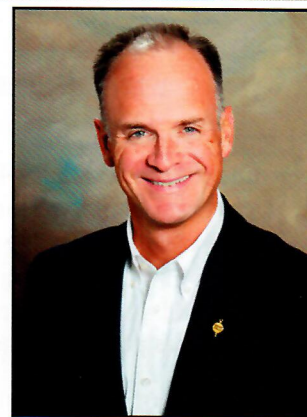


THE KEYSTONE



David R. Guttery, RFC, RFS, CAM
8178 Gadsden Highway, Suite 104
Trussville, Alabama 35173

(205) 655-7526
(800) 894-0065
E-MAIL: GutteryKFG@Centurytel.Net

2017 – 2nd Quarter Notes

For the second quarter, the Dow Jones Industrial Average posted a gain of 3.32%, the S&P 500 Index posted a gain of 2.57%, and the NASDAQ posted a gain of 3.87%. Year to date, the Dow Jones Industrial Average posted a gain of 8.03%, the S&P 500 Index posted a gain of 8.24%, and the NASDAQ posted a gain of 14.07%. (1)

If I am without your email address, please forward that to me at your earliest convenience. I send current pieces of market and economic commentary to those for whom I have an email address on a weekly basis.

All Eyes On Washington

If you've worked with me for any length of time, then you've heard me say that capital markets are discounting mechanisms. They price anticipations about the future into themselves, and sometimes those expectations may take a while to materialize.

On the 8th of November of last year, markets began to price expectations into themselves of a growing economy, characterized by less regulation, higher velocity of money, higher interest rates, and higher inflation. The expectations of the Federal Reserve seemed to be in alignment, as guidance moved sharply from "possibly one rate hike over the coming year" to "four rate hikes, and possibly a fifth".

Since the 20th of January however, market expectations have been met with a few sobering realities. The failed initial attempt at replacing Obamacare for example gave capital markets a reason to pause. Right out of the gate, the GOP controlled Congress failed to display the unity for which capital markets were looking to justify valuation expectations.

That doesn't mean that valuations are unjustified or that favorable economic metrics aren't alive and well – but rather – the markets seem more willing to pause and wait on Washington to "get its act together". This seems to be especially true of interest sensitive areas of the market like energy and banking.

The markets are anticipating the economic impact that may precipitate from a meaningful tax reform catalyst. If such were to materialize this year, then the hope is that companies would be incentivized to spend the cache of money which has accumulated over eight years in the name of plant expansion, acquisition and training of human resources, and investment into capital equipment.

Obviously, the markets have been in positive territory but that masks a deeper story in my opinion. Keep one eye on the markets, and one eye on Washington. I believe that the capital markets could return to the same level of enthusiasm that we saw immediately following the election if Congress would take a step back from brinksmanship and toward resolution.

The Bull That Keeps On Running

In March 2009, the stock market started its current bull run. As the economy recovered, earnings drove stocks higher. But, between May 19, 2015 and November 3, 2016, the Dow Jones Industrials Average actually fell 2%, while other indices stagnated. A sharp drop in earnings due to lower oil prices and election uncertainty caused angst. Since then, however, the Dow is up 19% and the tech-heavy NASDAQ is up 22%.

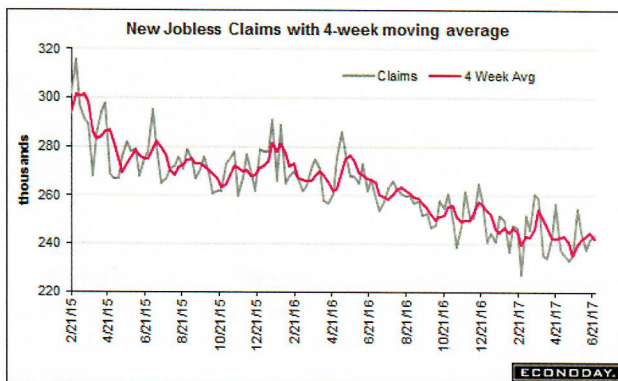
Good policy ideas beget good stock market outcomes. As mentioned above, what might happen if the Congress were to resolve behind comprehensive tax reform, and economically stimulating legislation?

(Continued on page 4)

Regarding The Economy

Employment – On the 2nd of May, the Labor Department reported that 147,000 private sector jobs were created in the month of April, and 138,000 payrolls in all. The unemployment rate declined to 4.3%. Payroll data for March was revised lower by 37,000 payrolls. The labor participation rate rose to 62.7% as people returned to the workforce. (5)

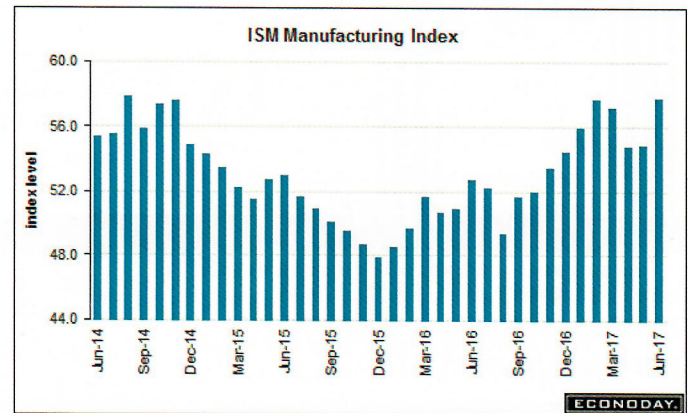
On the 29th of June, the market considered the most recent weekly jobless claims report, and the four week moving average. Within many pieces of correspondence, I've discussed the importance of weekly jobless claims and the four week moving average as being a historically accurate leading economic indicator. (5)



The level of initial jobless claims came in at 244,000 for the week. Following revisions, the latest four-week average was 254,250 claims, just off historic lows. Continuing claims declined from a quarter ago, at 1.948 million, again, just off a recovery low. The unemployment rate for insured workers declined to 1.4%, which remains the lowest rate seen yet in the recovery. This marked the 119th consecutive week for a jobless claims reading below 300,000 – the longest streak since 1970. (5)

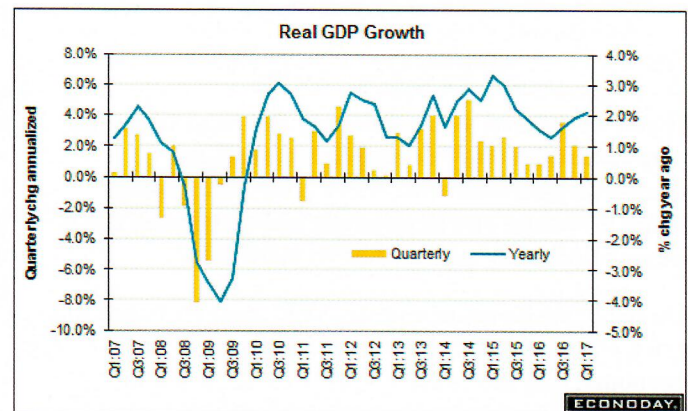
New unemployment claims are compiled weekly to show the number of individuals who filed for unemployment insurance for the first time. An increasing (decreasing) trend suggests a deteriorating (improving) labor market. The four-week moving average of new claims smoothes out weekly volatility on the underlying trend. (5)

Manufacturing - The ISM non-manufacturing index (formerly known as the NAPM Survey) is constructed so that any level at 50 or above signifies growth in the services sector. (3)

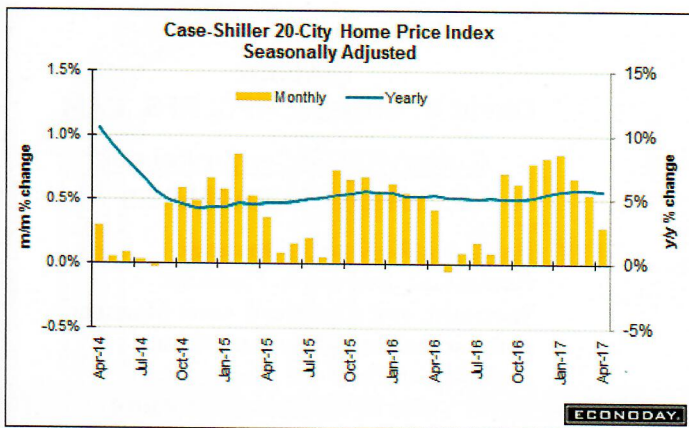


On the 3rd of July, the Conference Board released the March ISM Manufacturing Index, and it showed a reading of 57.8. This was higher than last month's reading of 54.9, which was the highest reading since August of 2014. New orders were strong at 63.5, and the backlog orders index posted a rare high reading of 57.0. Strength in orders suggests future strength in employment. (3)

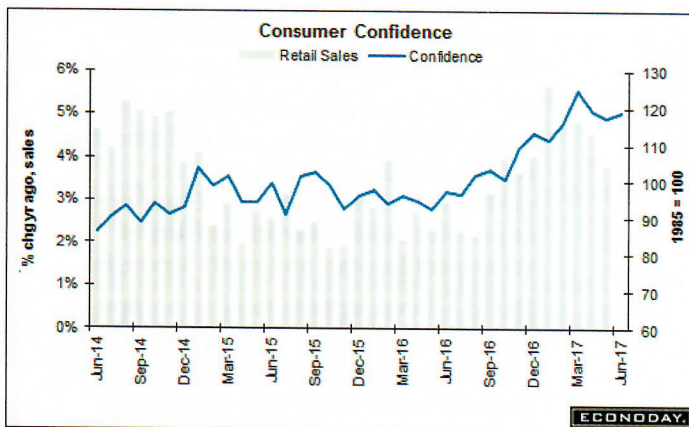
Gross Domestic Product - Gross Domestic Product (GDP) is the broadest measure of aggregate economic activity and encompasses every sector of the economy. (4)



On the 30th of June, the final estimate of GDP growth for the 1st quarter was released and showed economic growth expanding by 1.4%. The previous reading showed expansion of 1.2%. The consumer was the driving force behind the number, spending at a 1.1% rate, up from 0.6% in the previous estimate. Overall corporate cash remains near an all time record high as a percentage of GDP. (4)

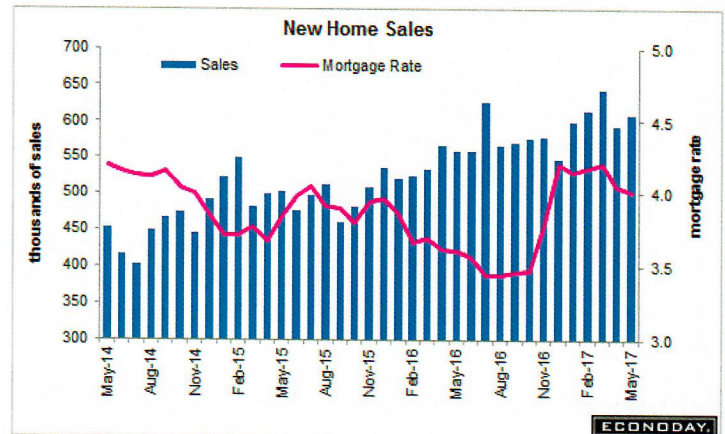


Housing – The year over year gain for this index stood at 5.7% as of the 27th of June. All 20 cities showed year over year gains, and the month over month gain for the index stood at 0.3%. This is the strongest run for the index in nearly four years. (2)



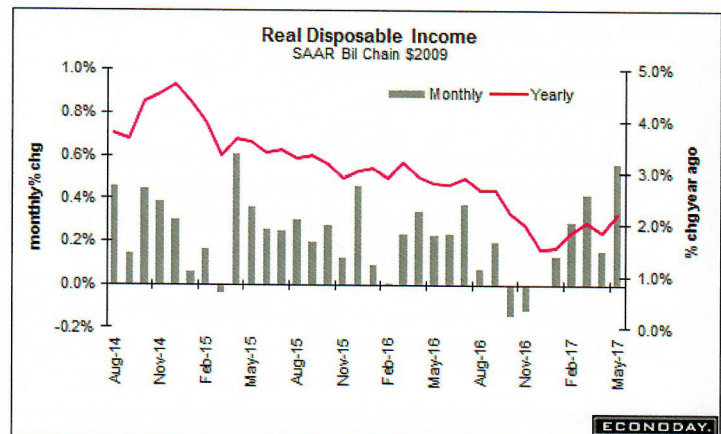
Consumer Confidence is important because the pattern in consumer attitudes can be a key influence on markets, as such spending drives two thirds of economic activity. On the 27th of June, the Conference Board's consumer confidence index stood at 118.9. This was just off the strongest reading since December of 2000. The current conditions component at 146.3 hasn't been this high since June of 2001. The expectations component was also very strong at 100.6. This was a very strong consumer confidence report. (6)

Leading Economic Indicator (LEI) - According to Bloomberg.com, the Leading Economic Indicator, or LEI, is a composite index of ten economic indicators that should lead overall economic activity. The report released on the 22nd of June rose 0.3% from the prior month's reading of 0.2%. This bodes very well for future economic activity. Through the June report, 86 of the last 97 readings have been positive or unchanged for the LEI since April of 2009. The concept of this index is to project future economic conditions over the next three to six months. (3)



New Home Sales – On the 23rd of June, the latest report on new home sales was released. The new home sales reading was up 2.9% and showed that 610,000 new homes were sold in May. This was one of the best monthly rate increases observed in the recovery. With revisions for April higher by 24,000 units, this index continues to show strength in housing. It remains a seller's market, with a thin 5.3 months supply on the market as of the end of February. New home sales average prices are up 16.8% since April of 2016. (7)

Pricing power appears to be stable for new home buyers with the month's median at \$345,800. Regionally, the West and South are leading the way in strength. (7)



Income and Expenditures – Personal consumption is an important metric to monitor. On the 30th of June, it was reported that personal income was higher by 0.4% month over month, and consumption was up 0.1% month over month. Normally, higher levels of confidence eventually translate into healthy patterns of spending, and such bodes well for the third quarter of 2017. The PCE Price Index, a measure closely watched by the Federal Reserve, was up 1.4%. This reading stood at 2.1 as of the end of the first quarter, however many economist argue this supports recent measures by the Federal Reserve to raise interest rates, as inflation is evident at the core level excluding food and recent volatility seen in the energy market. (4)

Continued From Page One

I like to refer to the Capitalized Profits Model, which is the government's measure of profits from the GDP reports divided by interest rates, to measure fair value for stocks. A current 10-year Treasury yield of about 2.3% suggests the S&P 500 is massively undervalued. Using a more rational 10-year yield of 3.5% suggests that fair value for the S&P 500 is 2,700. The model needs a 10-year yield of 3.9% to conclude the S&P 500 is already at fair value, with current profits.

As always, it's important to emphasize that I don't advocate market timing and neither am I suggesting that a correction won't, or can't, happen. Corrections come and go. But market timers get burned time after time. In other words, if another correction hits in the near future, stay long and buy more. This is especially true in my opinion for interest rate sensitive securities in the energy and financial and banking sectors.

Late last year, the consensus thought was that the Federal Reserve could raise rates on four occasions in 2017. It now looks like three rate increases might be more realistic. With over \$2 trillion in excess reserves, the Federal Reserve is a long way from creating a tight money environment if and when it starts to unwind its balance sheet.

One change to the financial picture is on long-term interest rates. Six months ago, we thought the 10-year Treasury yield would finish 2017 at 3.25%. Now we think 3.00%. That's a headwind for fixed-income investors, but with growing profits, rising rates are less of a problem for equity holders.

As has been true since 2009, those who remain optimistic and focused on achieving long term objectives will likely be rewarded. This is especially true with a with a better set of fiscal policies. Stay optimistic and stay invested.

Follow me on Twitter (@dguttery), and connect with me on LinkedIn if you haven't already done so.

(*) Past performance is no guarantee of future results. There is no guarantee that the views stated in this newsletter will come to pass. Investing in the market involves gains and losses that may not be suitable for all investors.

- (1) S&P 500 Index data obtained from <http://finance.yahoo.com>.
- (2) Case - Shiller 20 City Index and <http://www.bloomberg.com>
- (3) Data obtained from <http://www.econoday.com>, and <http://www.bloomberg.com> and the Conference Board.
- (4) Data obtained from <http://www.econoday.com>, and <http://www.bloomberg.com> and the US Department of Commerce
- (5) Data obtained from <http://www.econoday.com>, and <http://www.bloomberg.com> and the US Department of Labor
- (6) The Conference Board and <http://www.bloomberg.com>
- (7) US Department of Housing and Urban Development and <http://www.bloomberg.com>

①About

David R. Guttery, RFC, RFS, CAM

GutteryKFG@Centurytel.net
DGuttery@Aicinvest.com

David is a Registered Financial Consultant, Registered Financial Specialist, and Chartered Asset Manager, and is a member of the American Academy of Financial Management. David is also an Investment Advisory Representative of Ameritas Investment Corp.

He graduated from The University of Alabama in 1991 with a BS degree in Finance, and began his career with Nowlin and Associates. In July of 2006, David formed The Keystone Financial Group, and relocated his practice to Trussville, Alabama.

The focal point of David's practice is the design of both qualified and non qualified retirement strategies for small and medium sized corporations. Other areas of practice include the structuring of retirement income, and estate strategies.

David believes activity to be important within one's industry and community. He serves the City of Trussville as a member of its Park and Recreation Board, and upon the Advisory Board of the Trussville City Schools Foundation. He coaches youth league basketball, and serves Clearbranch United Methodist Church as its finance committee chairman. He serves Ameritas as a member of its National Field Advisory Committee.

David and his family live in Trussville, Alabama. David is a native of Florence, Alabama.

**Securities and investment advisory services are offered solely through Ameritas Investment Corp. (AIC), member FINRA/SIPC.

*** The opinions and views stated in this publication are solely those of David R. Guttery and should not in any way be considered to be an endorsement by Ameritas Investment Corp.

**** AIC, Keystone Financial Group, and KeystoneFinGrp.com are not affiliated. Additional products and services may be available through David Guttery or Keystone Financial Group that are not offered through AIC.