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summaries

SIGMA INVESTMENT COUNSELORS

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Market Commentary

What a year 2016 was! It had all the makings of a great novel. We laughed and cried, celebrated and mourned, and there were plenty of surprise plot twists!

For investors, 2016 proved to be an exercise in patience and resilience. Markets were volatile to begin the year. The volatility provided buying opportunities in equity markets and we ended the year with the S&P 500 up 11.96%. Bond markets ended the year slightly positive, facing the headwinds of rising interest rates.

Domestic Equities	Q4 2016	2016
S&P 500 Large Cap	3.82%	11.96%
S&P 400 Mid Cap	7.42%	20.74%
S&P 600 Small Cap	11.13%	26.56%
International Equities		
MSCI EAFE Dev Int'l	-0.71%	1.00%
MSCI Emerging	-4.16%	11.19%
Bonds		
Barclays US Agg	-2.98%	2.65%

In the first half of the year, investors had negative responses to slowing Chinese growth numbers, falling energy prices, and the Brexit vote. Concern surrounding those events drove domestic equity markets down over 10% twice. Equities quickly rebounded from each pull back, and ended the first half of the year with basically flat returns. Our investment philosophy of maintaining a long term asset allocation, and adding to positions when the market is trading on fear, helped our clients build wealth during those periods of volatility.

The second half of the year investors' focus narrowed to the US elections, and equity markets moved sideways up until Election Day. Most pollsters were predicting a Clinton presidency. A Clinton victory would have meant more policies similar to what we have been experiencing in the US for the past eight years under the Obama administration. It was a surprise to most that Donald Trump won the election, and also that Republicans took the majority of seats in both the House and Senate. Once the uncertainty surrounding the election was removed, equity markets rallied and we closed 2016 at all time highs.

At the end of 2015, after raising rates for the first time in 10 years, Federal Reserve Chair Janet Yellen gave expectations of potentially four rate increases in 2016. However, the Fed's concern regarding economic uncertainties had it maintaining lower rates through 2016, with only one .25% rate hike in December of 2016. Bond prices act inversely to interest rates, and bond markets traded lower in response to the rate hike.

The Fed has communicated that more rate hikes are to be expected in 2017. Shorter duration bond portfolios will outperform longer term portfolios during a rising interest rate environment. Our philosophy on fixed income is to preserve capital and ensure certainty of ongoing cash flows. Bonds are not typically where we choose to add risk to the portfolios, and keeping durations short can help maintain principal. A rising interest rate environment can be challenging for bond portfolios. Just like our equity portfolios, we are constantly monitoring our bond portfolios and rebalancing where necessary to keep them in line with each clients' unique goals and objectives.

Looking forward to 2017 and beyond, we remain positive on equity markets in general. Many investors are concerned about investing in equity markets at all time highs. The Dow closing in on the magic number of 20,000 is fun to watch, but in the end it's just a number. We are focused on market fundamentals, valuations, and long term trends. Based on our research and valuation metrics, we continue to like the overall outlook for equity markets. They remain the investment of choice.

Many investors are concerned about some of the ideas President Elect Trump campaigned on and how they will impact the economy and investment portfolios. Some of Trump's ideas, specifically on trade and border taxes, historically have not been positive for certain industries. Other high priority topics that could impact our investment portfolio include changes to health care laws, government regulation, corporate tax policies, and international relations. We are monitoring information closely as it comes out and reviewing how policies might impact our investments, positively or negatively, and rebalancing accordingly.

From a financial planning standpoint, any changes in taxes from the new administration that will impact our clients will be reviewed and updated in our clients financial plans wherever appropriate. Follow our blogs and newsletters for our ongoing views on the markets and financial planning issues. As always, we are also available to talk on the phone or in person.

Happy New Year! We hope 2017 brings good health and happiness to all of our clients, friends and family!

Marisa A. Bradbury CFA, CFP®

Client Service?

Back in the "good old days" clients would call their financial adviser and direct them to wire or transfer money from account A to account B or would hand them a check and ask them to deposit it into their account, check this item off of their to do list, and continue on with their day. The adviser would then handle the requested transaction without a second thought, doing whatever they could to make the client's life a little bit easier. Unfortunately, because of the few unsavory individuals that have been involved in the financial services industry over the years (think Bernie Madoff), this type of client service is now off limits.

There has been much discussion within the financial industry, and Sigma Investment Counselors specifically, regarding the interpretation of the Securities and Exchange Commission's (SEC) custody rule. According to the SEC, an investment advisory firm is deemed to have "custody" of client funds or securities if the firm has the ability to directly or indirectly hold or have authority to obtain possession of said funds or securities. If advisers have enhanced authority over client assets, for example the ability to withdraw or transfer funds, there is a potential risk that the adviser could easily misappropriate the assets (once again, Bernie Madoff). The SEC therefore instituted controls to guard against possible foul play by the adviser by creating the custody rule.

To the dismay of many within the industry (but to the surprise of none), the rule itself is vague, hence the difficulty in interpreting exactly what the SEC is requiring advisers to do or to not do. For example, the ability to directly or indirectly hold funds or securities, as interpreted by the SEC, means that the adviser can not accept a check that is drawn by a third party and made payable to the client. The adviser may assist the client in forwarding the funds but the adviser cannot directly take possession of the check and send it via overnight delivery to the client's custodian without being deemed to have custody. Another example of custody would be if the adviser is authorized or permitted to withdraw funds or securities from a client's account and transfer said funds to a non-like account, which is an account that is not titled exactly the same as the account from which the transfer is to take place.

Many of the rules and regulations imposed by the SEC seem to be the bane of existence for people associated with the investment profession. The cost of complying can become almost prohibitive. Many firms, like Sigma Investment Counselors, pride themselves on superb customer service and it becomes increasingly difficult to do so within the confines of the various rules imposed by the Investment Advisers Act of 1940. So what gives? The SEC is trying to protect the investor…plain and simple. So, the next time you ask your adviser to…fill in the blank… and the adviser tells you that they are unable to do so because compliance will not allow them to, please remember that there is a specific reason that they are unable to fulfill your request and that it is truly in your best interest.

Shari A. Bilkie, IACCP®
Chief Compliance Officer

27777 Franklin Road • Suite 1100 • Southfield, MI 48034 • tel (248) 223-0122 • fax (248) 223-0144 • www.sigmainvestments.com