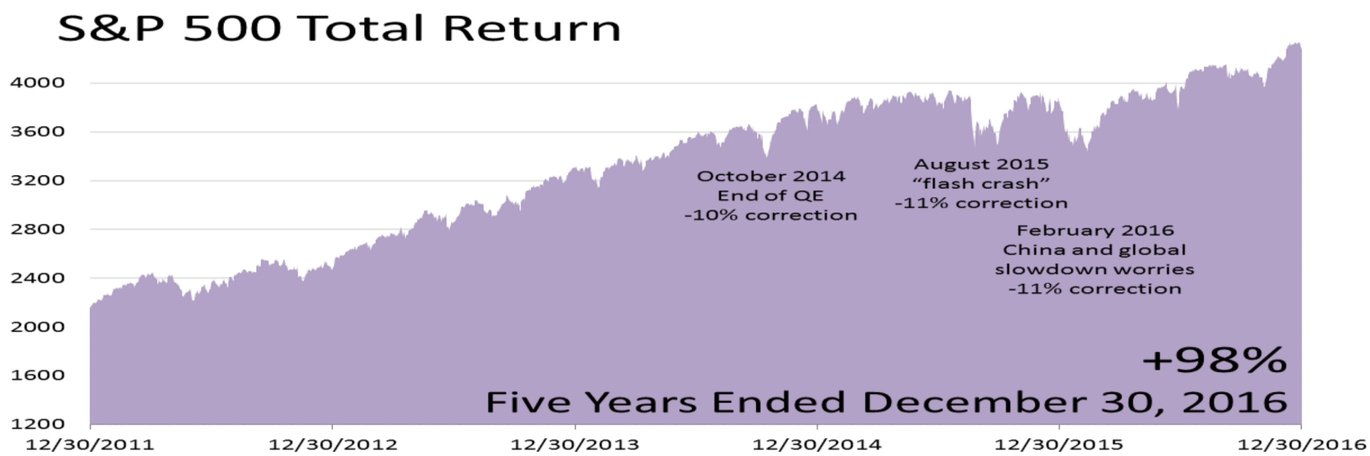
Yet junk bonds returned nearly 100% more than their average annual return of 8.5% over the past five years.

This underscores the wisdom of diversification and rebalancing. No one can reliably predict the next best asset class. So you really cannot lament not owning more stocks.

Other important takeaways from this one-year chart is that Master Limited Partnerships were the No. 1 asset class of 2016 after getting hammered in 2015.

MLPs are a new asset class that appeared in the last few years. Income investors suffered large setbacks a year ago in MLPs, but the business has recovered and they were at the top of the heap in 2016.

This, again, was quite a surprise.



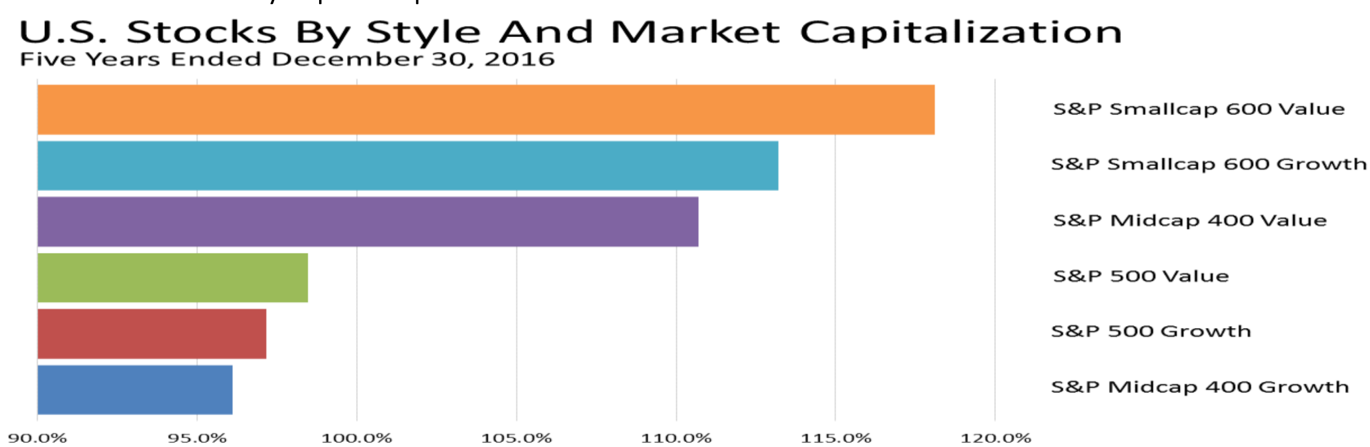
Past performance does not guarantee future results.

After trading sideways for approximately a year, from mid-2015 to mid-2016 — hitting two turbulent air pockets along the way and nosediving in two frightening double-digit descents — the S&P 500 broke out in the second half of 2016.

Over the five years ended December 31, 2016, the S&P 500 with dividends reinvested returned a total of 98%. That's a 78% price gain, with a 20 percentage point return differential coming from dividends being reinvested.

The likelihood of a bear market — a correction of at least 20% — increases as the bull market grows older.

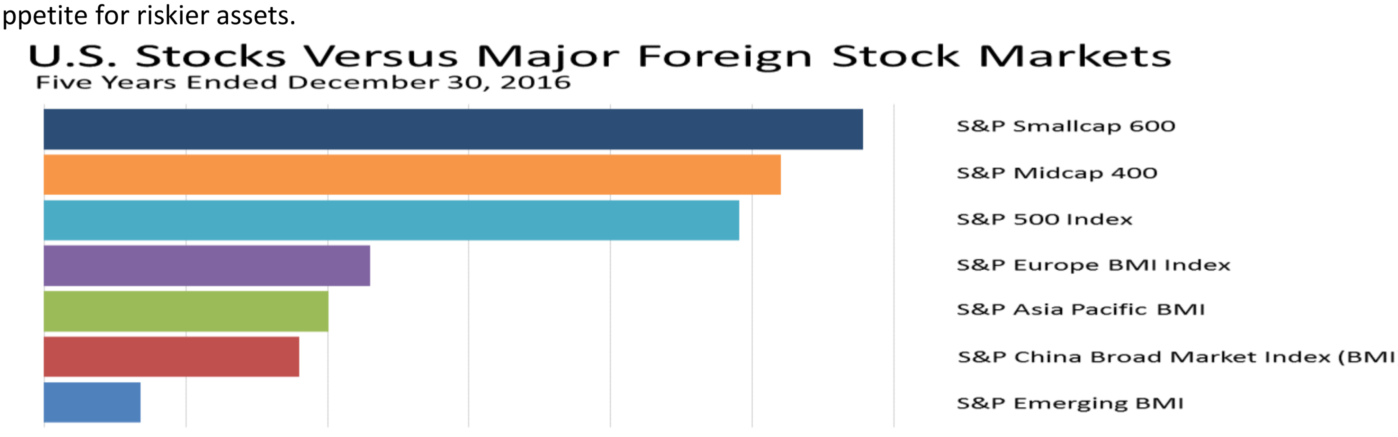
But fundamental economic conditions that have accompanied bear markets in the past were not present as of early 2017. Restrictive Fed policy, the likelihood of slowing economic growth, stock market overvaluation, and irrational exuberance — historically important precursors of a serious market downturn — were not evident.



Past performance does not guarantee future results.

For the five years ended December 30, 2016, the third and fourth quarters' small-cap surge put small-caps back in first place. The S&P 500 large-caps had been leading for many quarters in a row.

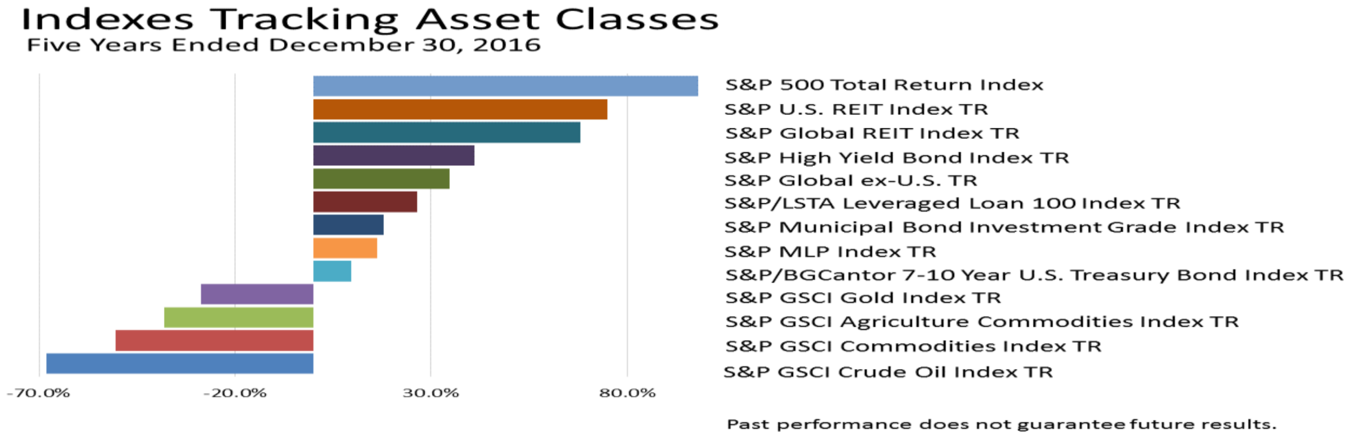
Small-caps' return to leadership reflected investors' improved confidence in the economic outlook and a growing appetite for riskier assets.



Past performance does not guarantee future results.

For the five years ended December 30, 2016, what particularly stands out is how the U.S. indexes – small-, mid- and large-cap – outperformed rest-of-world.

Also, among the U.S. indexes, note that small- and mid-caps lead the large-cap S&P 500 index. This is, in fact, the long-term pattern in which investors have gotten slightly better returns in small- and mid-caps compared to large-caps in return for taking slightly more risk, as measured by volatility of returns.



For the five years ended December 30, 2016, the index representing large-cap U.S. stocks was the No. 1 performer among this array of 13 different asset classes. Keep in mind a prudent investor would, by definition, own the array of asset classes and would not perform as well as the S&P 500. However, nor would a broadly diversified investor have performed as poorly as the worst-performing asset class. That is the nature of investing for the long run by using the path of moderation and broad diversification.

REITs, both U.S. and global, were also top performers in this five-year period.

The S&P 500 index's total return of 98% over the past five years is almost triple the return of 35% on the S&P Global index excluding-U.S. stocks. This was testament to the resilience of the U.S. economy, relative to foreign economies, in recovering from the last recession, which by historical standards was severe.

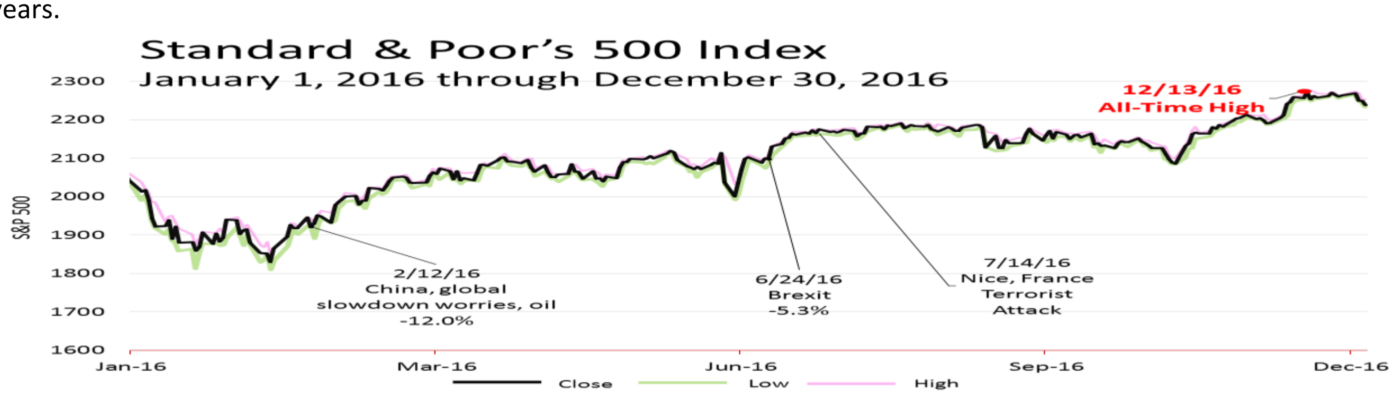
In last place, of course, was crude oil, having been broken by the surge in U.S. supply that came from the shale-fracking revolution. Commodities and gold, too, have been money-losers over the five years shown because of the strong dollar, slowing growth in demand for most commodities, and dwindling inflation.

Looking at five years of returns, the Standard & Poor 500 was No. 1 among the broad sampling of 13 asset classes, hinting at what a heady period this has been for U.S. stocks.

Bonds showed a 9.3% cumulative return over the past five years — a 10th of what stocks returned in this same period — and the next five years are almost certain to be even more cruel to bond investors.

Interest rates hit lows over the past five years that have not been seen in generations in a long cycle of declining interest rates.

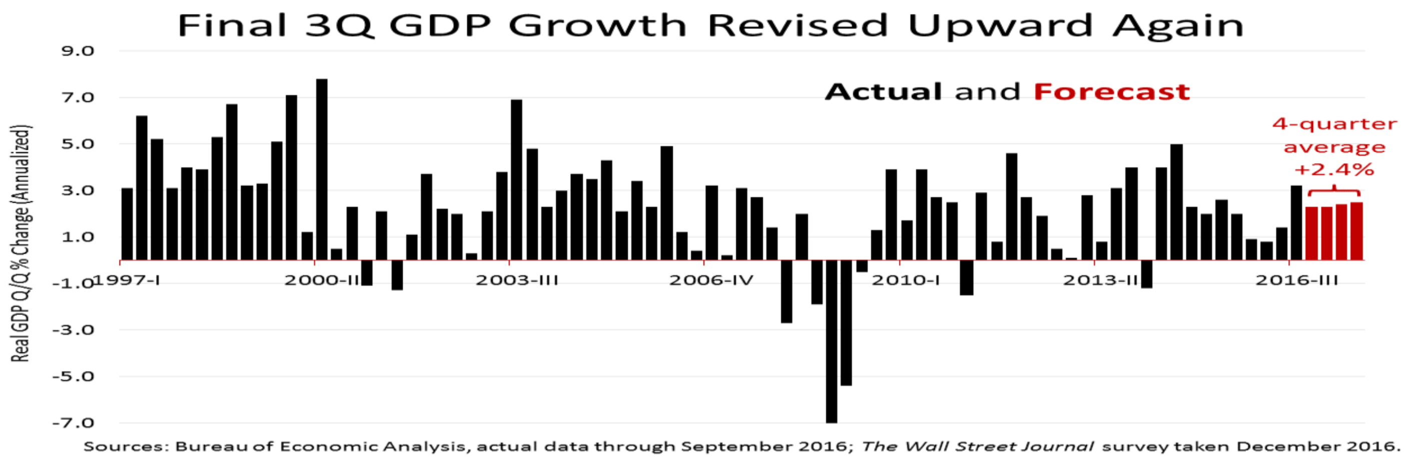
However, the Federal Reserve hiked rates a quarter point in December 2015 and again in December 2016; while rates are widely expected to head higher gradually in 2017 and 2018, a rising rate cycle is now underway and likely will last for years.



The Standard & Poor's 500 index and gross domestic product — **the** metrics of U.S. financial and economic strength — both surprised everyone on the upside for the year.

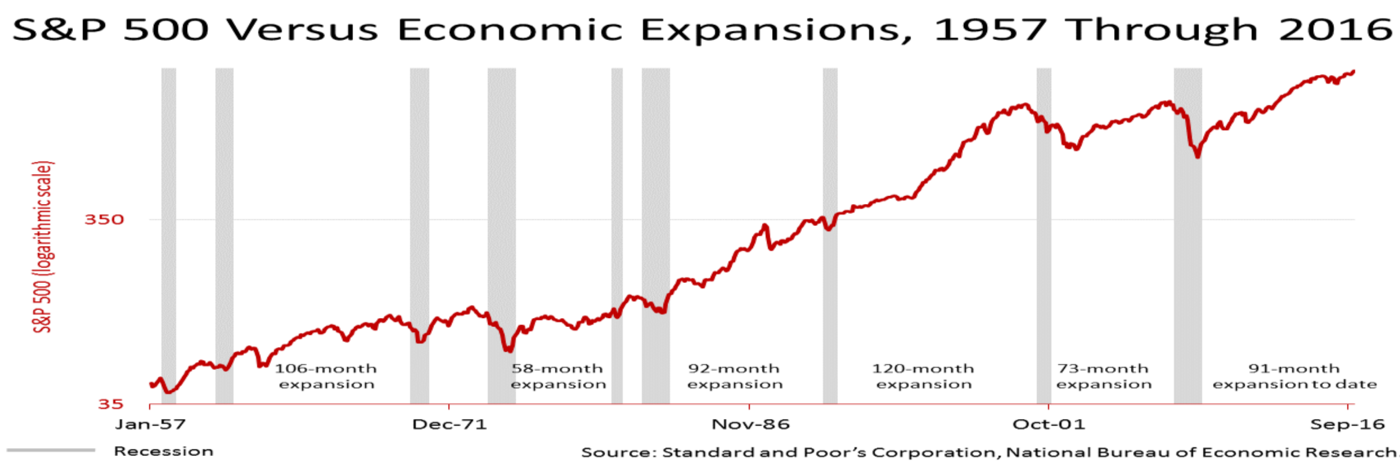
Despite the worst start to a year ever, stocks defied expectations, gaining 12% in 2016 — compared with the average annual return on stocks since 1926 of about 9.5%.

After the November 8 election of Donald Trump as the 45th U.S. president, which was a huge surprise, stocks repeatedly broke records before profit-taking in the last week of the year.



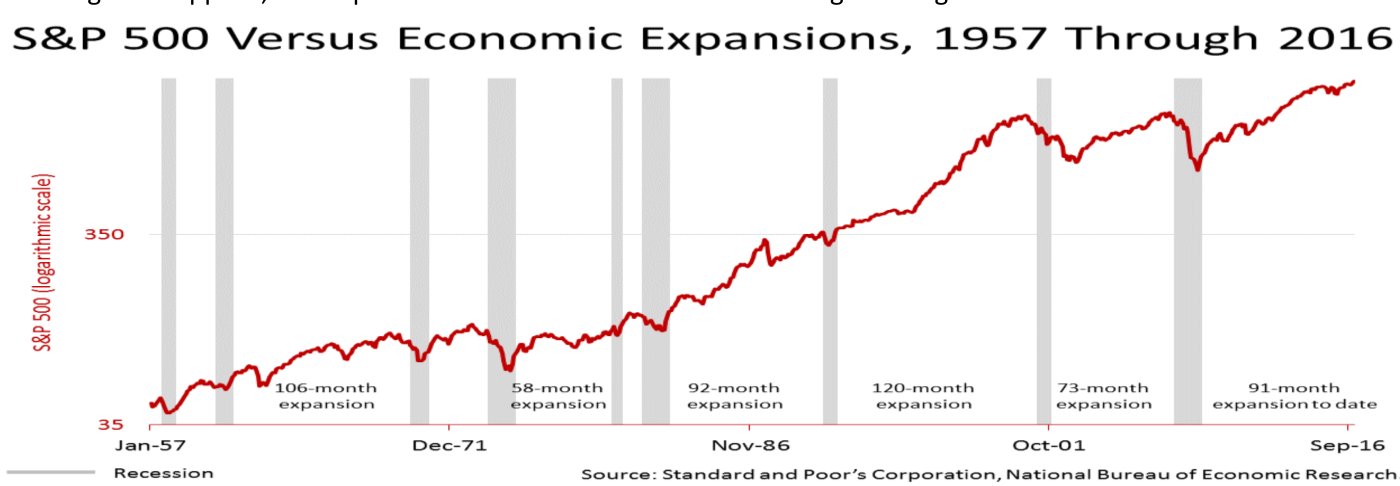
What's more, the economy in 2016 grew by 3.5 percent.

That was better than almost anyone expected at the start of the year.



This chart of recessions and recoveries since 1957 versus the price of stocks shows the current expansion, at 91 months old, is a little more than two years shy of becoming the longest recovery in modern U.S. history.

If nothing bad happens, this expansion stands a fair chance of becoming the longest on record.



The depth of destruction wrought in the Great Recession has made this expansion different from others — slower, but with inflation staying dormant.

The 2.4% growth rate expected in 2017 maintains the economy's growth trajectory in a stable, sustainable low-inflation environment.

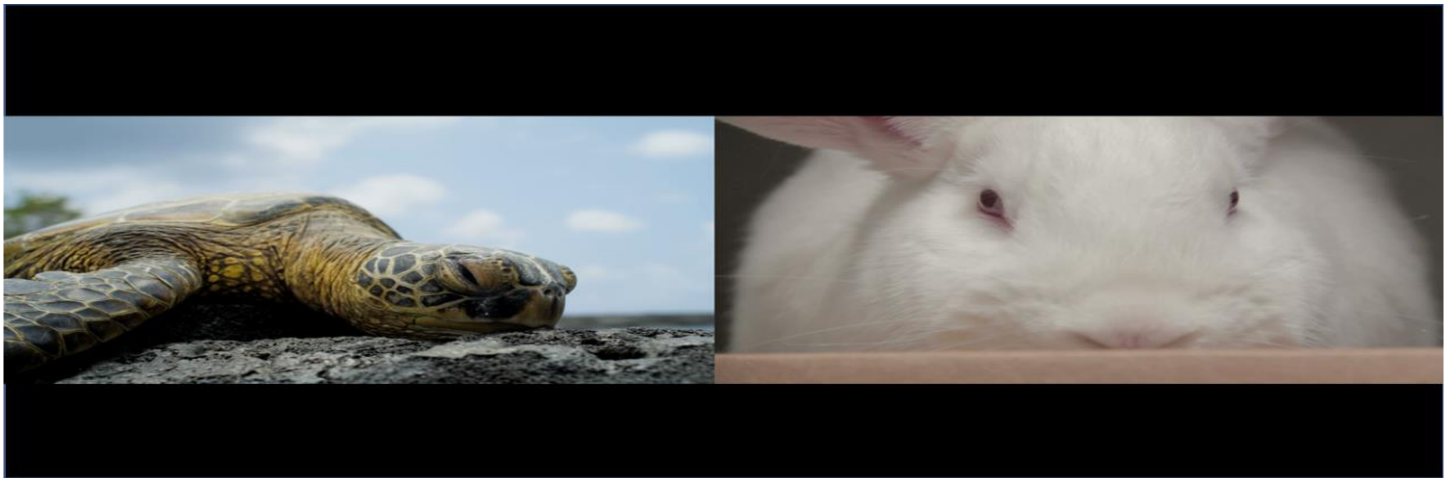
This 60-year chart of U.S. economic cycles shows that recessions trigger bear markets; however, not every bear market has occurred in times of recession.

Stock-price corrections of 10%, or even bear-market drops of 20% or more, have occurred during economic expansions, and that could happen again.

At this stage in an extended bull market, broadly diversifying becomes difficult for some investors.

When they see stock prices soaring, they lament not owning more stocks.

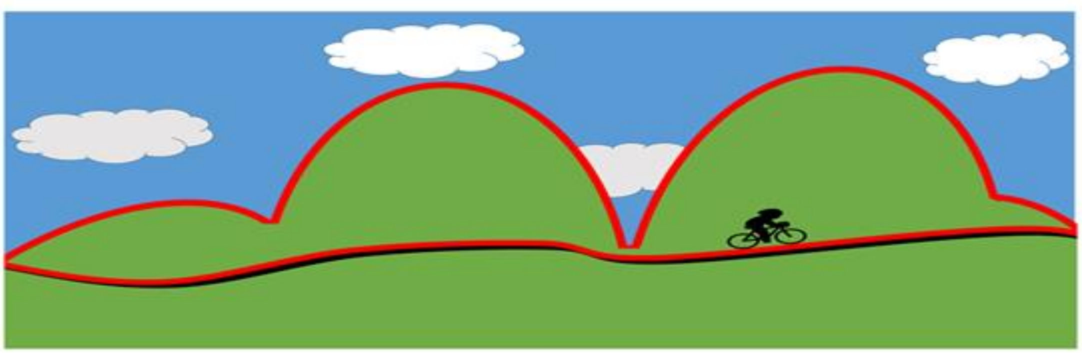
So let's talk about that.



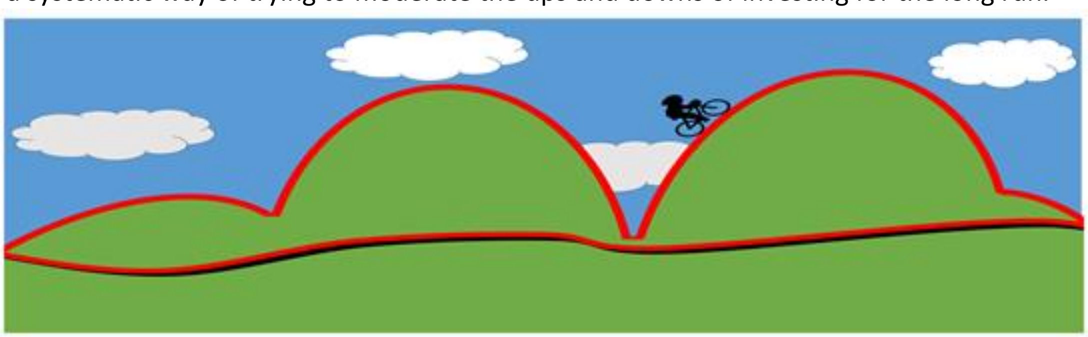
By definition, diversified portfolios can't keep up with the returns on the S&P 500 in a bull market.

A diversified portfolio is guaranteed to underperform the best-performing asset class in a portfolio.

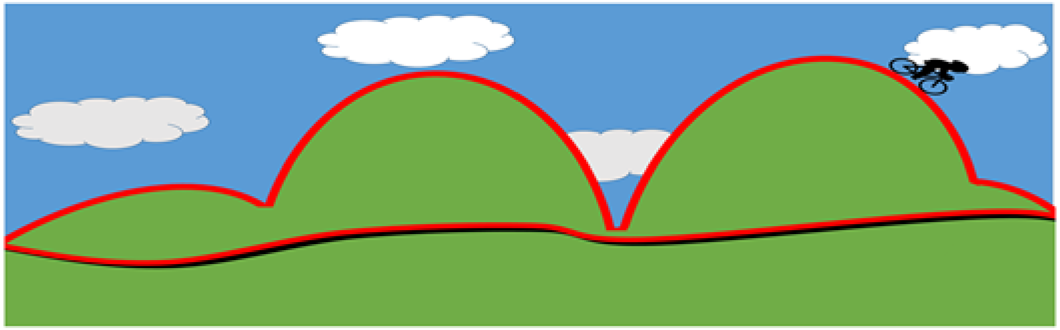
It's also guaranteed not to perform as badly as the worst asset class.



Diversifying is a systematic way of trying to moderate the ups and downs of investing for the long run.

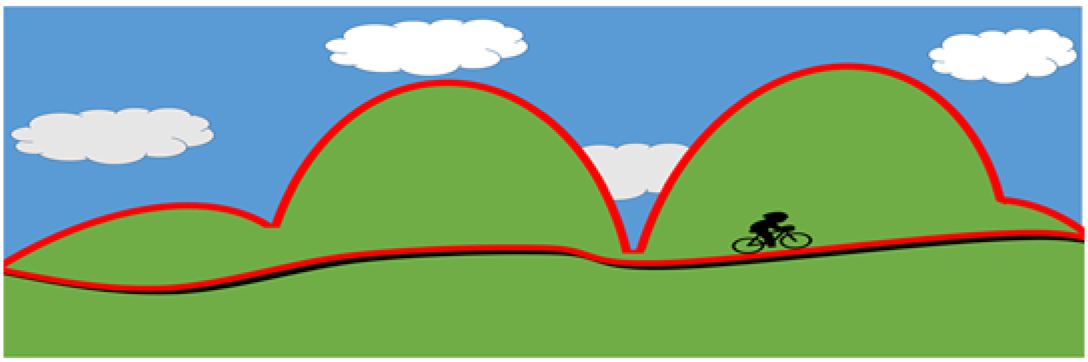


If you're on a path with steep ups and downs, you are more likely never to get where you're trying to go.



A frightful descent is more likely to make you abandon course.

If you own an all-stock portfolio, you'll bail out of the market when things get scary.



The moderate path is not as exciting but is easier to complete.

Disclosures

This research report was compiled by Fritz Meyer, an independent economist, in collaboration with a veteran financial journalist. While these are sources we believe to be reliable, the information is not intended to be used by as financial or tax advice without consulting a professional about your personal situation.

Indices are unmanaged and not available for direct investment. Investments with higher return potential carry greater risk for loss. Investing in small companies involves greater risks not associated with investing in more established companies, such as business risk, significant stock price fluctuations and illiquidity. Foreign securities have special risks, including exchange-rate changes, political and economic upheaval, lack of information about companies, relatively low market liquidity, and different accounting standards. Emerging market investments involve greater risk than developed-country markets, such less liquidity in markets, high inflation, central bank monetary policy and controls, weak institutions in accounting, banking and markets, government policy, adverse political developments and lack of timely information.

Gold and precious metals mining companies are dramatically affected by precious commodity prices. Changes in political or economic climate for the world's two largest gold producers, South Africa and the former Soviet Union, may have a direct effect on the price of gold worldwide.

Data for the CPI, Unemployment Rate, and Non-farm Payrolls are from the Bureau of Labor Statistics. Data for the GDP are from the Bureau of Economic Analysis. The Purchasing Managers Diffusion Index is a release of the Institute of Supply Management. Retail spending data are from the Bureau of the Census. Data for Consumer Confidence are from the Conference Board. Historic Treasury yields are from the U.S. Treasury; global and U.S. equity index performance numbers are from the respective index vendors, as are commodity benchmarks. Currency numbers are from OANDA.com. Sector and dividend statistics are from Standard & Poor's.

The Conference Board Leading Economic Index® (LEI) components: 1) average weekly hours worked, manufacturing; 2) average weekly initial unemployment claims; 3) manufacturers' new orders — consumer goods and materials; 4) ISM index of new orders; 5) manufacturers' new orders, nondefense capital goods; 6) building permits — new private housing units; 7) stock prices, S&P 500; 8) Leading Credit Index™; 9) interest rate spread; 10-year Treasury less fed funds; 10) index of consumer expectations.

The Bureau of Labor Statistics publishes two employment surveys each month, the Current Population Survey (CPS; household survey) and the Current Employment Statistics survey (CES; establishment survey). The household survey is a sample survey of about 60,000 eligible households conducted by the U.S. Census Bureau for the U.S. Bureau of Labor Statistics (BLS). The establishment survey collects data each month from the payroll records of a sample of about 144,000 businesses and government agencies, representing approximately 554,000 individual worksites, in order to provide detailed industry data on employment, hours, and earnings of workers on nonfarm payrolls. The active sample includes approximately one-third of all nonfarm payroll employees. The household survey sample is selected to reflect the entire civilian noninstitutional population. Based on responses to a series of questions on work and job search activities, each person 16 years and over in a sample household is classified as employed, unemployed, or not in the labor force. The establishment survey sample is drawn from private nonfarm businesses such as factories, offices, and stores, as well as from federal, state, and local government entities. Employees on nonfarm payrolls are those who received pay for any part of the reference pay period, including persons on paid leave. Persons are counted in each job they hold. The household survey includes agricultural workers, self-employed workers whose businesses are unincorporated, unpaid family workers, and private household workers among the employed. These groups are excluded from the establishment survey. The Current Employment Statistics (CES) program produces nonfarm employment series for all employees (AE), production and nonsupervisory employees (PE), and women employees (WE). For AE and PE, CES also produces average hourly earnings (AHE), average weekly hours (AWH), and, in manufacturing industries only, average weekly overtime hours (AWOH). AE average hours and earnings data are derived from reports of hours and payrolls for all employees. PE average hours and earnings data are derived from reports of production and related employees in manufacturing and mining and logging, construction employees in construction, and nonsupervisory employees in private service-providing industries.