THE H GROUP INC
INDEPENDENT WEALTH MANAGEMENT SOLUTIONS℠

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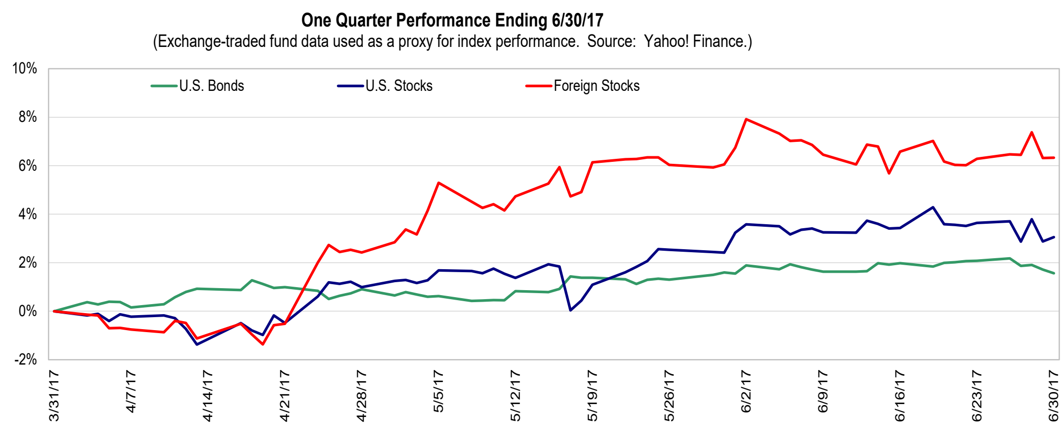
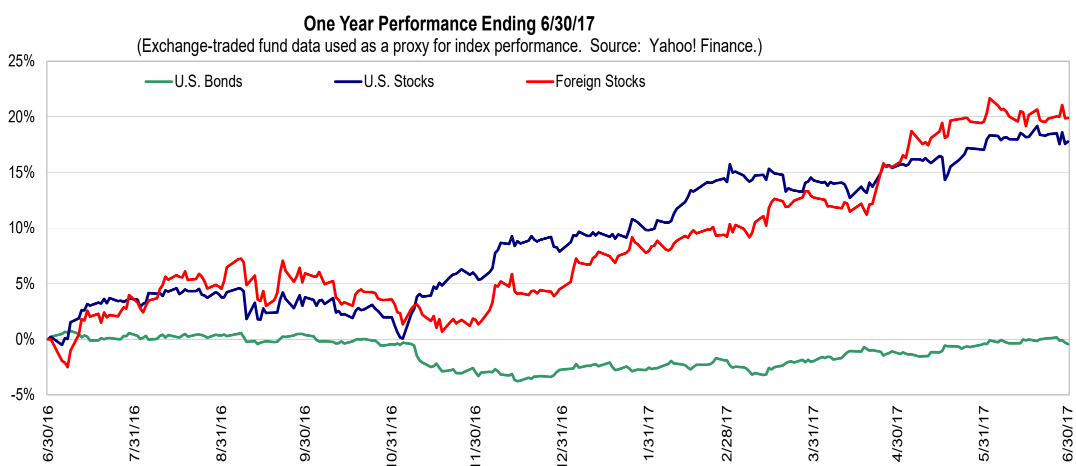
2017 Second Quarter Update
June 30, 2017

Happy Summer! We're pleased to send you our review of the second quarter of 2017. The economy and the financial markets continued their upward march. As with last quarter, the Dow hit a record, and the Federal Reserve (the Fed) raised interest rates by 0.25% and indicated that some more rate hikes may happen this year.



Technology companies led the charge in the first quarter of the year, but declined in June. That money had to go somewhere, and it flowed into bank and other financial stocks.



The past year has been a fun ride for foreign and US stocks, but not so fun for bonds. We'll get into the reasons for this below and offer our take on what we think is next.

Portfolio Update

Bonds and Interest Rates

With strong labor markets and economic activity on the rise, June’s 0.25% interest rate hike wasn’t a surprise. Historically, when rates are increased due to positive forces, such as economic growth, they tend to have a positive impact on the market, if any. The Fed's goal is to maximize employment (“full” employment) and keep prices stable (2% inflation). Up to this point, Fed policies have generally benefited both of these goals, and your portfolios. Late in June, U.S. and European bond prices fell and longer-term interest rates rose because of concerns that increased economic activity in Europe will accompany less accommodating monetary policy by the European Central Banks. (Wasn't it just a few years ago that almost everyone was worried about the collapse of the European economy?) This rise in rates is good for banks, and that's partially why they have rallied.

Foreign bonds in both developed and emerging markets offered positive returns, most due to the weaker dollar. Bond yields remain relatively low when compared to historical averages, but continue to serve an important role in diversifying your portfolio. As you can see in our Asset Class Weightings chart below, we continue to overweight corporate bonds and underweight government bonds. This strategy, along with a slight exposure to high-yield, offered positive returns. We remain defensive to protect against interest rate volatility.

Equities

U.S. equities continued to rise at an above average pace for the quarter, with large cap stocks showing the biggest gains. Our overweighting to this area helped with the performance of your portfolio. Our small and mid-cap holdings outperformed their benchmarks due to a tilt toward technology and healthcare. This quarter we made an adjustment to your large cap equity holdings, moving away from the tilt toward growth sectors in favor of a more balanced approach between growth and value companies. Equity valuations continue their pace and that momentum could persist for some time.

As you may have noticed in the chart on page 1, foreign stocks have continued their attractive streak, which began in January. This can be attributed to improved economic conditions in many countries and more clarity now that the dust from several elections and the Brexit vote have started to settle. Your holdings in this area have performed well both in developed and emerging markets.

Asset Class Weightings as of June 30, 2017

(Compared to our normal long-term allocations)

Asset Class	Underweight ⟵		Neutral		⟶ Overweight
FIXED INCOME					
Government		X			
Corporate				X	
Foreign			X		
EQUITIES					
US Large Cap				X	
US Mid Cap		X			
US Small Cap		X			
Foreign			X		
ALTERNATIVE					
Real Estate			X		
Commodities			X		

Alternatives

Like equities, foreign real estate outshined the U.S. for the quarter. The U.S.-focused REIT (Real Estate Investment Trust) segment outperformed its benchmark. However, a minor tilt toward global real estate and exposure to some sectors outside of traditional U.S. REITS (lumber, homebuilding), detracted a bit from returns. Fundamentals in this class have been strong for several years.

Commodities generally fell in value, mostly due to weakness in the energy sector and some agricultural contracts. The most heavily produced and traded commodity – crude oil – declined over 10% despite OPEC's attempt to temporarily limit production to boost prices. New supply from North American shale operations have weakened OPEC's pricing power. Your holdings in this area declined, but not to the extent of the broader index. As always, commodities are a very small part of most portfolios. They offer unique "insurance" against geopolitical, weather and other disruptive events that have traditionally proven challenging for other asset classes.

Our Outlook

With higher stock prices, the prospect of higher interest rates, and the possibility that some of the policy initiatives of the Trump Administration may not come to fruition, ***stocks are not as fairly valued as they were a year ago. However, momentum can persist for some time, especially as earnings continue to grow.*** According to SlickCharts.com, the top 10 stocks by market capitalization in the S&P 500 Index are a whopping 18.95% of the S&P 500 Index, nearly the same as the bottom 300 companies in the index! They have generally done much better than the index as a whole, and we think some of them are overvalued. They can have their own correction, but that doesn't mean that the other 490 stocks in the S&P 500 or in other indexes will follow suit. (They can, however drag the index lower just because of their sheer size and influence on the index.) Historically, bear markets happen during periods of recession, extreme interest rate movements, or geopolitical/commodity price shocks—none of which appear to be imminent. ***A correction or pullback is always possible. They happen all the time. As we pointed out in our First Quarter Review, we have had 10 pullbacks of 5-10% and six corrections of 10-20% since march 2009.*** Therefore, we like to reduce risk where possible, and portfolio changes we have made in recent months have been geared toward this goal.

Concerns Over the Trump Administration

We've heard concerns from some clients and acquaintances about how the unpredictability, policies, and lack of focus from the Trump administration may affect their portfolios. We're also hearing concerns about our divided country. Politics now have the potential to color our investment perspectives and impact the financial markets more than ever before. However, in an age where information can be shared instantaneously across the globe, not all news is as important for investors as its immediacy implies. How will decisions coming from the White House or Congress affect your portfolio? What should you do differently (if anything)? Here are things to consider:

1. Everything – including a Presidential term – is temporary.

Some of President Trump's proposed policies around deregulation, infrastructure spending, and revamping the tax system could have a positive influence on the markets, economy, and your portfolio. In fact, much of the post-election gain in the stock market reflects that expectation. On the other hand, these proposals could be offset by their broader impact on the populous, environment and national debt – not to mention the ongoing investigations surrounding the administration. Remember that your investments are in it for the long haul. No short-term change should impact your long term investment strategy or goals. If you have a cash need in the next 6-12 months, we recommend you keep that amount in liquid cash. This advice is true regardless of who is president.

2. The economy and the financial markets march to their own relentless drum beat.

They reflect countless daily decisions and economic activities by individuals and businesses around the globe. One tweet, for example, probably isn't going to change your summer vacation plans or the spending that you will do, affecting businesses large and small. Nor is it likely to derail everyone else's plans.

3. Take comfort in knowing that your investments are diversified.
Our reasons for diversifying span far beyond the actions of one administration. We know the importance of preparing for the unknown and staying diversified can help temper the ups and downs of normal market volatility. As always, we continue to carefully analyze the funds and their holdings in each portfolio, making change as we deem appropriate.

4. Temper your emotional response: slow down.
There will continue to be surprises, as there have been with every other presidential administration. Be prepared for them, take time and do your best to remove emotion from the equation when making financial decisions. We recognize this is a challenge. Many of our clients have said some of the greatest value we've added over the years is to keep them calm (and invested) in times of worry.

5. Worrying accomplishes nothing.
Change the channel, go for a walk; enjoy friends, hobbies, family and the beauty of each day. The best antidote for worry is to take action. Get involved with organizations that align with your views and concerns, making life better for others. ***Have a civil discussion with someone who disagrees with you.***

6. Review your portfolio in light of your goals and situation.
If the suggestions above aren't enough, let's talk. It might be time to take a good look at your portfolio and consider changes that may better fit your investment temperament. There is always a balance between risk (volatility), reward (performance) and what it takes to get a good night's sleep (Tylenol PM?).

Congratulations Are in Order

For many of you, **Ron Kelemen** and The H Group, Inc. have been synonymous. He and his wife **Kathy** have spent the last 35+ years building this firm into the success it is today. ***We'd like to take this opportunity to announce that they have decided to retire at the end of this calendar year.*** We are so grateful for Ron's leadership and guidance over the years. He says, "I'll miss all of our clients and my wonderful co-workers, but it's time to do other things while we still have our health. Our clients are like family to me, and I can move on with confidence knowing they're in great hands with our talented team." We will publish Ron's thoughts about the changes he's seen over the years in our December newsletter. And don't worry, plans for a party to celebrate the man who wrote the book on retirement (literally) are in the works. Stay tuned for details.

Another change to our team that is coming down the pike: Debbie's decision to pursue her retirement goals. Two years ago, she made it known that retirement was on her radar, and we've been preparing for it ever since (we're planners; that's what we do!). As they often do, a new grandchild has helped set the timeline. She and her husband Bob are selling their Salem home and making preparations to move to Sisters.

We spend a lot of time talking about all things retirement. We're excited to celebrate the realization of lifelong goals by members of our team that we hold in the highest regard.

Thank You

As always, thank you for your continued confidence and business. It's not a responsibility we take lightly. Call us if there's anything we can do to make your financial life easier.