



THE UNITED COMPANIES

Planning for the Possibilities®

Dear Clients and Friends,

October 2017

The third quarter was a busy quarter around the globe: geopolitical tensions rose with the North Korean standoff, catastrophic hurricanes hit the U.S. and Caribbean, and political dysfunction continued in Washington. Despite all these factors, equity markets moved higher with the S&P 500 Index gaining 4.5% on a total return basis, the eighth consecutive quarter in which the Index has risen. It is worth noting that the third quarter is traditionally the worst performing quarter of the year, only increasing by 1.3% on average over the past 90 years. By contrast, the fourth quarter has typically performed best, up 2.7% on average. Only time will tell if the outsized third quarter returns borrowed from historic strong fourth quarter results. Bonds also produced positive returns during the third quarter, with the Bond Buyer Muni Index rising 0.8% and the Merrill Corporate Index up 1.4%.

The bipartisan budget/debt ceiling deal between President Trump and the Democratic leadership announced in early September renewed hopes that progress can be made on key legislative agenda items (tax reform, budget, debt ceiling, infrastructure, etc.), pushing the equity markets higher in September. While this renewed hope has boosted equity markets, we would argue that the solid economic backdrop and strong corporate earnings can continue to drive equity markets higher from here. We would caution against expecting a straight-line ascent at current valuations, given the ongoing geopolitical risk and domestic political uncertainties.

Economic indicators remain solid, both in the U.S. and more noticeably in developed Europe. The National Bureau of Economic Research looks at four key economic data-points to determine the health of the economy, namely Industrial Production, Nonfarm payrolls, Real Personal Income and Real Manufacturing & Trade - all four indicators are trending higher. In Europe, the manufacturing surveys continue to point to solid economic expansion. Germany and France have enjoyed particularly positive economic numbers, and both markets were up over 4% in the third quarter.

On policy, we do believe the President's willingness to reach across the aisle increases the likelihood that some elements of the tax reform framework can move to the finish line. This is particularly true of those issues that are bipartisan in nature, such as reducing the corporate tax rate, repatriation of overseas funds and its connection to an infrastructure package. While we expect there to be meaningful discussions and headlines on tax reform in the fourth quarter, we do believe that this will be a long and arduous battle for lawmakers on both sides and the debate will slip into 2018.

Given our constructive overall view of the economy, corporate earnings and therefore equities, our clients in the Growth & Income Equity Strategy have been fully invested in both our research-driven, sector-based equities as well as those theme-related securities purchased as a result of the massive rebuild needed in the Gulf Coast and Florida. We also increased exposure to Europe for those clients, generating solid returns. Our income-oriented strategies are generating attractive total returns for those clients seeking cash flow, combining an attractive yield with some market participation, with a lower risk profile in mind. We launched a value-driven equity strategy at year-end 2016, and clients in that strategy are enjoying returns exceeding the S&P 500 as investors dig deeper for stocks that are undervalued and poised for breakout. Lastly, United recently transitioned clients whose priority is maximizing equity returns to our newly launched Growth Strategy, which utilizes a multi-factor model to identify growth stocks that are likely to outperform. On the bond side, we believe that rates have already begun to discount a less accommodative Federal Reserve, and we are adding some high quality short-term bonds to take advantage of these market adjustments.

Reminder that October is shredding month! We have once again brought in an extra "secure" trash bin and placed it in the conference room to allow our clients access to dispose of their sensitive financial documents in a secure fashion. Also, income tax planning is now in full swing, and we could use your help in gathering information, such as tax loss carry-forwards or any other substantial changes to your tax situation, so that we can manage the tax efficiency of your accounts.

Respectfully submitted by the Professional Staff at United Asset Strategies, Inc.

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