Aldridge
FINANCIAL CONSULTANTS, LLC
An Independent Firm

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As we approach mid-summer, the markets have continued to advance across most major averages we follow.

Recent Market Performance

Looking at the charts below, the stock market has had very solid results year-to-date. Only the Russell 2000 (small US companies) has lagged and even that index generated nearly a 5% return through June 30. The broad bond markets also continue to do well in the quarter. Note that growth stocks have outperformed value stocks by a wide margin this year.

Stocks Index Total Returns **Data as of June, 2017**	**YTD Results**	**10 Year Results**
Dow Jones Industrial Average (DJIA)	9.35%	7.57%
Standard & Poor's 500 (S&P 500)	9.34%	7.18%
Russell 2000 (Small US Companies)	4.99%	6.92%
MSCI EAFE in US $ (Europe, Australasia, Far East)	13.81%	1.03%
MSCI Emerging Markets (in US $)	17.22%	-0.47%
MSCI ACWI NR (in US $)	11.48%	3.71%

Bonds - Total Returns **Data as of June, 2017**	**YTD Results**	**10 Year Results**
BarCap Municipal Total Return	3.57%	4.60%
BarCap Aggregate Bond Total Return	2.27%	4.48%

Mutual Fund Index Total Returns **Data as of June, 2017**	**YTD Results**	**10 Year Results**
Large-cap Growth	15.78%	8.54%
Large-cap Value	2.98%	4.14%
Small-cap Growth	11.64%	7.78%
Small-cap Value	-0.52%	7.97%
World Allocation	7.27%	3.76%
Foreign Blend	14.45%	0.96%

Please see index definitions at the end of the newsletter. Source: Morningstar

*Inclusion of these indexes is for illustrative purposes only. Keep in mind that individuals cannot invest directly in any index, and index performance does not include transaction costs or other fees, which will affect actual investment performance. Individual investor's results will vary. Past performance does not guarantee future results.

Financial & Investment Comments

In my prior two newsletters, I mentioned that I thought the Congress would be a major roadblock to much of President Trump's agenda. The starting point was to replace Obamacare and then move on to tax reform, but now that we are at mid-summer and health care legislation hasn't passed, it seems unlikely that we'll have tax reform this year. Why is this important? Well, many felt tax reform would provide a very positive stimulus to the capital markets. It still may, but it is starting to look like this is going to get pushed to 2018.

In reality, capitalists drive the economy, not politicians. Perhaps the political leaders can help a little, but more often it seems like they do more harm than good.

"Disruption" is the key word that keeps getting tossed around the investment circles these days. Disrupters like Amazon, Apple, Google (Alphabet), Microsoft, and Facebook are all growing leaps and bounds and their stock prices reflect it. As I write this, the year-to-date returns of those four companies range from 18% to 43%. (Source: Thompson One 7/19/2017). Their influence now dominates our lives. Roughly half of all online advertising is spent through Google and Facebook. Half of all online sales go through Amazon. In the first quarter, the five combined earned net profits of $25 *billion*. (Source: Raymond James Investment Strategy Quarterly July 2017). These five plus many more are tracking lots of data about each of us – to help them track how we spend money, what we like to do, what we like to watch and how we like to spend our time. Google, Amazon and Microsoft also have large cloud storage and management businesses. Data collection and analysis is a trend that will continue to permeate many industries going forward as it is used for marketing to consumers, helping scientists discover new medical advances, help energy companies, boost financial technologies and many other applications.

Disruption is occurring in transportation. The research group at Raymond James continues to write about the Internet of Things (IoT) as well as driverless cars. New technologies and advances continue to gradually creep into new cars. The driverless car won't happen overnight, but will evolve over time. In future generations, many of our kids and grandkids may not even own a vehicle, but rather will grab one if they need to get from point A to point B. While I'm not sure how they handle rush hour, the impact of driverless cars on auto companies and insurance companies should be dramatic. Think about it: the typical car sits idle about 95% of the time (or more). If it is smart enough to drive itself and I can get one most anytime, maybe I just rent one as I need it. Insurance, car payments and maintenance costs (and the hassle of maintenance) are vastly reduced. For the insurance company, premiums (and likely profits) go down because there are fewer accidents. (Driverless cars don't drink, text or fall asleep at the wheel). For auto companies, they may sell fewer cars. Rather they may manage and operate fleets of driverless vehicles. Obviously, challenges will occur with this technology just like any other.

Disruptions are occurring in energy as well. In April, I attended a conference session led by John Freeman, one of the energy analysts with Raymond James. John cited that the U.S. has become the world's lowest cost producer of oil and gas. This shift has massive geopolitical implications long term. In all likelihood, both Russia and the Middle East will be big losers from our technological advances in oil and gas extraction. Today, the U.S. produces about 9 1/2 million barrels of oil per day. (In 2008, we produced about 5 million per day). By 2030, this figure is forecasted to go to 20 million barrels per day. Technology is driving this boom as companies like Halliburton, Baker Hughes and many others think and resolve means to pump more oil out of the ground efficiently and cheaply. Many in the rest of the world seem to be in structural declines: Nigeria, Venezuela, China, Colombia, and Mexico have all seen meaningful declines in production. Meanwhile, gasoline usage is in an uptrend. Sales of SUVs in China have grown by 40% annually since 2011. (Source: Raymond James energy research).

Speaking of China, they have unveiled their "One Belt, One Road" initiative on March 28th. To quote Pavel Molchanov, an energy analyst at Raymond James: "Unlike Washington's infrastructure chimera, "One Belt, One Road" is a $1 Trillion build-out that's actually moving forward". (Source: Raymond James Investment Strategy Quarterly July 2017). The description is a little confusing as "road" refers to maritime links in East Africa and the Mediterranean Sea, whereas belt refers to overland corridors (six in total) that link China to the Middle East and Europe. At the heart of this initiative is massive spending and development of infrastructure: seaports, railways and highways. Many, like India, suspect the Chinese have ulterior motives like political control. The Indians are concerned that the Chinese seek quasi-colonial control. Many of the countries who have signed on are rich in natural resources, but are poor otherwise. Most of the meaningful investments are set to occur in Asia and Africa. If you want a copy of his research report, just email me. It's focused more on how the initiative may impact energy demand over time, but is fascinating nonetheless.

Disrupters are everywhere and are likely to impact every aspect of our daily lives. Other themes we continue to watch and follow for their impact include: electric vehicles, artificial intelligence/machine learning, robotics, biotechnology, medical devices, solar power, 3D printing and cybersecurity.

So, while much of the focus of the press has been on the President and Congress, many great companies are investing and implementing technologies that can have an impact on the capital markets, and more importantly, your investment portfolio. From my discussions with managers, most are optimistic, but are also cautious. Many that have more of a "value" strategy have been raising cash due to the sharp increase in stock prices over the past twelve months.

As always, please call or email if you have any questions about your investments and financial plans. We are here to assist you in making decisions to help you reach your ultimate goals.

In Conclusion

Thank you for your trust, confidence and friendship. I am truly grateful for the opportunity to be of service. It's a pleasure to hear of client's goals, dreams and accomplishments and to be a part of building a successful plan.

Our goal is to continue helping you with your financial goals, explorations, dreams and discoveries, whatever they may be. We look forward to serving you and your loved ones in that mission.

I'll write again in October.

Best regards,
Mark
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Index Definitions

Dow Jones Industrial Average (DJIA) -- an index representing 30 stock of companies maintained and reviewed by the editors of the Wall Street Journal.
S&P 500 -- an unmanaged index of 500 widely-held stocks that's generally considered representative of the U.S. stock market.
NASDAQ Composite -- an unmanaged index of securities traded on the NASDAQ system.
MSCI EAFE -- a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the United States & Canada.
MSCI ACWI -- The MSCI ACWI (All Country World Index) Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets. As of June 2009 the MSCI ACWI consisted of 45 country indices comprising 23 developed and 22 emerging market country indices. The developed market country indices included are: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, the United Kingdom and the United States. The emerging market country indices included are: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Israel, Korea, Malaysia, Mexico, Morocco, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand, and Turkey.
Russell 2000: Measures the performance of the 2,000 smallest companies in the Russell 3000 Index, which represent approximately 8% of the total market capitalization of the Russell 3000 Index.
Barclays Capital Aggregate Bond Index -- a measure of investment-grade, fixed rate debt including corporate, government and agency issued bonds as well as asset-backed securities. Issues must have at least 1 year left to maturity and an outstanding par value of at least $100 million.
Barclays Capital Municipal Bond Index covers investment grade, tax-exempt, and fixed-rate bonds with maturities greater than two years.
MSCI Emerging Markets Index: designed to measure equity market performance in 25 emerging market indexes. The index's three largest industries are materials, energy, and banks.
FTSE Eurofirst 300 Index: the 300 largest companies ranked by market capitalization in developed Europe.
Nikkei 225 Index: the leading and most-respected **index** of Japanese stocks. It is a price-weighted **index** comprised of Japan's top **225** blue-chip companies on the Tokyo Stock Exchange.

Morningstar Category Definitions

Large-growth portfolios invest in big U.S. companies that are projected to grow faster than other large-cap stocks. Stocks in the top 70% of the capitalization of the U.S. equity market are defined as large-cap. Growth is defined based on fast growth (high growth rates for earnings, sales, book value, and cash flow) and high valuations (high price ratios and low dividend yields). Most of these portfolios focus on companies in rapidly expanding industries.
Large-value portfolios invest primarily in large U.S. stocks that are less expensive or growing more slowly than other large-cap stocks. Stocks in the top 70% of the capitalization of the U.S. equity market are defined as large-cap. Value is defined based on low valuations (low price ratios and high dividend yields) and slow growth (low growth rates for earnings, sales, book value, and cash flow).
Foreign large-blend portfolios invest in a variety of big international stocks. Most of these portfolios divide their assets among a dozen or more developed markets, including Japan, Britain, France, and Germany. These portfolios primarily invest in stocks that have market caps in the top 70% of each economically integrated market (such as Europe or Asia ex-Japan). The blend style is assigned to portfolios where neither growth nor value characteristics predominate. These portfolios typically will have less than 20% of assets invested in U.S. stocks.
Small-growth portfolios focus on faster-growing companies whose shares are at the lower end of the market-capitalization range. These portfolios tend to favor companies in up-and-coming industries or young firms in their early growth stages. Because these businesses are fast-growing and often richly valued, their stocks tend to be volatile. Stocks in the bottom 10% of the capitalization of the U.S. equity market are defined as small-cap. Growth is defined based on fast growth (high growth rates for earnings, sales, book value, and cash flow) and high valuations (high price ratios and low dividend yields).
Small-value portfolios invest in small U.S. companies with valuations and growth rates below other small-cap peers. Stocks in the bottom 10% of the capitalization of the U.S. equity market are defined as small-cap. Value is defined based on low valuations (low price ratios and high dividend yields) and slow growth (low growth rates for earnings, sales, book value, and cash flow).
World Allocation portfolios seek to provide both capital appreciation and income by investing in three major areas: stocks, bonds, and cash. While these portfolios do explore the whole world most of them focus on the U.S., Canada, Japan, and the larger markets in Europe. It is rare for such portfolios to invest more than 10% of their assets in emerging markets. These portfolios typically have at least 10% of assets in bonds, less than 70% of assets in stocks, and at least 40% of assets in non-U.S. stocks or bonds.

Other Disclosures