



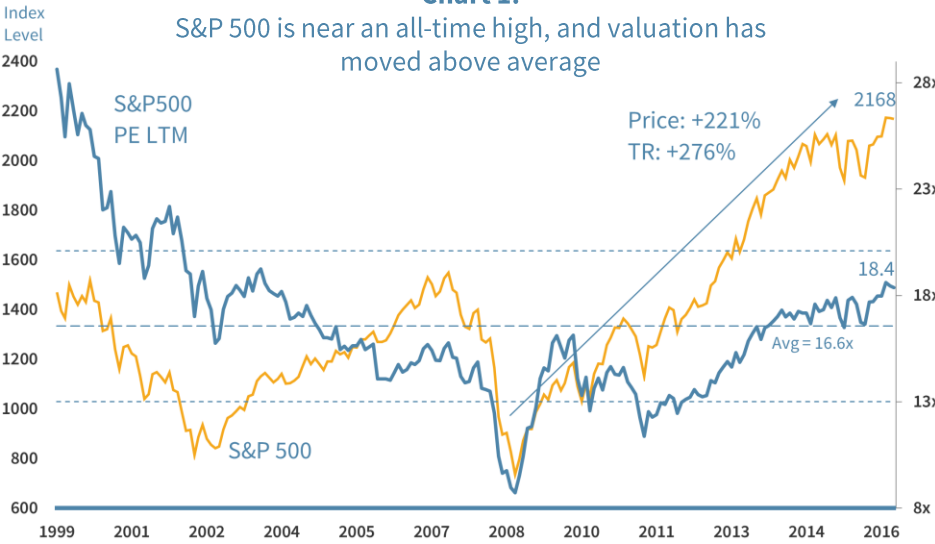
STRATEGIC *Perspectives*

MARKET UPDATE - 4TH QUARTER 2016

US Equities

Chart 1:

S&P 500 is near an all-time high, and valuation has moved above average



Source: S&P, Factset

Chart 2:

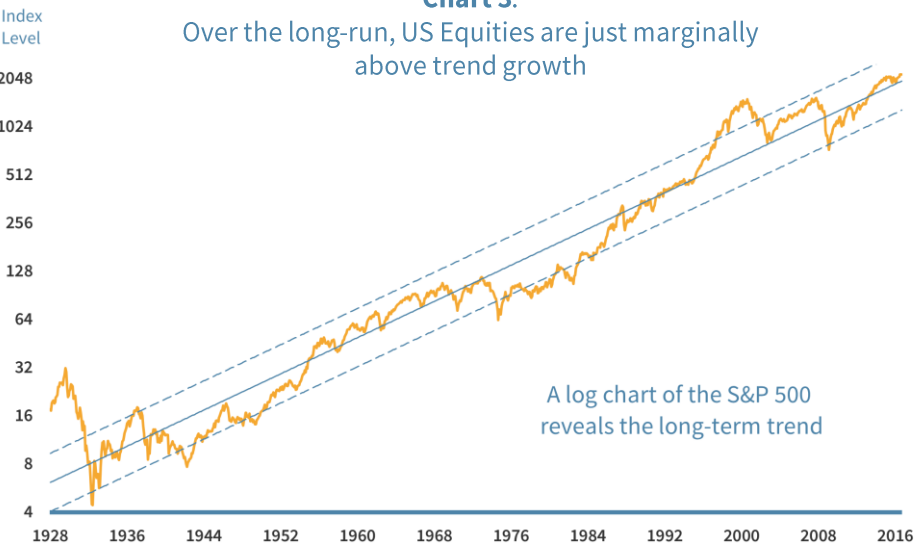
Small Cap has outperformed this year

Third Quarter			Year-to-date			
	Growth	Blend	Value	Growth	Blend	Value
Large Cap	4.6%	3.8%	3.0%	5.7%	7.0%	8.4%
Mid Cap	4.6%	4.5%	4.4%	6.8%	10.3%	13.7%
Small Cap	9.2%	9.0%	8.9%	7.5%	11.5%	15.5%

Source: Russell 200, Midcap & 2000; Factset

Chart 3:

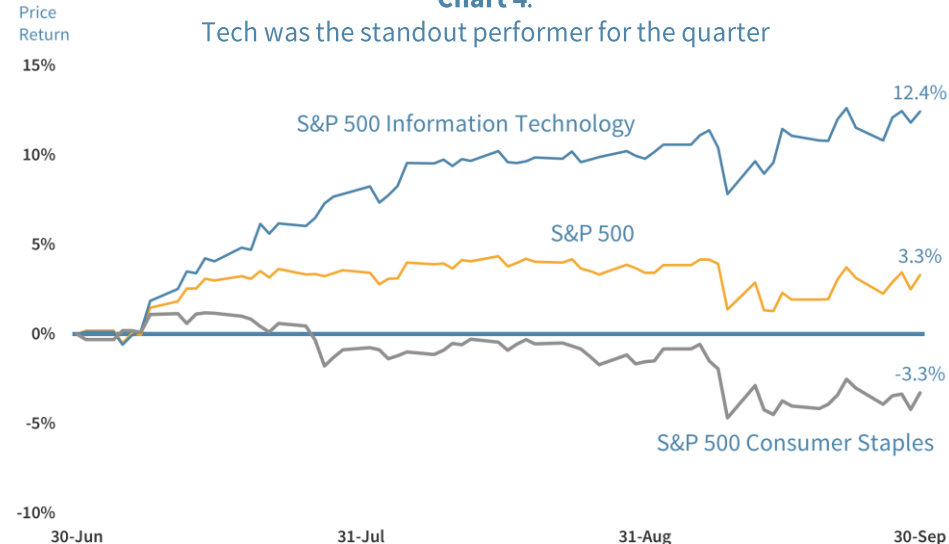
Over the long-run, US Equities are just marginally above trend growth



Source: S&P, Factset

Chart 4:

Tech was the standout performer for the quarter

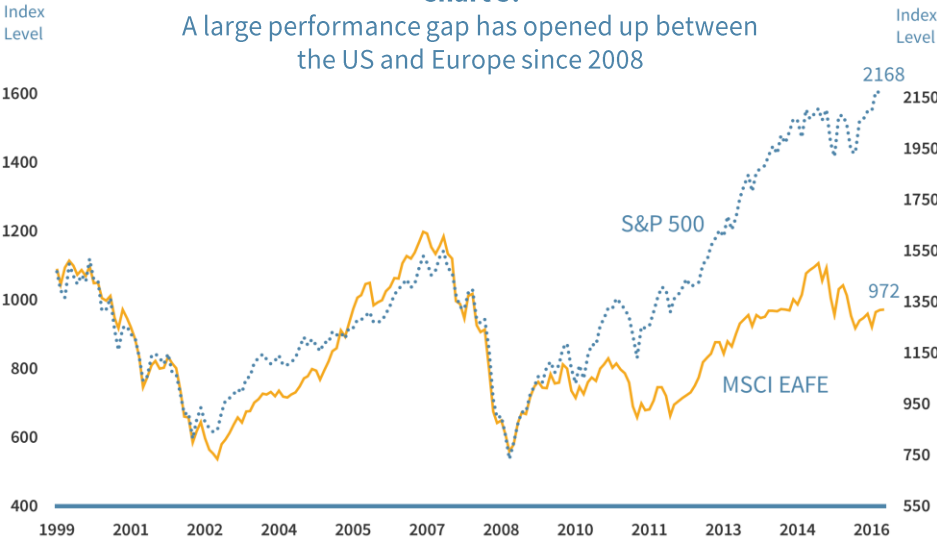


Source: S&P, Factset

International Equities

Chart 5:

A large performance gap has opened up between the US and Europe since 2008



Source: S&P, MSCI, Factset

Chart 6:

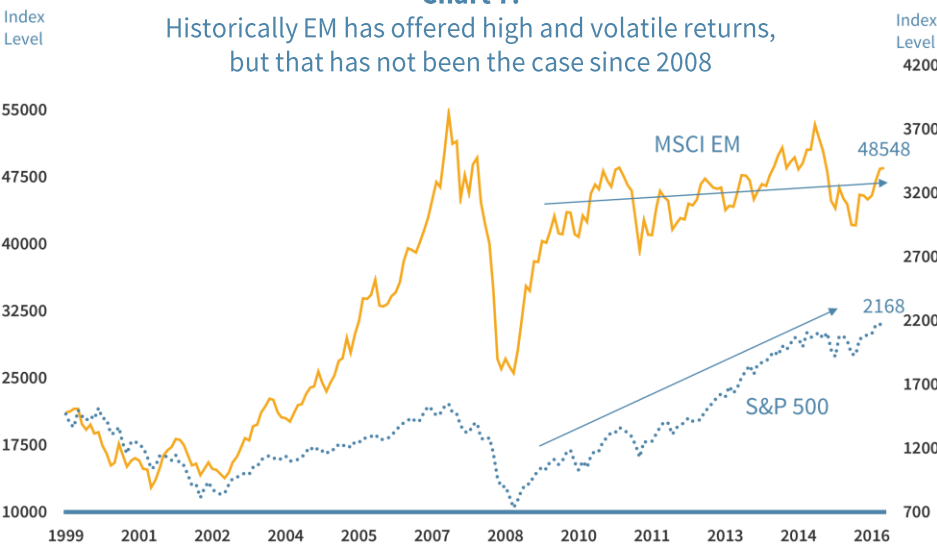
Emerging Markets have been strong YTD thanks to Brazil

	Year-to-date		Quarter-to-date	
	Local	USD	Local	USD
S&P 500	-	7.8%	-	3.9%
EAFE	-1.1%	2.2%	6.1%	6.5%
EM	11.6%	16.4%	7.7%	9.2%
Asia ex-Japan	7.1%	11.0%	6.6%	8.2%
United Kingdom	14.4%	0.9%	7.0%	4.0%
France	-0.5%	2.9%	5.2%	6.4%
Germany	-1.4%	2.0%	8.8%	10.0%
Japan	-13.4%	2.9%	7.4%	8.8%
China	8.9%	8.8%	13.9%	14.0%
India	7.8%	7.1%	4.5%	5.9%
Brazil	34.0%	63.2%	12.9%	11.4%

Source: S&P, MSCI, Factset

Chart 7:

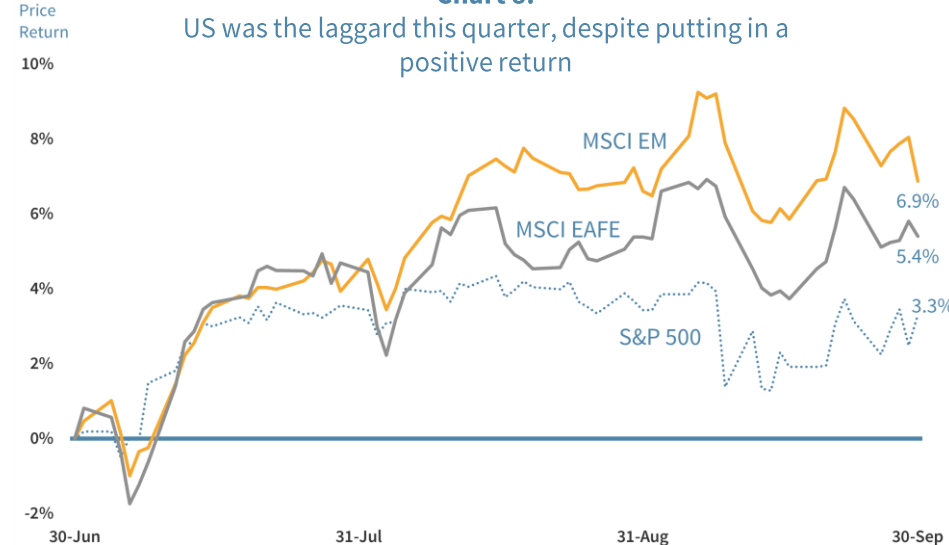
Historically EM has offered high and volatile returns, but that has not been the case since 2008



Source: S&P, MSCI, Factset

Chart 8:

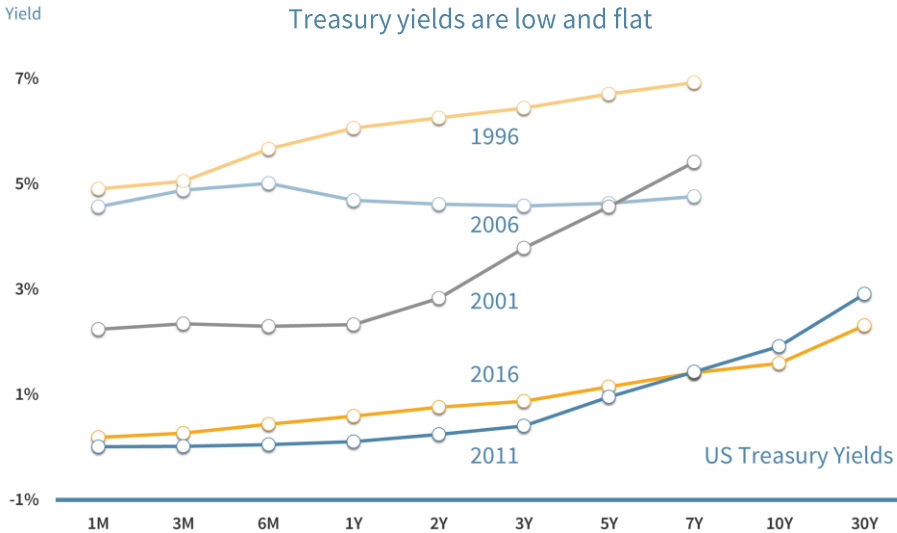
US was the laggard this quarter, despite putting in a positive return



Source: S&P, MSCI, Factset

Fixed Income

Chart 9:
Treasury yields are low and flat



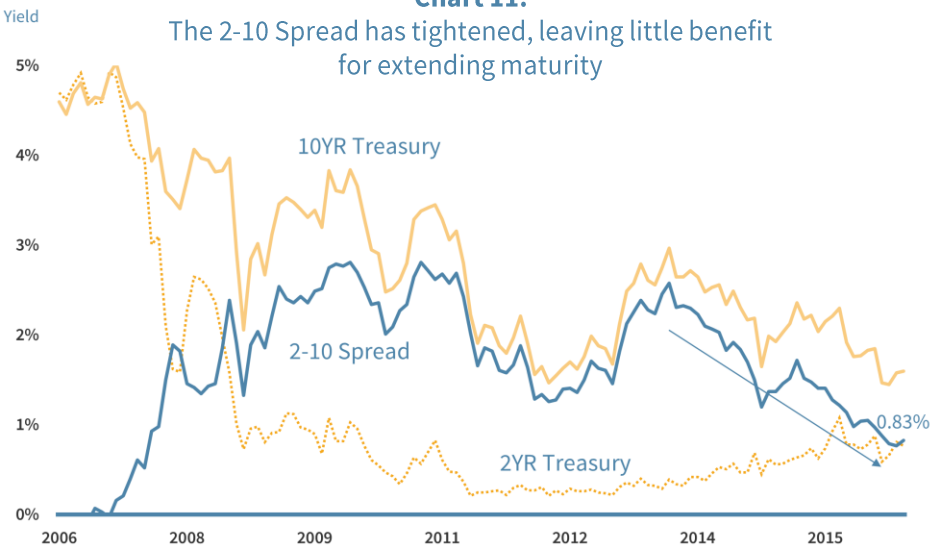
Source: US Dept. of Treasury, Factset

Chart 10:
Investors have been rewarded for duration and credit risk

	Avg. Maturity	Yield	YTD Return
2-Year	2	0.8%	1.2%
5-Year	5	1.2%	4.0%
10-Year	10	1.6%	7.1%
30-Year	30	2.3%	17.0%
TIPS	8.6	1.6%	7.3%
US Aggregate	7.8	2.0%	5.8%
Liquid Corporates	12.5	2.9%	9.7%
Municipals	10.0	1.7%	4.4%
High Yield	6.3	6.2%	15.1%
MBS	5.1	2.1%	3.7%
ABS	5.4	2.0%	5.7%
Convertibles	-	1.0%	9.4%

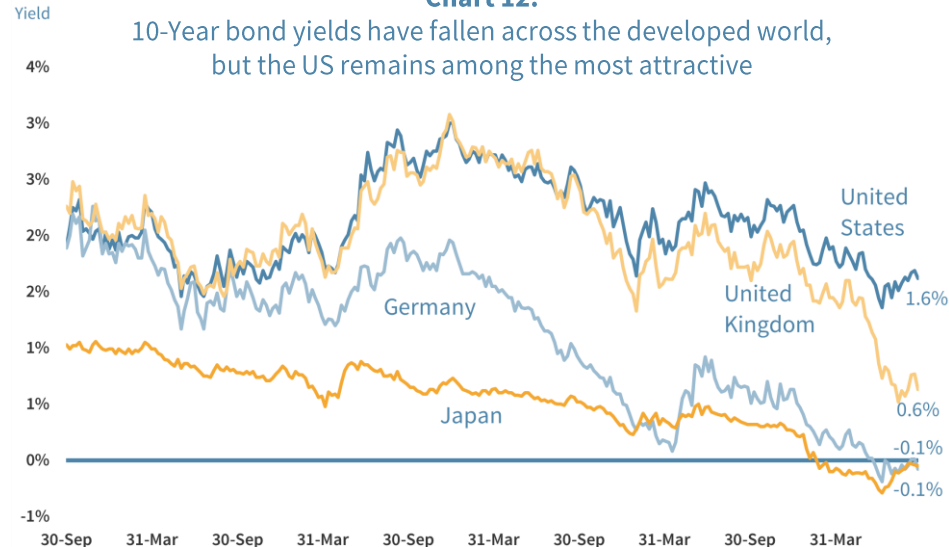
Source: Bloomberg Barclays Indices, Factset

Chart 11:
The 2-10 Spread has tightened, leaving little benefit for extending maturity



Source: US Dept. of Treasury, Factset

Chart 12:
10-Year bond yields have fallen across the developed world, but the US remains among the most attractive

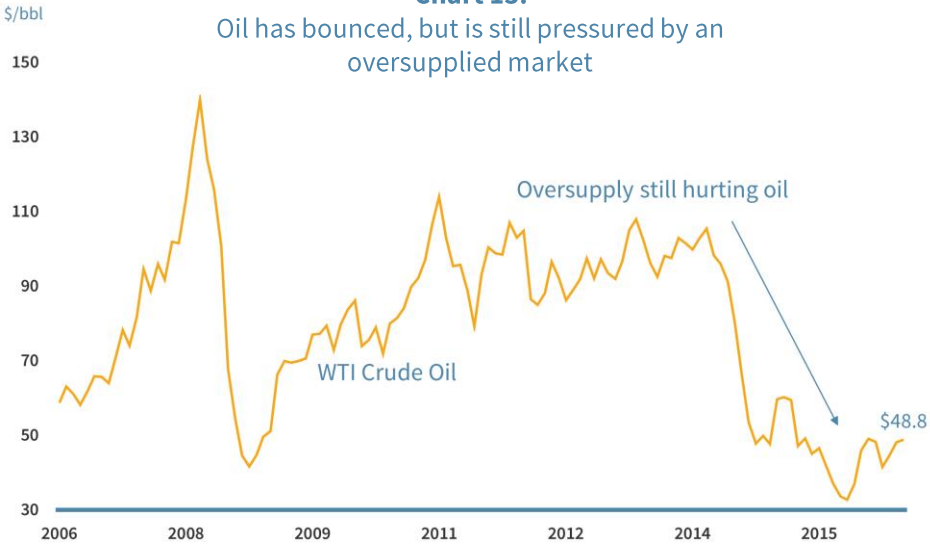


Source: Factset

Commodities

Chart 13:

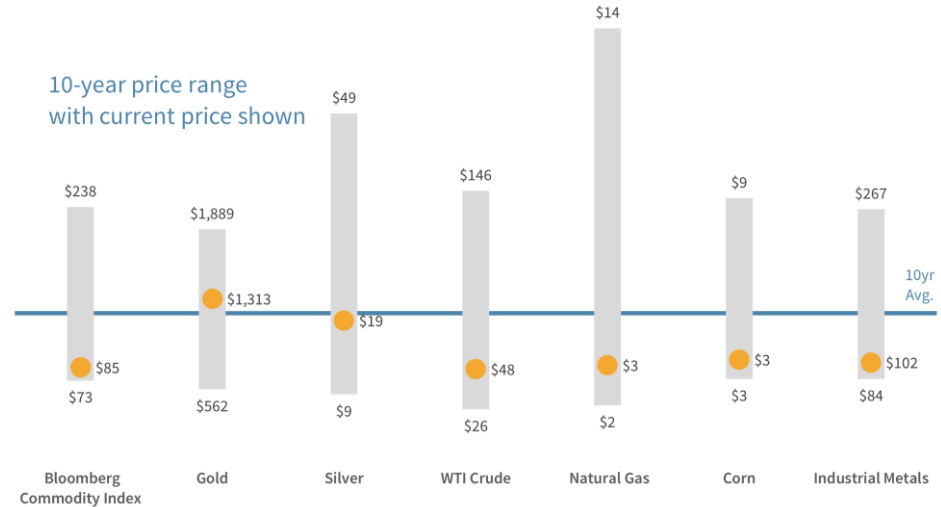
Oil has bounced, but is still pressured by an oversupplied market



Source: NYMEX, Factset

Chart 14:

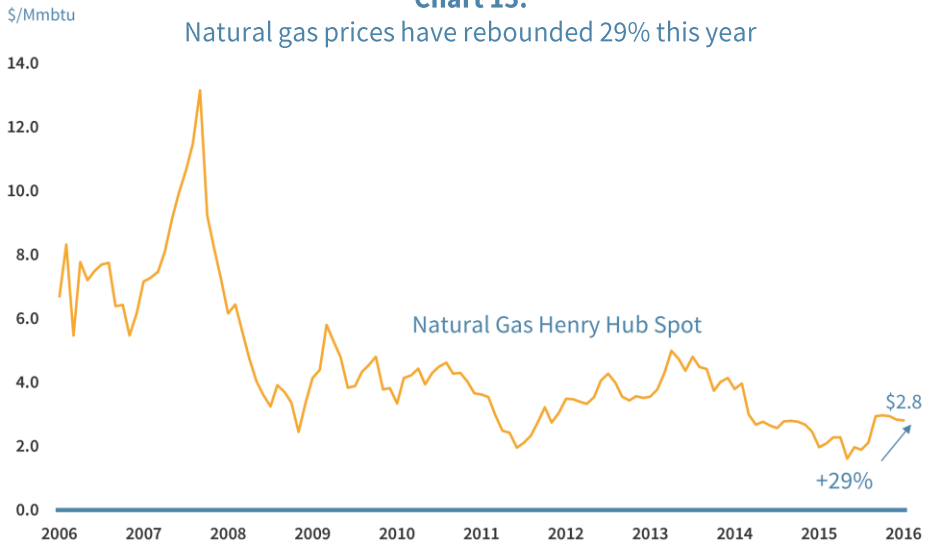
Most commodities are below their 10-year average



Source: NYMEX, Bloomberg, Factset

Chart 15:

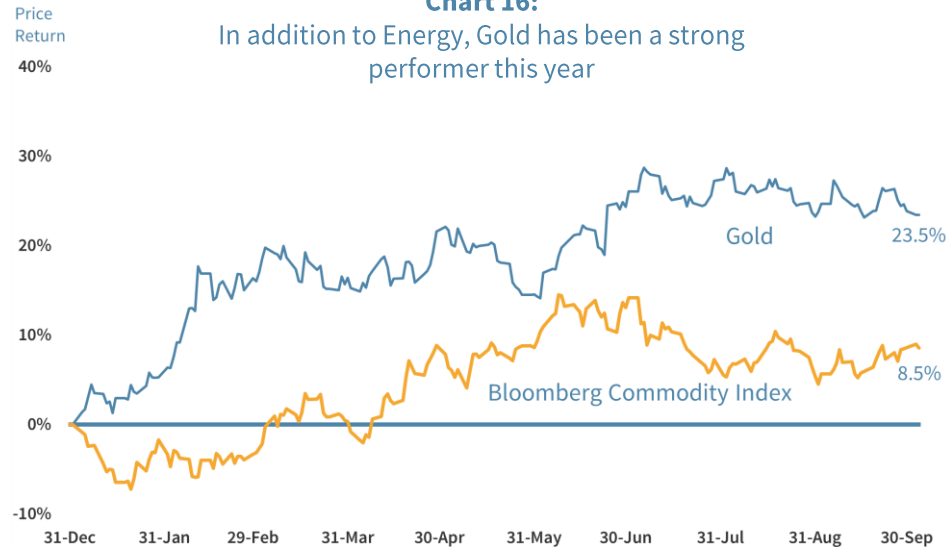
Natural gas prices have rebounded 29% this year



Source: NYMEX, Factset

Chart 16:

In addition to Energy, Gold has been a strong performer this year

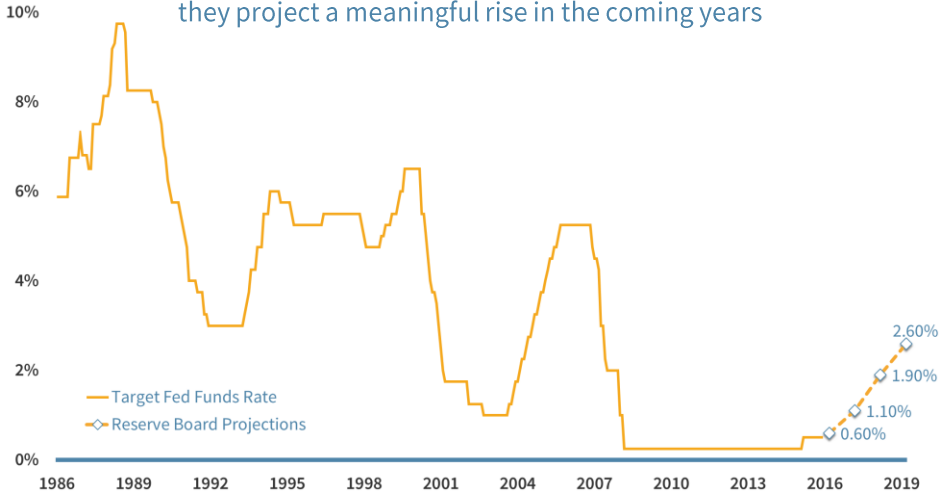


Source: Factset

Economics- Fed Watch

Chart 17:

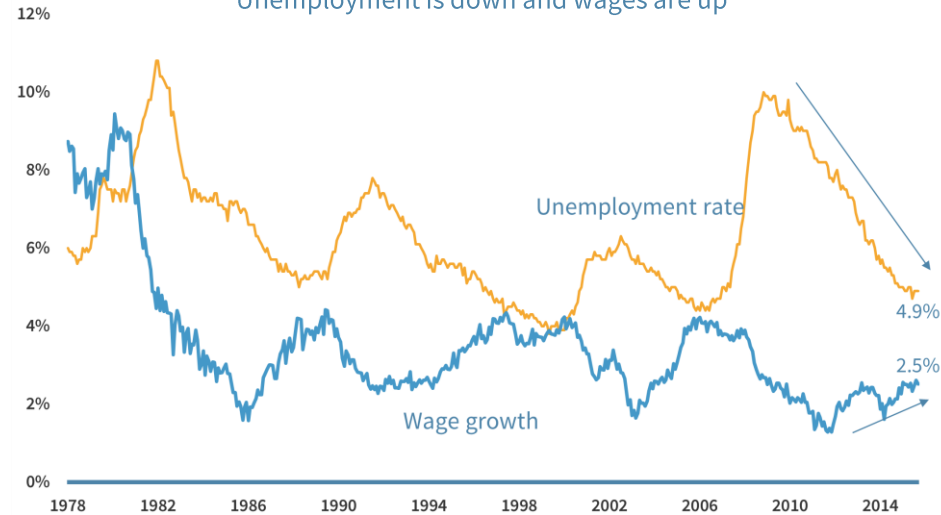
The Fed has been slow to raise interest rates, but they project a meaningful rise in the coming years



Source: Federal Reserve Board

Chart 18:

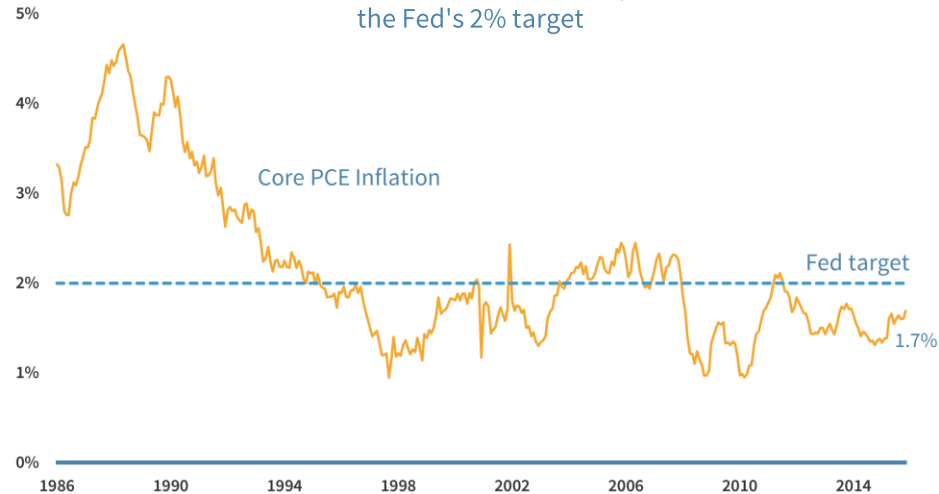
Unemployment is down and wages are up



Source: Department of Labor

Chart 19:

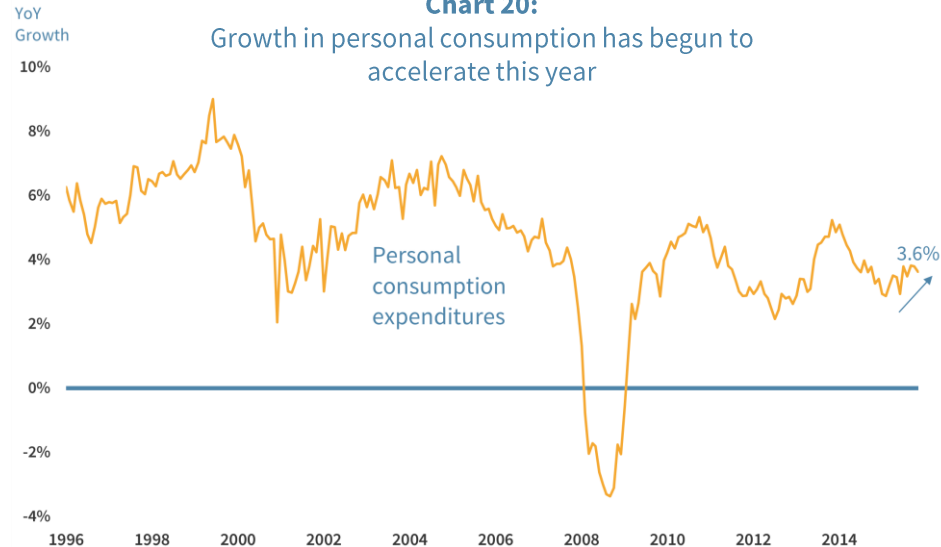
Inflation has remained stubbornly below the Fed's 2% target



Source: Bureau of Economic Analysis

Chart 20:

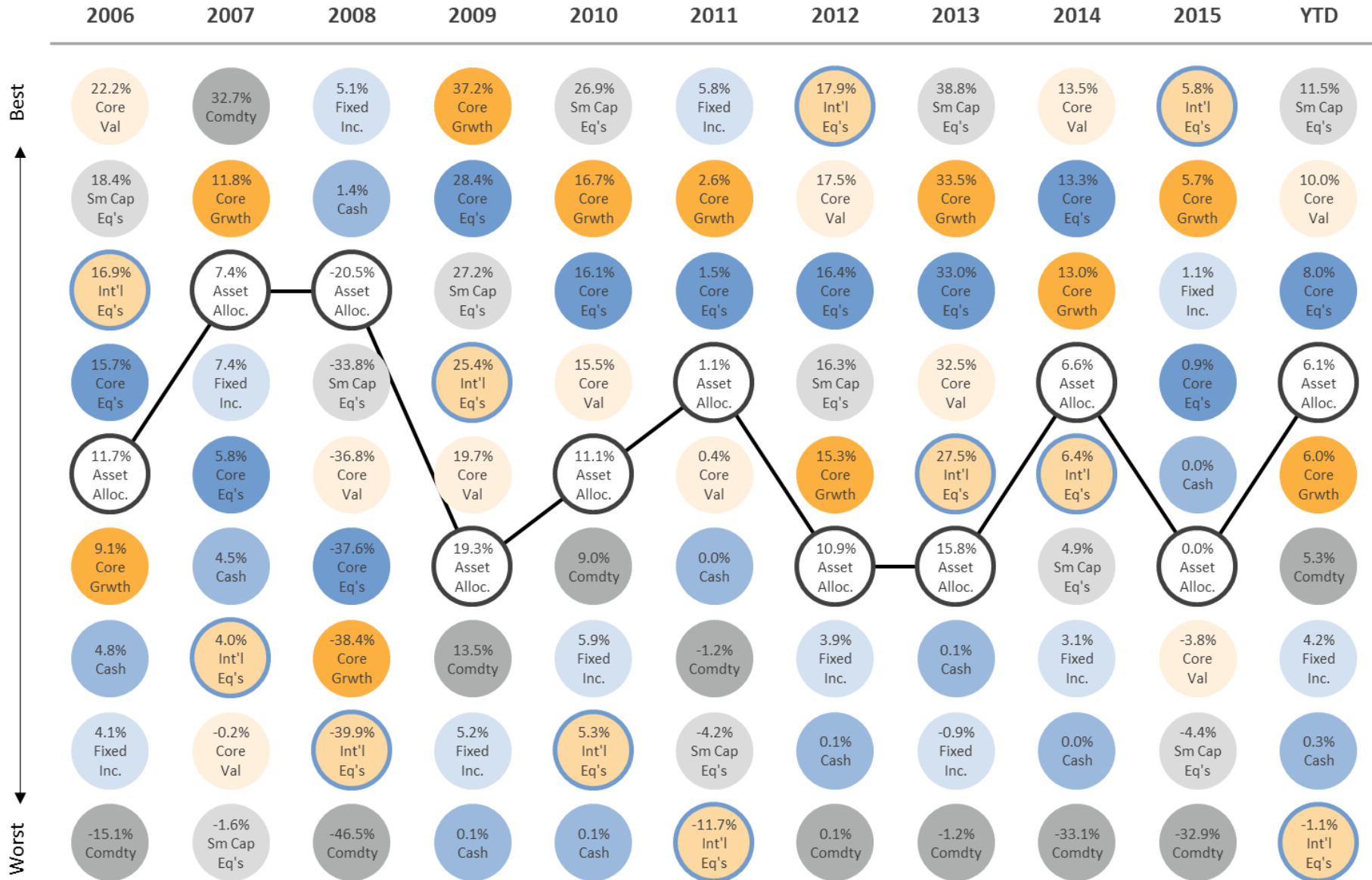
Growth in personal consumption has begun to accelerate this year



Source: Bureau of Economic Analysis

Asset Allocation

Diversified asset allocation provides more stability compared to a single asset class like International Equities



* Asset Allocation: 2% cash, 28% core bonds, 10% FI diversifiers, 37.5% core equities, 11% int'l equites, 3% small cap, 2.5% emerging markets, 6% real assets; returns assume annual rebalancing.

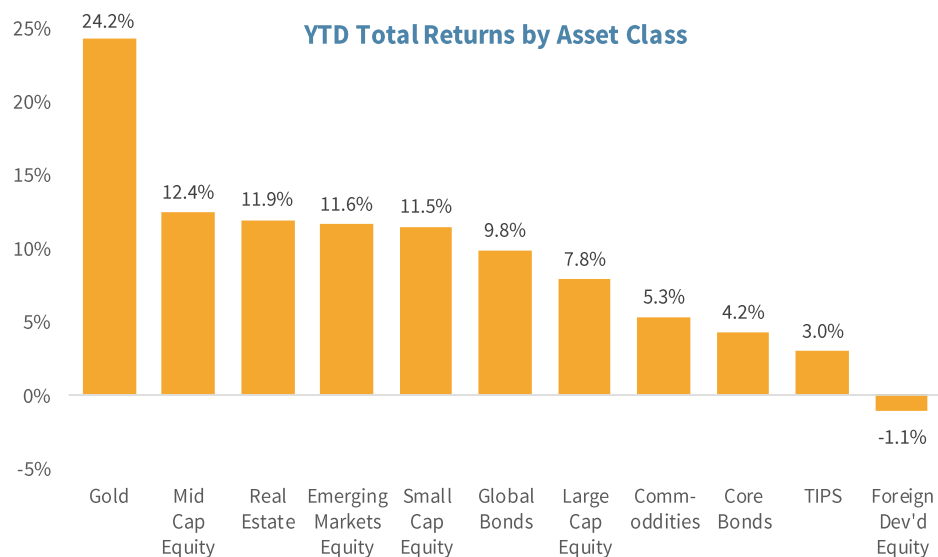
Asset Allocation

Strategic Model Tactical Allocation	Q3 Changes	YTD Changes	Tactical Weighting
Capital Income			
Cash	•	+	↑
Core US Bonds	•	-	↓
Short Term Bonds	•	•	↓
Inflation Protected	•	•	↓
Non-US Bonds	•	•	↓
Equities			
Growth	•	•	↑
Income	•	•	↑
Small Cap	•	+	↑
Foreign Developed	•	•	↓
Emerging Markets	•	•	↑
Complementary			
Real Estate	•	•	•
Commodities	•	-	↓
Gold	•	+	↑

↑	Tactically overweight	+	Weighting increased
↓	Tactically underweight	-	Weighting decreased
•	Tactically neutral	•	No change in weighting

* Strategic manages customized portfolios that seek to properly reflect the particular risk and return objectives of each individual client. The above chart reflects Strategic's tactical asset allocation decisions for a model portfolio, which may differ from actual client portfolios.

Capital Income	YTD	1YR	3YR	5YR	10YR
Barclays Capital Interm. U.S. Gov/Credit	4.2%	3.5%	2.8%	2.4%	4.2%
Barclays U.S. TIPS	3.0%	2.6%	0.5%	0.7%	2.8%
Bloomberg Barclays Global Aggregate	9.8%	8.8%	2.1%	1.7%	4.3%
Equities					
S&P 500	7.8%	15.4%	11.2%	16.4%	7.2%
S&P MidCap 400	12.4%	15.3%	9.4%	16.5%	9.1%
Russell 2000 (Small Cap)	11.5%	15.5%	6.7%	15.8%	7.1%
MSCI EAFE (Developed International)	-1.1%	5.2%	5.8%	11.7%	2.7%
MSCI Emerging Markets	11.6%	13.4%	4.7%	7.3%	6.3%
Complementary					
S&P GSCI Total Return (Commodities)	5.3%	-12.2%	-22.2%	-12.6%	-9.0%
Gold	24.2%	18.1%	-0.2%	-4.1%	8.2%
MSCI U.S. REIT Index (Real Estate)	11.9%	19.8%	14.1%	15.8%	6.2%



Disclosures:

Strategic manages customized portfolios that seek to properly reflect the particular risk and return objectives of each individual client. Every client situation is different and you should not rely on this material as the basis upon which to make an investment decision. All investments contain varying degrees of risk and may lose value. Certain of the information contained in this presentation is based upon forward-looking statements, information and opinions, including descriptions of anticipated market changes and expectations of future activity. Strategic Financial Services believes that such statements, information, and opinions are based upon reasonable estimates and assumptions. However, forward-looking statements, information and opinions are inherently uncertain and actual events or results may differ materially from those reflected in the forward-looking statements. Therefore, undue reliance should not be placed on such forward-looking statements, information and opinions. The charts presented are for informational purposes only and should not be used as the basis for an investment recommendation.