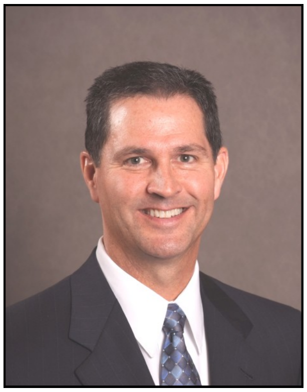
2017 2nd Quarter



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PERFORMANCE WEIGHTED ASSET ALLOCATION REPORT

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ADVISORS' THOUGHTS

It is with great excitement that we write our 2nd quarter newsletter to tell you about a **major enhancement in how we will communicate with you going forward.** To read about this, **please turn to page 2.** We are also happy to report your investment results as financial conditions continue to remain strong and most stock and bond indices achieved positive returns.

The S&P 500 has shown a gain for the past 3, 6 and 12 months of 2.57%, 8.24% and 15.46% respectively, as noted in the Benchmark Returns Table. These are impressive returns that illustrate a growing confidence of investors about the future. This comes with a back drop of slow, steady economic growth, low inflation and interest rates that have allowed companies to continue to grow profits. Profit growth is leading to further advances in stock prices.

During a long period of rising stock prices we are always looking for what may change this upward trend. The most likely culprit is a recession, although there are currently few signs of one. The Conference Board Leading Economic Index® (LEI) for the U.S. increased 0.3% in May, following similar increases in April and March. This barometer looks at ten different data series so you are not reliant on one measure of the economy. Furthermore, it would need to decline for several months before one should be too worried.

Changes in the economy can be influenced by the Federal Reserve's monetary policy. Since the great recession the Federal Reserve has provided a very accommodative monetary policy that included lowering interest rates to near zero and purchasing assets. These policies have been controversial and remain so today.

The next big move the Federal Reserve is planning to make later this year is to reduce the amount of assets they hold. These asset purchases became known as

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BENCHMARK RETURNS THROUGH 06/30/2017

	3 Mo.	6 Mo.	12 Mo.
DJIA	3.32%	8.03%	19.07%
S&P 500	2.57%	8.24%	15.46%
Russell 2000	1.92%	4.08%	22.63%
MSCI EAFE	5.03%	11.50%	17.08%
MSCI Emerging Markets	5.47%	17.29%	21.18%
Barclays US Aggregate Bond	2.15%	3.03%	0.28%
ML High Yield Bond	1.97%	4.73%	12.54%

Source: Wall Street Journal and Morningstar Principia
Does not include reinvestment of dividends

DJIA: A price weighted average of 30 stocks.

S & P 500: A market value weighted index of 500 stocks.

Russell 2000: A market value weighted index of 2000 stocks.

MSCI EAFE: A stock market index designed to measure the equity market performance of developed markets outside US and Canada.

MSCI Emerging Markets: A stock market which captures large and mid cap representation across 21 Emerging Market countries..

Barclays US Aggregate Bond Index: An index that measures the investment grade, US dollar-dominated, fixed-rate taxable bond market.

ML High Yield Bond: An index of non-investment grade corporate bonds.

You will soon be receiving a video. After 34 and half years, and 138 issues, we have primarily communicated with our clients and the professionals that we work with through a quarterly newsletter. Of course it was written and mailed to each of you.

But times are changing and we note that people are spending more time getting information from the internet on their smartphones, computers and tablets. We have decided to make **video reports on various topics** and areas of interest, and will be **sending those to you in an email** with a link to the video that should makes it easy to open and view at your convenience.

Now for a little history: We published our first newsletter titled *Money Work* in the first quarter of 1983. In February of that year we started hosting a 30 minute TV show on KHSL Channel -12 titled (you guessed it) *Money Work*. What fun it was to bring pertinent information to a larger audience. Our first TV Show featured two Chico CPAs, Alan Lotspeich and Howard Isom, to talk about the subject of owners, lenders and how the tax system benefited or penalized different investments. In April of that year we had attorney John Schooling and CPA Darrell Kaiser talking about estate planning. December 1983 our TV show guest was Raymond Spillman, District Director of the Sacramento District of the Internal Revenue Service. Raymond had been the Assistant National Director in Washington DC and he talked about abusive tax shelters and the type of things the IRS was going after. Nationally known people that we had on *Money Work* included Edward Halbach Jr., who was both the head of the Cal Law department as well as the advisor to a number of district federal courts on trust law. He came up to Chico, spent some time here and we actually did some seminars with Ed. Another guest on our TV show was Dr. Larry Kimball, the director of the Business Forecasting Project at UCLA. Dr. Kimbell was also a member of one of the 50 forecasting organizations in the United States that put the numbers together that comprised what is called the "Blue Chip Economic Indicators," which is used by almost all economic forecasters in the country.

I mention these specific episodes because they illustrated the opportunity to be informative, and provide greater detail in a more entertaining format than a newsletter. The trouble with the TV show back in the 1980's was that few people had the ability to record them, so if you didn't watch them at that time you were unable to see them later. That was then – this is now.

We, like you, spend time looking at videos – most of them on YouTube. Although YouTube is certainly a public medium, it can be used to provide information and videos to a selected group of people. It is our intent to begin sending you videos so that you have an opportunity to look and view them at your leisure. If you don't have time to watch, or you have to stop in the middle, you are able to go back at any time and view it. **The videos will also be available on our website,** www.theplanners.net. Those of you who have visited our website have seen that our newsletters are also posted there.

Our newsletter came under the banner of *Money Work* until the 3rd quarter in 1993 when we renamed our investment system the *Performance Weighted Asset Allocation*, which we have used from that time forward.

James A. joined our firm in 1991. In reviewing our old newsletters, one of significance is the 3rd quarter of 1996 when his picture first appeared. We noted that Jim had just completed and received his Certified Financial Planner® designation. James A. joining the practice brought a whole new dimension of both academic and practical experience. James A. graduated in 1985 from CSU Chico with a Business Administration degree and concentration in finance. He spent the first part of his career in commercial real estate working in various roles, eventually becoming the Acquisition Manager for a land investment company. His knowledge in commercial real estate and real estate investing has been a huge help over the years for our clients.

Moving forward to today is particularly fun for me as Jim's son, and my grandson, Joshua Braziel, is providing significant help in getting us set up on our video project. Joshua, who will be a senior this fall at Boise State, has been working with us this summer around video and sound editing, and is helping us put together the video reports. He is also implementing changes to our website to accommodate the hosting of videos among other enhancements and improvements. The learning curve with technology is steep and as most of us know if you have a question you need to find a young person to help.

As far as the filming of the videos, we have a camera in Roseville and a camera in Chico and it is our plan to put together either a duel video (James A. and I) or a single video (just one of us) on different subjects. We are excited because we can get the information out to you much quicker for you to view and benefit from the information, as opposed to quarterly newsletters.

We plan on producing at least two types of videos.

One type will be more estate planning and financial planning oriented around subjects that are of importance to you. Our first videos will be coming out soon regarding two important areas that most all of our clients will need to review. One is on some major changes in estate tax trust law that will require many people to make changes in their estate plan. The second area of review is regarding beneficiary designations of retirement accounts, which we found to be quite a nightmare for a lot of people. We will cover how to not get caught in that trap.

The **second type of video will just be human interest** subjects that we thought you might enjoy learning about. Some of them we might pick up from other sources and some we will actually go out and record ourselves.

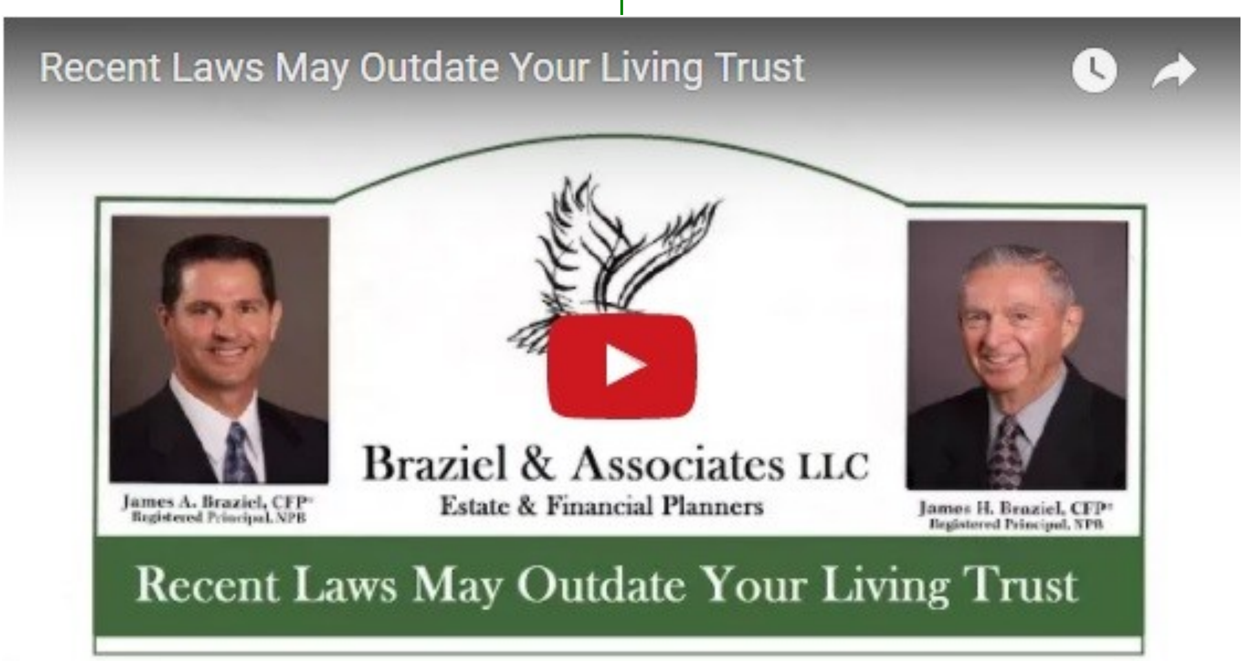
We also recognize that when it comes to technology it can change rapidly so we are going to try to do the videos in a format where you will not need the hottest and quickest computers to still be able to view them. Therefore some of you might wonder why we are not initially going to use 4K high-definition. Today we feel that it is still a little too new for some computers, tablets and smartphones. Hopefully all of you will be able to view and enjoy the videos.

The videos will also, like the newsletters, be on our website, www.theplanners.net. A few are up there now. We are reshuffling the format of the website so that everything is easier for you to find and view. If all works out well, and it looks like it will, when you get an email you will be able to simply click on the video link. When that video ends it will continue into our other videos, some of which you may have seen and some you may have missed.

We hope you assist us when the videos are sent by taking a look and giving us your feedback. You can always send us a quick email, and let us know what you thought of the content and any other subjects you would like us to cover. Most importantly, please let us know if you had problems and we will work to correct them.

Please feel free to share and forward any video to family and friends that you think would enjoy them or be interested in the information. We believe this will be a major improvement in our communications with you, and we hope it will be quite enjoyable for you to view the videos. We have plans in the works on some very interesting subjects that have nothing to do with planning and investments, but have to do with the things of interest to all of us.

Below is an example of what the video link will look like on our website. **So here we go into the age of video.** Good luck and happy viewing.



quantitative easing, and were extremely controversial because of the amount and type of assets they purchased. They included not just the typical treasury securities, but also mortgage backed securities. Their plan is to gradually reduce their holdings by not reinvesting all the proceeds of securities as they mature. These plans are being communicated by the Federal Reserve, including their specific targets, in order to minimize any surprise to the market. Despite the communication efforts of the Fed, some volatility from this program along with interest rate changes should be expected. However, the approach appears to be gradual and therefore not too restrictive on further economic expansion.

In December 2015 they raised the Federal Funds rate for the first time since December 2008 and then raised it three more times from December 2016 through today. It now stands in the range of 1% – 1.25%. In the past raising interest rates four times might begin to slow the economy, but today it is more viewed as a return to normal.

To illustrate where short and longer term rates are today, and to discuss their importance to the economy, we have included the Treasury Rate chart. Since the great recession 3-month Treasury securities hovered just above zero. Once the Federal Reserve began raising rates, the interest rate on 3-month Treasury securities responded quickly.

However, longer term rates are determined by the market and here rates have remained subdued. The 10-year Treasury note has been around 2.5% or below for the past several years. Furthermore at the end of November 2016 it stood at 2.37%, and at the end of June 2017 it was essentially unchanged at 2.31%. This is somewhat concerning that despite the Federal Reserve raising short term interest rates 3/4 of a percent , longer term rates have not moved higher. There are probably a variety of factors at play here including low inflation, comparatively low global interest rates, and demographics.

Consumer prices seasonally adjusted (CPI-U) for the last year rose a paltry 1.6%, as reported by the US Bureau of Labor Statistics on July 14, 2017. The persistently low levels of inflation during this business cycle have given investors' confidence to buy longer term bonds driving prices up and yields lower. However just because inflation has been low and slow to rise, tightening conditions in labor should eventually lead to some inflation.

The US has added jobs every month since October 2010, a record 81-month stretch, bringing the unemployment rate down to a 16 year low in May. For June the unemployment rate ticked up slightly to 4.4% as more people looked for work. Still wages only rose 2.5% in June, a number below the average wage growth in previous expansions. With technology replacing some jobs, global competition and other factors have created caution among workers to ask for wage increases. Despite these factors some modest rise in inflation due to further tightening in labor conditions seems likely.

We continue to monitor the economy to look for signs of a recession. At this time a continuation of modest growth appears to be the most likely path forward.