Stark Financial Advisers, Inc.

A Registered Investment Adviser

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Special points of interest:

- Stock Market Outlook Remains Positive
- No "Do-Overs" Investing for Retirement
- Plan for Your Retirement to Last 25 to 30 Years
- Disruptive Technology and Inflation
- Expect a Continued Bid for Bonds
- Know Your Risk Tolerance

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Trump Market Vs. Obama Market

Since President Trump's election on November 9th, 2016, the Dow Jones Industrial Average has risen over 4,000 points, +22%, from 18,332 to 22,392. No President has more all-time closing highs in his first year in office than President Trump. He is already the only President in US history to oversee two stock market rallies of nine days or more where the markets set new highs each and every day. On February 28th President Trump matched President Reagan's 1987 record for most continuous closing high trading days when the DOw reached a new high for its 12th day in a row! Americans are feeling the benefits in their investment accounts. The US Stock Market gained $4 trillion in wealth since Trump was elected. How does this compare with President Obama's first few months? Under President Obama markets moved in nearly the exact opposite direction. In the nine months after President Obama's election in November the Dow went down -31%. By September 18th 2009, the DOw was barely above the November levels. The stock market never reached a new all- time high during Obama's entire first term. Driving the Trump rally: deregulation, anticipated tax cuts, and a business friendly environment.

Market Outlook

The S&P 500 sits near its all-time high having risen about 10% year-to-date. The market has shown remarkable resilience despite a nuclear-armed dictator in North Korea, two historic hurricanes, and yes even a Republican President working the Democrats in Congress. The primary driver of optimism is earnings. Despite some recent negative guidance due to Hurricanes Harvey and Irma, investors are already looking ahead to third quarter earnings reports that are forecast to be strong. With earnings meeting expectations, next year's earnings estimate of $145 for the S&P 500 may be achievable. That puts the index's valuation at a reasonable 17 times earnings and could set up a decent rally this quarter. For now, it's a bull market, good news is celebrated and bad news is ignored.

Retirement Tips

When you retire, the process of transitioning from the daily working grind to days of leisure and no fixed schedule will begin. It's a reason to celebrate, but it's also a period of transitioning. It's all about finding the tricky balance of spending enough to enjoy what you have earned, while not depleting your savings in your lifetime. With Americans living longer, retirement could last 30 years or more. With ever-rising medical costs and mostly stagnant Social Security checks that pile of cash you've accumulated doesn't look that big anymore. Failing to make good financial decisions at the onset of retirement can have lasting repercussions - there are no do-overs. Following a few guidelines can make a significant difference. Have a tax-efficient retirement distribution strategy. Figure out your tax bracket and look at each bucket of money to determine the most efficient way to withdraw distribution. If circumstances allow, defer taking Social Security benefits. At age 66, you'd receive about 25% more than at 62. At age 70, your benefit would rise another 32%. Create a withdrawal strategy that meets your needs but avoids spending too much principal early in retirement. A good starting point is taking out no more than 4% of your nest egg annually. Or, if you are looking for more security, you may want to consider an annuity or bonds. Don't be too conservative with investments. When retirees focus on not losing money they often put themselves at risk to everything else and risk outliving their nest egg. They are exposed to inflation risk, credit risk, and a host of other risks. Be realistic about how long your money will be invested. Don't worry about losing your money in the first six months. Rather ask yourself how you can make it last another 25-30 years. Avoid taking advice from friends. It's usually well-intended but lacking in quality. Have a trusted professional financial adviser. While you may not have control over your investment returns, you will have control over how much you spend. Have a budget. If you are supporting adult children and are of average means, it may be time to reduce or stop this support due to your changed financial circumstances. Don't be overinvested in your house. Your house may be an appreciating asset, but it's also a consuming asset. Finally, be sure to create an estate plan. It will enable you to transition your wealth to your spouse or partner or your next generation of heirs more efficiently and may reduce estate taxes.

Commodity Outlook

Oil prices (averaging $46/bbl.) are trending below the projected 2017 average of $55/barrel. Looking forward, the consensus is for prices to increase to $60/bbl. in 2018 as the market regains balance. Shale production is expected to limit larger gains. Supply-side outages, especially from Libya and Nigeria are risks to the upside. Rising production, especially from the United States and weak OPEC compliance remain downside risks. Raw material prices are projected to rise, especially rubber due to supply shortfalls, in part due to the devastating hurricane season and subsequent rebuilding. Non-precious metals such as lead and copper are forecast to increase in price. Price drivers to the upside stem from stronger-than-expected demand, policy-induced supply restraints in Asia, environmental constraints, and labor negotiations. Precious metals prices, which have rallied this year are forecast to ease into 2018 as interest rates rise and safe-haven buying ebbs.

What Happened to Inflation?

Traditional economics teaches that prices are ultimately set by supply and demand. Strong growth spurs more demand for more products. Companies need to increase wages to hire more workers and prices go up. There are signs that this relationship may be broken. Economic growth is strong but inflation is missing. The growth-inflation relationship is the fulcrum of central banking. Central banks set an inflation target (usually around 2%) and then raise or lower interest rates in response to the level of inflation. The direction of interest rates also influences investors about where to invest. Bonds do well when interest rates fall. Falling interest rates traditionally are taken as signaling concerns about growth. So stocks and bonds typically cushion each other. Yet in 2017 and for much of recent history, this has not been true. This year the S&P 500 is up almost 10% and the benchmark U.S. bond yield is near 2% - a level typically associated more with financial distress than with improving growth. Opinions vary as to why the traditional link may be broken. One line of thought is that statistics miss people in temporary jobs or outside the labor force. This suggests that the economy isn't necessarily as strong as the numbers suggest. Some believe in persistently low inflation. Because inflation has been so low for so long, expectations are that it will stay low. More likely, inflation has been held lower by globalization, the decline of labor unions, and the rise of big multinationals. More competition at the global level is leading producers to price more aggressively. Companies can also outsource production or import if the wage bill starts getting too high, rather than raise prices. Unionization has dropped by half over four decades thereby reducing employee bargaining powers. Perhaps what is changing the calculus is the market power of "superstar firms" especially technology giants such as Alphabet and Amazon. When a superstar firm enters a market it drives prices down. A most recent example is Amazon's purchase of Whole Foods Market. This type of "disruptive technology" keeps inflation down. In the past, companies faced higher costs when making more of a product. In today's world producing more is often cheaper and might not even require more workers because more demand can spur investment in labor-saving equipment. The take away is that traditional relationships have changed. Supply and demand still influences prices, but the way in which we produce supply has changed. As long as globalization and technology can influence costs, lower inflation will remain tame and interest rates low.

Interest Rates to Remain Stable

Interest rates since early July have declined (U.S. 10-Yr Treasury Note 7/7/17, 2.384%) reaching a low of 2.039%. The trend reversed during September as factors driving the rally in the US, such as the debt ceiling deadline and a potential government shutdown saw a short-term resolution (thanks to a need to pass a hurricane relief spending measure). August consumer prices grew 0.4% giving the selloff in bonds some staying power. However, economic growth remains moderate, the trend for inflation is uncertain. There is a lot of political uncertainty and geopolitical risks (especially North Korea) These are all lining up against any significant increase near term. In fact, a resumption of the decline is a possibility. We continue to view the high yield sector as most attractive for relative return. Economic growth is helping companies meet their obligations. Default rates are steady near 2%. In addition, rising interest rates may not be all that detrimental to junk bonds. Historically of the 14 times that Treasury yields spiked between 1998 and 2013, high yield bonds returned on average 4.99% vs. declines of –0.48% for corporates and -5.53% for Treasuries.

About Stark Financial Advisers

Stark Financial Advisers is a registered investment adviser affiliated with R.M. Stark & Co., Inc., an SEC registered broker dealer. SFA seeks to achieve positive returns over a long-term investment horizon by creating and maintaining the optimum portfolio for each investor. We view the optimum portfolio as one having the highest potential return consistent with the risk tolerance and investment horizon of the owner.

We also understand the relationship between risk and return and seek to reduce risk through targeted asset allocation among numerous asset classes. Each asset class has separate and distinct characteristics, including returns and risk that can be measured over time. While all classes are cyclical, they often trend in different directions. Two portfolios, each having similar return prospects, may have substantially different short-term risk characteristics. Clearly, the lower risk portfolio would be the choice of most investors.

Of course, all investments contain risk and there is no guaranty of positive returns; losses can occur. For additional information and a complete performance history, please visit www.starkadvisers.com.

Pursuant to Rule 204-3 of the Investment Advisers Act of 1940, we are required by the Securities and Exchange Commission to offer each client a copy of Form ADV Part II that describes our firm and methods of operation. To receive a copy, please call our Managed Account Services Department at (800) 410-0704.

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Stark Financial Advisers, Inc.

701 SE Sixth Avenue
Suite 203
Delray Beach, FL 33483

561-243-3815
800-410-0704

gstark@starkadvisers.com

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WE ARE ON THE WEB

STARKADVISERS.COM

Gary L. Stark

President

Ellen R. P. Adler

Vice President

Stacey Stark

Account Manager

Bryan R. Stark

Account Manager

Risk Tolerance and Asset Allocation

Fear is perhaps the greatest emotion with which investors have to deal. Everyone has a unique tolerance for risk and threshold for fear. Taking risk beyond one's threshold often triggers fear and leads to irrational investment decisions often resulting in losses. In its simplistic form, market volatility is the fuel that powers fear. At some point (when losses grow), we become fearful. Some can tolerate volatility of 15% or more, others 5% or less. You can estimate your risk tolerance by asking yourself this question: "at what percentage market decline would I become so fearful that I would exit the market?" Know the answer. Through asset allocation you can create a portfolio that could reasonability be expected to have tolerable volatility. Readers of this Commentary know that asset allocation is the rigorous implementation of an investment strategy that attempts to balance risk and reward by adjusting the percentage of each asset class (stocks, bonds, cash, tangibles, etc.) in an investment portfolio according to the investor's risk tolerance, goals and investment time frame. For example, a Very Conservative investor with a short investment horizon might consider an asset allocation that is 30% cash, 45% bonds, 3% tangibles, and 22% stocks. This portfolio would have an expected return of about 4.12% and volatility of 4.8. At the polar extreme an Aggressive investor with a long-term investment horizon may structure a portfolio that is 96% stocks and 4% bonds. This portfolio would have an expected return of 8.5% and volatility of 16.6. Twice the return of the Very Conservative portfolio but 3.5 times the risk. Most investors fall somewhere between the extremes. Of course, for asset allocation to work, periodic rebalancing is important to assure that the portfolio holdings remain the optimum.

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As always, the professional staff at Stark Financial Advisers thanks you for your confidence and business