



**BlackDiamond
Financial**

INVESTMENT INSIGHTS

SECOND QUARTER 2017





Growth Stocks Fuel Global Equity Ascent

Upbeat economic prospects helped propel global equity markets to solid gains in the second quarter. The S&P 500 has now risen in 16 of the last 18 quarters. Positive global economic growth, employment gains, low volatility, and the lack of significantly negative economic news have all contributed to investors moving more money into stocks. In addition, despite minimal progress, investors remain hopeful that Washington can affect lower tax rates, increase infrastructure spending, and create a more favorable regulatory environment boosting corporate profits.

Domestically, large company growth stocks (companies oriented towards growing their business instead of maximizing cash return to investors) lead the market this quarter with an increase of 4.9%, outperforming their value stock counterparts by 1.8%. Technology giants Facebook, Apple, Amazon, Netflix, and Google (referred to as FAANG) did especially well this quarter and were up 6.1% compared to the broader S&P 500, which rose 3.1%. Year-to-date (YTD), FAANG stocks are up an average of 23.6%, and account for 10.2% of the S&P 500's total value.

International stocks followed their stellar performance in the first quarter by again outperforming domestic stocks in the second quarter and returning 5.8%. Several factors, including the depreciating dollar (down 4.9% this quarter compared to a diversified index of international currencies), relatively attractive valuations, accommodative foreign monetary policy, and a stabilized international political environment, provided tailwinds for foreign investments. As the U.S. dollar has depreciated to one-year lows, foreign companies that hold dollar denominated debt look more attractive, and profits of foreign companies translated back to U.S. dollars are more valuable to U.S. investors. Many foreign central banks are keeping interest rates low, which should encourage further growth. Additionally, international markets have shaken off most of the political uncertainty from earlier this year, including the fears arising from Britain's plan to leave the European Union. These factors led to \$27 billion flowing into global equity funds in May, the fourth largest monthly inflow ever.

Fed Continues Monetary Tightening

At its June meeting, the Federal Reserve raised the Federal Funds interest rate by 0.25%, to a range of 1.0% to 1.25%, and plans to continue tightening monetary policy with another 0.25% rate increase during the second half of this year. The Federal Reserve also announced plans to normalize the size of its balance sheet (a measurement of the bonds owned by the Fed), which, at \$4.5 trillion, is equivalent to about 23% of GDP and five times its pre-recession level.

The Fed will begin normalizing its balance sheet by reducing its bond ownership by \$6 billion per month. This will be accomplished by allowing Treasury bonds to mature and discontinuing the practice of purchasing bonds to replace the maturing bonds. This reduction will increase by \$6 billion every three months until reaching \$30 billion per month in twelve months. As the Fed reduces its balance sheet, the supply of bonds available to other investors will increase, which will create an impetus for rising rates.

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Comparative Returns

	Annualized Performance					
	Q2 2017	YTD	1 Year	3 Years	5 Years	10 Years
Large Cap U.S. Stocks ⁽¹⁾	3.1%	9.3%	17.8%	9.5%	14.5%	7.1%
Small Cap U.S. Stocks ⁽²⁾	2.5%	4.3%	24.6%	7.4%	13.8%	7.0%
International Stocks ⁽³⁾	5.8%	14.1%	20.5%	0.8%	7.2%	1.1%
Real Estate ⁽⁴⁾	1.7%	2.7%	-1.8%	8.2%	9.4%	5.9%
U.S. Bonds ⁽⁵⁾	1.5%	2.3%	-0.4%	2.5%	2.2%	4.4%

1. Measured by the S&P 500 index, which includes 500 of the largest U.S. companies in all sectors of the economy

2. Measured by the Russell 2000

3. Measured by the MSCI ACWI ex-U.S. index, which includes large and mid-capitalization stocks from developed and emerging international markets

4. Measured by the MSCI U.S. REIT index, which includes domestic publicly traded real estate stocks

5. Measured by the Barclays Aggregate Bond index, which includes a representation of the performance of the entire U.S. investment grade bond market



ABOUT US

Black Diamond Financial, LLC is a fee-only registered investment advisor with a unique focus on preserving and enhancing wealth through index investing strategies. Our mission is to create an individualized index-based investment portfolio for each client that is risk-appropriate, returns-optimized, and tax-efficient. As an employee-owned firm, we make our clients' interests our highest priority. We believe cost is a critical factor in any successful investment strategy. As such, we offer fully transparent pricing that is well-below industry standard.

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