NorthLanding Financial Partners, LLC

Quarterly Model Portfolio Update

July 12, 2017

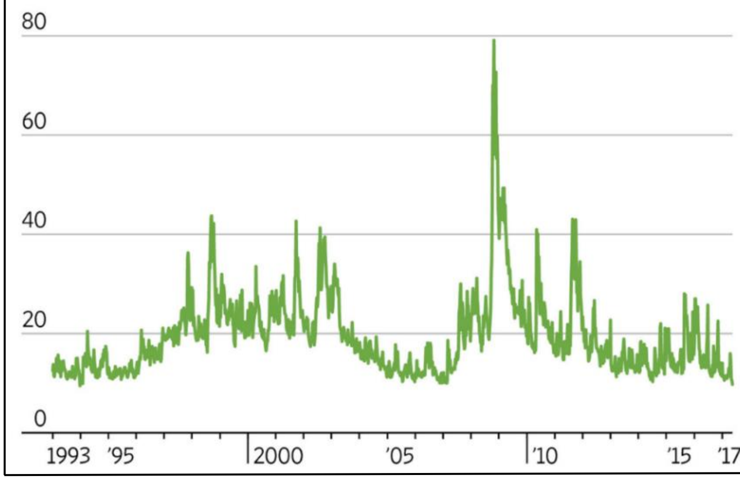
U.S. Economy & Financial Market Observations

During the first half of 2017, global stock markets rallied broadly with 26 of the 30 largest world markets posting gains. Only four other times in the last 20 years have we seen such broad, positive global performance in the first six months of a year (1999, 2003, 2007, 2009). The S&P 500 produced a total return of **9.34%**, while international markets generally fared better, with the MSCI World Index (ex-U.S.) returning **14.1%**[1]. There have been several material drivers of such positive performance:

- May's French election emphatically thwarted the anti-EU candidacy of Marine Le Pen.
- Oil prices have cratered **19.1%** YTD, lowering consumer gas prices and industrial costs[1].
- First quarter reported S&P 500 earnings increased **14%** year-over-year, the best growth rate since 2011[1].
- European and international economic data improved markedly; A weak U.S. dollar sweetened returns for domestic investors in international companies.

Despite three Federal Reserve interest rate increases since December 2016, bonds have also performed firmly. The Barclays Aggregate Bond and Municipal Bond indexes finished mid-year with respective gains of **2.27%** and **3.57%**[1]. This result may seem vexing to investors who have always been told that "bond prices *fall* as rates rise." Typically, bond prices are likely to fall when rates rise, but only when such a rise is *unexpected*.

No Fear: In May, the CBOE Volatility Index Touched Its Lowest Level Since 12/27/1993[1]



The Federal Reserve has been so transparent in communicating expectations of future rate hikes, in fact, that volatile reactions in both stock or bond markets have been absent. Volatility in financial markets, though, is near an eerie 20+-year low. Steadily rising, placid markets can breed complacency and over-investment. It's important to be mindful of how *quickly market conditions like these can change*, especially as trading strategies meant to capitalize on quiet markets become more vulnerable to unwinding, amplifying risk further.

In Washington, ***futility*** has been the watchword, highlighted by the Republicans embarrassing early-July punt of a vote on their own health care bill. This diminishes the chances that tax reform (still expected by markets) will actually take place. As we had noted in April, while it is not yet a "topic du jour" for the media, a debt ceiling crisis may loom this fall with partisan political divisions at home worsening.

In short, the likelihood of greater volatility in the second half of the year seems all but inevitable.

Current Portfolio Stance & Adjustments

Portfolio rebalancing from April has left us in a more favorable position to take advantage of volatility in the 2nd half of year. It's worth reminding any investor that rebalancing is *not akin* to making large, short-term guesses on market movements.

(Over)

Quarterly Model Portfolio Update (Continued)

Most often a successfully rebalancing strategy will result in many small, incremental reductions in stock exposure over a long period of time – even several years. A gradual, patient method of systematic profit-harvesting (such as the one that NLFP employs) can both reduce downside risk when a market dislocation inevitably occurs, and increase our ability to make larger additions to stock indexes at potentially more favorable prices in the future.

Such a disciplined asset allocation approach, coupled with rebalancing, also avoids the risk and high costs of the investors' worst enemy: *market-timing.* We're aware of many investment managers and individuals that have fallen prey to such behavior, moving large sums to cash in the past decade and more recently in the wake of the 2016 U.S. election.

Today, they likely find themselves wearing a heavy layer of egg on their faces with risk-balanced portfolios up between **5.90%-7.03% YTD** (NLFP Core 50, Core 65[1]). But such problematic timing techniques have a way of getting worse for investors: What should their re-entry strategy be? Wait to buy back on an 8% decline? Or maybe 10%? Probably not, as at minus 10%, the financial media will simply remind them that -15% and -20% are now increasingly likely. Or what if the hoped-for decline in price simply *doesn't* materialize for many months of even years? In short, market-timing is a death spiral (to borrow a favorite term of Washington's) of investor fear, self-doubt, and regret that we will continue to help you avoid through risk-aware allocation.

On to your portfolio! At mid-year, our increased international exposure has been rewarded with the MSCI World Index (ex-U.S.) significantly outpacing domestic securities. Our representative index fund holding, the **iShares MSCI EAFE Fund (IEFA)** produced a total return of **7.1%** from the date of our addition on April 7th, compared to the **2.6%** and **1.3%** respective total returns of the **iShares Mid Cap Index (IJH)** and **Vanguard Small Cap Value Index (VBR)** that were profit-harvested to fund its purchase[1].

NorthLanding Financial Partners, LLC
We are committed to empowering our clients to discover and direct action toward their most important financial goals. Our advisors have over 90 years of combined experience and advanced credentials in counseling clients to develop and implement strategies to meet their personal and family financial objectives.

We welcome your feedback!

Email feedback or questions to:

Melissa@NorthLandingfp.com

NorthLanding Financial Partners, LLC
90 Linden Oaks, Suite 220
Rochester, NY 14625
(585) 497-5000

www.northlandingfp.com

While international performance continues to lead domestic, international stocks in aggregate still trade at an approximate 21% *discount* to domestic peers and have dividend yields over 30% higher than U.S. companies[1]. We believe holding and increasing international exposure will continue to prove both beneficial from a risk management and a total return perspective.

Especially in periods of low market volatility and stretched U.S. valuations, we remain committed to risk management via rebalancing and ongoing evaluation of the overall composition of each portfolio and its components. We encourage you to contact your advisor for information regarding your current portfolio holdings, performance or this most recent update.

NorthLanding Financial Partners, Investment Direction Committee

1. Investment index and NLFP portfolio performance data through 6/30/2017 is provided by Morningstar and believed to be accurate as of the date of this publication, gross of any advisory fees. Other sources include the Wall St. Journal, FactSet Research, and Bloomberg Financial Data. All investment strategies including diversified asset allocation have risk. Past performance of our investment approach, and component holdings does not guarantee future results. Advisory services are offered through NorthLanding Financial Partners, LLC, ("NLFP") Registered Investment Advisor. Securities may be offered through Mutual Securities, Inc., ("MSI"), member FINRA/SIPC. MSI and NLFP are independently owned and operated. MSI did not assist in the preparation of this memo. While all data is believed to be from reliable sources, accuracy and completeness are not guaranteed. Contact your advisor if your situation or risk tolerance has changed. All statements are provided by Fidelity Investments. Contact your advisor if you are not receiving electronic or paper statements.