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K&S LLC Financial Fitness Summer 2017 Newsletter "Diversification, Diversification, Diversification"

There is a saying in the real estate business that the key to success is "location, location, location." As we evaluate the current state of the financial markets, the age old concept of spreading our eggs across different baskets continues to be a sound strategy for investors who are seeking consistent returns. Utilizing asset classes which include U.S. and International stocks, government and corporate bonds and alternative investments such as real estate securities can help to reduce portfolio risk and provide investors with steady returns.

Economies around the world are chugging away and slowly growing. We continue to be cautiously optimistic about the outlook for the financial markets over the next few years.

Here's commentary from *J.P. Morgan's Second Quarter Economic & Market Update*:

1. The economic expansion is continuing at a slow but steady pace.
This has been a slow but resilient expansion. The economy should grow faster in the second half of 2017. Growth should accelerate and stabilize into the second half of 2017 and through 2018, reflecting a pick-up in exports, inventories and government spending. Stronger investment spending and an improving global economy should be tailwinds, though the prospect of significant fiscal stimulus has diminished, thanks to low unemployment and political turmoil. Weak productivity and labor force dynamics should prevent any sustained rise in growth above 3.0%.

2. Unemployment continues to fall, which should drive up wages.

3. Earnings headwinds should be behind us, but future growth may be muted.
Corporate earnings are rebounding from a weak 2015. With the majority of the rebound now perhaps behind us, earnings growth could be more muted going forward. The dollar should be less of a drag on earnings in the near future. With over 40% of S&P 500 revenues coming from abroad, a weaker dollar will boost foreign sales, particularly later this year and into 2018. Even as the rally in energy prices appears to have stalled, write-downs in the energy sector continue to roll off, indicating that weakness in the sector did not reflect weakness in continuing operations. Energy should continue to contribute to earnings going forward, though expectations should be tempered.

4. Inflation should continue rising through 2018 despite recent set-backs.
We expect this weakness to be temporary and inflation to edge up through 2018, helped by a weaker dollar and tightening labor and housing markets.

5. The global economy continues to pick up steam.
After two years of very mediocre growth, the global economy started to show signs of life at the end of 2016. So far, it does not appear that things will cool off, with the global aggregate manufacturing purchasing managers' index reaching six-year highs in the first half of 2017.

The Eurozone is growing particularly fast, thanks to a weak currency, rising confidence and considerable pent-up demand, while other developed markets like Japan, Canada and the U.S. continue to accelerate. The UK appears to be weathering the impact of the Brexit vote better than many had feared, thanks to more competitive exports on a weaker currency. Meanwhile, a rebound in demand for commodities continues to be a positive for Latin America, Canada and Australia, while Chinese contribution has ebbed slightly in recent months as authorities try to restrain financial speculation.

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6. The Fed should feel comfortable about raising interest rates -
The Federal Reserve has been very cautious in raising interest rates so far, with one rate hike 2016 and two hikes this year. In general, though, the Fed should feel comfortable with the current economic variables. The global economy is generating fewer worries than in recent years and the U.S. is approaching or at many long-term targets, like unemployment and inflation, making it clear that interest rates are still too low. The decision to increase rates in June reflected this conclusion, and barring any significant negative shocks or fiscal stimulus, we anticipate the Fed to further raise rate rates by 0.25% at each press conference meeting through 2018. Moreover, the Fed's June outline of future balance sheet reduction shows that the central bank is committed to raising interest rates across the yield curve.

7. Rising rates will make fixed income investing more difficult -
Long-term interest rates remain very low, especially compared to historical averages. As the Fed continues to raise short-term interest rates and reduce its balance sheet, 10-year U.S. Treasury yields should gradually increase. This back-up in rates should result in weak total returns on Treasuries and some high-quality corporate bonds, suggesting that investors may want to consider investing in other fixed income sectors, like high-yield debt or emerging markets, or shifting their portfolio allocation to underweight bonds relative to other asset classes.

8. U.S. stocks are expensive relative to history, but not to bonds -
Despite a very long and powerful bull market, the case for an overweight to U.S. stocks over bonds continues to persist. As it currently stands, many valuation measures show the U.S. equity market to be expensive relative to history, with both forward P/E and Shiller P/E ratios trending higher than long-term averages.

However, the most important ratio is the comparison between the earnings yield on stocks and yield on BAA bonds (the yield of the average debt rating of S&P 500 companies) – this is, in essence, an adjusted risk-free rate, incorporating credit risk. Looking at this metric, it would still appear that owning the equity of a company is a better investment than owning the debt. Put more simply, relative to bonds, stock still look cheap. That said, bonds, like stocks, look expensive, underscoring the importance of diversification outside of the most traditional asset classes.

9. International stocks may offer better opportunities -
U.S. earnings in the next 12 months are expected to be at a record high. However, earnings in both Europe and Emerging Markets remain far below their 2011 peaks. A long cyclical recovery in Europe and an improving banking system should lift European earnings while EM profits should rebound on firmer commodity prices. Both European and EM earnings appear to have more room to grow than in the U.S.

While U.S. P/E ratios are above their 25-year average, Europe and EM look more attractive from a valuation perspective: European P/Es are slightly above average, and comparison to local bond yields makes for an even more compelling case. Meanwhile, EM Price-to-Book ratios remain significantly cheaper than average. If, in the long run, the U.S. dollar falls to more reasonable levels, this could add to the returns on (unhedged) international equities.

10. Higher valuations and uncertainty underscore the need for broad diversification and careful portfolio management -
Despite continuing political turmoil in the first half of the year, risk assets produced generally positive returns, as indeed they have been on average over the past 15 years despite the global financial crisis and many other economic, geopolitical, and financial disruptions. Entering the second half of 2017, cash is still paying close to nothing and global economic momentum and reasonable global stock valuations suggest that this is still a time to be overweight risk assets. ???

Having said this, it should be noted that many asset prices are somewhat higher than they were a year ago. Because of these higher valuations and potential dangers it will be even more important for investors to maintain well-diversified portfolios and be willing to make adjustments in response to changing valuations or the investment environment.

HEALTH & NUTRITION

5 Ways to Relieve Stress by Anne Scholle of *The Center for Mind-Body Medicine*

In today's world, we are constantly bombarded by stressors, such as work deadlines, traffic, and family obligations. We rarely get a break long enough to relax and relieve the stress. The over-activation of our stress hormones have been linked to high blood pressure, heart attacks, lower immunity, depression, anxiety, and more.

So how can you relieve stress? Here are five easy stress relievers to get you started.

Eat Well! - Eating whole, real foods restores balance and reduces the effects of stress on your body. Replacing harmful substances such as caffeine, alcohol, and refined sugars, with clean proteins, fruits, vegetables, and healthy fats helps regulate your hormone levels, including stress hormones. The gut and brain are constantly sending signals to each other, so by keeping your microbiota (the bacteria in your gut) healthy, your brain feels less stressed. Antioxidant-rich mustard greens are an excellent choice for lowering stress through diet.

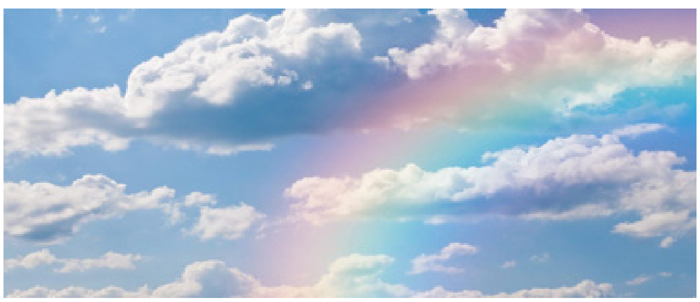
Antioxidant-rich mustard greens are an excellent choice for lowering stress through diet.

Exercise - The quickest way to relieve stress is to release endorphins through exercise. Exercise increases your overall health and your sense of well-being, which puts more pep in your step every day. But exercise also has some direct stress-busting benefits. It pumps up your endorphins. Physical activity helps bump up the production of your brain's feel-good neurotransmitters, called endorphins. Walking, biking, swimming and running are all good exercises to reduce stress.

Get a good night's sleep - Sleep and stress tend to cause a vicious cycle – if you're stressed, then you can't sleep, which makes you ill-prepared to handle the stressors of the next day, leading to more stress. To relieve stress before bed, try some relaxation techniques (see below) and disconnect from technology as much as possible an hour before bedtime. To ensure the proper amount of rest (7-8 hours is recommended), set an alarm reminding you to go to bed.

Guided Imagery - The body responds in essentially the same way to made-up imagery as it does to real experiences. Positive, relaxing images can be an effective tool for relieving stress.

B R E A T H E - We do it all day, every day, and yet we often forget the healing powers of deep breathing. By slowing down your heart rate and lowering blood pressure, breathing deeply relieves stress. Any form of slow, deep breathing can help you relax and stay calm.



We hope that you are having a good summer and look forward to talking to you soon.

Sincerely,

Andy Krosnowski Melissa Scott Paine

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