CLEAR CREEK ADVISORS

FINDING A NEW EQUILIBRIUM

Market Review **FEBRUARY 2017**

Present-day US market developments are being described as the Trump trade. After-all, since last year's presidential election, major stock market indexes went on to make new highs, earning investors approximately 6% on price gains alone. Benchmark treasury yields returned to levels not seen in over two-years. Even the US treasury yield curve increased in steepness. Yet, is this story really about a new American President? Or could it be about the resurgence of American workers who collectively have the power to unleash American potential?

January's payroll report showed another 227 thousand jobs were added to the economy. The official unemployment rate slightly moved up to 4.8%, because of more labor market participants. Sixty percent of the population is now employed, a slight improvement since Great Recession levels. And, job market drop-outs are at a 20-year low.

Americans working is good news for the bulls on Wall Street. In fact, the recent strength of US stock markets has pushed down the trailing twelve-months earnings yield, a type of yield on stocks, by nearly half a percent from the post taper-tantrum average. A move like this illustrates the conviction investors have for future earnings growth. Only greater earnings can restore stock yields back to historical norms. This type of wager on future growth might make for an unsteady market. But, contrary to belief, uncertainty gauged by US stock volatility is at a post-recession low.

Yields on benchmark treasuries continue to receive support near 2.5%. The portion of this yield that compensates investors for anticipated inflation recently rose above 2.0%. The remaining portion, which is the real risk-free reward for deferring consumption is about 0.5%. The trillion-dollar question should then begin to focus on the Federal Reserve's balance sheet and the meager half of a percent that provides real compensation for savings. Especially since the Fed is intent on reversing open market operations, and real American output averages an annual 2.0%.

"Americans working is good news for the bulls on Wall Street. "

In the not so distant past, the Fed acted as a permanent buyer of treasury securities. This may change very soon. As of its latest quarterly filing, the Fed owned almost $2.5 trillion or about 13% of all outstanding public debt. Nearly half of these securities are set to mature over the next three years. Furthermore, the Fed is expected to reinvest a diminishing amount of its retiring securities. Soon, it will be left to private and foreign investors to buy an ever-increasing amount of federal debt. Will private investors accept .5% as their real reward for long-term savings? It seems unlikely.

US investment grade corporations and governments of emerging markets have taken notice of the dynamics facing interest rate markets. As well as a potential idea for legislation that would eliminate the tax deductibility of interest. Accordingly, both issuers sold record amounts of debt in January. The secondary market for corporate and emerging market debt received the news well, and investors went on to invest in these markets. Of course, this means corporate America is now more leveraged on the prospects of future earnings growth.

Wall Street now enters an important season. Corporations begin releasing results from last quarter-end. Currently, the results are stacked in favor of actual earnings per share exceeding analysts' expectations. A good sign to support current stock market valuations.

Key fundamentals to today's record breaking stock prices include American jobs to spur market demand; future real wage growth to support housing prices; strong earnings growth to sustain leveraged balance sheets; and the Fed's balance sheet. If the Fed attempts to shrink its balance sheet, but the private market is not willing to absorb new treasury debt at the current low rate of real savings, interest rates could suddenly spike.

Market Movers

January was another good month to be an owner of US stocks. It even paid well to own international stocks. Although, plenty of risks remain on the table, investors have gotten some confirmation that prior global deflationary woes could be on the verge of dissipating. In response, overall business and consumer confidence is rising around the globe. The recent allocation changes made to our diversified, Core Allocation strategies have already added value. As we enter 2017, our Investment Team is optimistic regarding US markets but also realistic given current interest rate levels and global uncertainty. Prudent diversification and discerning asset class selections are top priority for our clients, especially given this current market environment.

Asset Categories	*Jan 2017*	*YTD*
US STOCKS	1.33%	1.33%
FOREIGN STOCKS	4.27%	4.27%
US BONDS	0.62%	0.62%
FOREIGN BONDS	1.28%	1.28%
HARD ASSETS	0.06%	0.06%
HYBRIDS	2.06%	2.06%

*DATA USED IS SOURCED FROM MORNINGSTAR®

US STOCKS experienced another good month in January. Mid-Cap Growth (VOT) lead the way and Large-Cap Growth (VUG) closely followed. We expect more from Mid-Cap stocks in 2017. Accordingly, the Core Allocation strategies are tilted towards the Mid-Capitalization sector.

FOREIGN STOCKS made impressive gains last month exceeding the returns of US Stocks. Emerging Large-Cap (VWO) triumphed, possibly due to the recent weakening of broad measures of the US dollar. Debt is easier to service for Emerging Markets that borrow in US dollars when the dollar depreciates. Large-Cap stocks of developed countries (VEA) also fared well. We recently increased the Emerging Market allocation in our strategies and we feel there is opportunity in these markets.

US BONDS mostly traded flat on the month. High Yield Bonds (JNK) were once again top performers in January. Investors are still willing to add more risk to their portfolios using this sector. High quality bonds offered a level of risk management but returns were uninspiring. We expect that our continued tilt toward lower quality, higher-yielding bonds will add value through 2017.

FOREIGN BONDS posted attractive gains in January. Our current stance is focused on Emerging Market Treasuries (PCY) which offer attractive yields and helpful diversification. We currently do not have exposure in high-quality developed foreign market bonds due to their relative attractiveness to similar US bonds.

HARD ASSETS were another favorite of investors in January. Precious Metals (IAU) reversed December losses and finished January with a strong gain. Master Limited Partnerships (AMJ) also did extremely well relative to stock and bond returns. OPEC production cuts and lower anticipated supply levels has provided this sector with a floor and reasons to climb higher. We recently increased our allocations to Hard Assets due to our return forecasts as well as their low correlation to other investments.

HYBRIDS did just as well as US stocks in January. Convertible Debt (CWB) and Variable Preferred Stock (VRP) together finished the month strong. Performance remains in-line with equity markets but at a lower risk profile, which we feel is extremely helpful in the current market environment.

INVESTMENT ADVISORY SERVICES OFFERED THROUGH CLEAR CREEK ADVISORS LLC, A STATE OF COLORADO REGISTERED INVESTMENT ADVISOR. SUBADVISORY SERVICES ARE PROVIDED BY ADVISORY ALPHA LLC, A SEC REGISTERED INVESTMENT ADVISOR. REGISTRATION WITH THE SEC OR STATE DOES NOT CONSTITUTE AN ENDORSEMENT OF THE FIRM BY THE COMMISSION NOR DOES IT INDICATE THAT THE ADVISOR HAS ATTAINED A PARTICULAR LEVEL OF SKILL OR ABILITY. NO INVESTMENT POLICY STRATEGY, SUCH AS ASSET ALLOCATION OR DIVERSIFICATION, CAN GUARANTEE A PROFIT OR PROTECT AGAINST A LOSS IN PERIODS OF DECLINING VALUES. CHANGES IN INVESTMENT STRATEGIES, CONTRIBUTIONS OR WITHDRAWALS, AND ECONOMIC CONDITIONS, MAY MATERIALLY ALTER THE PERFOR-MANCE OF YOUR PORTFOLIO. INVESTMENTS INVOLVE RISK AND, UNLESS OTHERWISE STATED, ARE NOT GUARANTEED. PAST PERFORMANCE IS NO ASSURANCE OF FUTURE SUCCESS. THERE ARE NO ASSURANCES THAT A PORTFOLIO WILL MATCH OR OUTPERFORM ANY PARTICULAR BENCHMARK. BE SURE TO CONSULT WITH A QUALIFIED FINANCIAL ADVISOR AND/OR TAX PROFESSIONAL BEFORE IMPLEMENTING ANY STRATEGY DISCUSSED IN THIS DOCUMENT. PLEASE NOTE THAT REBALANCING INVESTMENTS MAY CAUSE INVESTORS TO INCUR TRANSACTION COSTS AND, WHEN REBALANCING A NON-QUALIFIED ACCOUNT, TAXABLE EVENTS WILL BE CREATED THAT MAY INCREASE YOUR TAX LIABILITY. REBALANCING AN ACCOUNT CANNOT ASSURE A PROFIT OR PROTECT AGAINST A LOSS IN ANY GIVEN MARKET ENVIRONMENT. THE INFORMATION PRESENTED IS BELIEVED TO BE ACCURATE, BUT OUR FIRM CANNOT GUARANTEE THE CORRECTNESS OF THE DATA. THIS IS BEING PRESENTED FOR EDUCATIONAL PURPOSES ONLY AND DOES NOT INTEND TO MAKE AN OFFER OR SOLICITATION FOR SALE OR PURCHASE OF ANY SECURITIES. THE PERFORMANCE INFORMATION PRESENTED IN THE ASSET CATEGORY SECTION OF THIS REPORT IS BASED ON EQUAL-WEIGHTED AVERAGES OF THE FOLLOWING: US STOCKS (ISHARES S&P 500 ETF, VANGUARD MID CAP ETF, VANGUARD SMALL CAP ETF), FOREIGN STOCKS (VANGUARD MSCI EAFE ETF, VANGUARD EMERGING MARKET ETF, VANGUARD FTSE ALL WORLD EX-US SMALL CAP ETF), US BONDS (ISHARES BARCLAYS 1-3 YEAR TREASURY ETF, ISHARES BARCLAYS MORTGAGE BACKED ETF, VANGUARD SHORT-TERM CORPORATE BOND ETF, ISHARES BARCLAYS TIPS ETF, SPDR BARCLAYS SHORT TERM HI YLD BD ETF, POWER-SHARES SENIOR LOAN ETF), FOREIGN BONDS (POWERSHARES EMERGING MARKETS SOV DBT ETF, MARKET VECTORS EM HIGH YIELD BD ETF), HARD ASSETS (ETFS PRECIOUS METALS BASKET ETF, JP MORGAN ALERIAN MLP ETN, SPDRS DJ GLOBAL REAL ESTATE ETF), HYBRIDS (ISHARES S&P US PREFERRED STOCK ETF, SPDRS BARCLAYS CONVERTIBLE SECURITIES ETF). © 2016 MORNINGSTAR. ALL RIGHTS RESERVED. THE INFORMATION CONTAINED HEREIN: (1) IS PROPRIETARY TO MORNINGSTAR AND/OR ITS CONTENT PROVIDERS; (2) MAY NOT BE COPIED OR DISTRIBUTED; AND (3) IS NOT WARRANTED TO BE ACCURATE, COMPLETE OR TIMELY. NEITHER MORNINGSTAR NOR ITS CONTENT PROVIDERS ARE RESPONSIBLE FOR ANY DAMAGES OR LOSSES ARISING FROM ANY USE OF THIS INFORMATION. PAST PERFORMANCE IS NO GUARANTEE OF FUTURE RESULTS.