



NORTH STAR Resource Group

MARKET UPDATE QUARTER 3, 2017

It has been over eight years since the recovery began following the Financial Crisis of 2008. The U.S. economy continues to benefit from low inflation, low unemployment and low interest rates. The current expansion cycle has already lasted 99 months and is the third-longest in U.S. history. Many modern recessions have been preceded by a cycle of Fed interest rate hikes, but with stubbornly low inflation the Fed has been reluctant to do so. Given this, some economists believe that this expansion cycle may continue to become the longest on record surpassing the 1991-2001 expansion, which lasted 120 months.

For the quarter, large company stocks (S&P 500) increased 4.48% while small company stocks (Russell 2000) increased 5.67% with growth stocks faring better than value stocks across all market capitalizations. The weakest sectors within the economy were consumer staples, real estate and consumer discretionary while technology, energy and materials were the strongest sectors within the economy.

The U.S. dollar depreciated against most major foreign currencies in the 3rd quarter. A decrease in value of the U.S. dollar enhances returns when investing in foreign securities while an increase in the dollar's value reduces returns for U.S. investors holding foreign securities. For the quarter the MSCI EAFE Index (in U.S. dollars) increased 5.47% while the MSCI EAFE Index (in local currency) increased 3.42%.

The demand for U.S. Treasuries decreased overall during the quarter pushing yields slightly higher with lower bond prices (bond yields move inversely to bond prices). While the 10-year Treasury yield has spent the last six months trading right around 2.25%, ending the quarter at 2.33%, shorter-term Treasuries yields increased more due to higher expectations for a Fed interest rate hike later this year. For the quarter the Barclays U.S. Aggregate bond index (a blended composite) increased 0.83%.

On September 20 the Federal Open Market Committee (FOMC) maintained the target range for the federal funds rate at 1% to 1.25%. The Federal Reserve indicated that it remains on track to raise short-term rates later this year, most likely at the December 12-13 meeting. It is also expected that the Fed will raise rates three more times in 2018 with a long-term target rate of 2.75%.

There was also a unanimous decision for the Federal Reserve to reduce its balance sheet. The bonds purchased by the Fed after the financial crisis were intended to lower borrowing costs for business and home owners in efforts to stimulate the economy beyond interest rate cuts. Currently the portfolio of bonds is valued at \$4.5 trillion and beginning in October the Fed will end its practice of fully reinvesting principal payments of maturing bonds into new bonds.

Taking the long view, we continue to believe that globally diversified stock and bond portfolios and disciplined investment strategies can continue to provide opportunities for those investors looking for growth.

I welcome your input and as always, should you have any questions or concerns, or if there is a change in your investment time horizon or financial circumstances, please contact me at your convenience.

AVERAGE ANNUAL RETURNS FOR PERIODS ENDING 09/30/2017						
INDEX	1ST Q	YTD	1 YR	3 YRS	5 YRS	10 YRS
S&P 500	4.48%	14.24%	18.61%	10.81%	14.22%	7.44%
Russell 2000	5.67%	10.94%	20.74%	12.18%	13.79%	7.85%
MSCI EAFE (U.S. dollars)	5.47%	20.47%	19.65%	5.53%	8.87%	1.82%
Barclays US Aggregate Bond	0.83%	3.21%	0.06%	2.72%	2.07%	4.30%
BENCHMARK COMPOSITES	1ST Q	YTD	1 YR	3 YRS	5 YRS	10 YRS
Aggressive Growth	5.07%	15.28%	19.45%	9.57%	12.51%	5.86%
Growth	4.24%	12.93%	15.59%	8.15%	10.37%	5.49%
Conservative Growth	3.34%	10.74%	11.61%	6.66%	8.25%	5.10%
Income and Growth	2.50%	8.39%	7.74%	5.23%	6.11%	4.73%
Income	1.61%	5.73%	3.82%	4.07%	4.23%	4.65%

You cannot invest directly in an index. Past performance is not indicative of future results. The S&P 500 Index measures the performance of large capitalization U.S. stocks. The S&P 500 is a market-value-weighted index of 500 stocks that are traded on the NYSE, AMEX and NASDAQ. The weightings make each company's influence on the Index's performance directly proportional to the company's value. The Russell 2000 Index measures the total return of small capitalization U.S. stocks. The Russell 2000 is a market-value-weighted index of the 2,000 smallest stocks in the broad-market Russell 3000 Index. These securities are traded on the NYSE, AMEX and NASDAQ. Investments in smaller company and micro-cap stocks generally carry a higher level of volatility and risk over the short term. The MSCI EAFE Index is the Morgan Stanley Capital International Index and is designed to measure the total return of the developed stock markets of Europe, Australia and the Far East. Investment risks associated with international investing, in addition to other risks, include currency fluctuations, political and economic instability and differences in accounting standards when investing in foreign markets. The Barclays US Aggregate Bond Index is a market-weighted index that includes U.S. government, corporate, and mortgage-backed securities, rated investment grade or higher, with maturities up to 10 years. The Benchmark Composite returns are a weighted average of index data comprised in the following manner. Aggressive Growth is 45% S&P 500, 25% Russell 2000 and 30% MSCI EAFE. Growth is 35% S&P 500, 20% Russell 2000, 25% MSCI EAFE and 20% Barclays US Aggregate Bond. Conservative Growth is 30% S&P 500, 10% Russell 2000, 20% MSCI EAFE and 40% Barclays US Aggregate Bond. Income and Growth is 20% S&P 500, 5% Russell 2000, 15% MSCI EAFE and 60% Barclays US Aggregate Bond. Income is 15% S&P 500, 5% MSCI EAFE and 80% Barclays US Aggregate Bond. This material represents an assessment of the market environment at a specific point in time and is not intended to be a forecast of future events, or a guarantee of future results. This information should not be relied upon by the reader as research or investment advice regarding any funds or stocks in particular, nor should it be construed as a recommendation to purchase or sell a security. Past performance is no guarantee of future results. Investments will fluctuate and when redeemed may be worth more or less than when originally invested. Tracking Number 1913172/DOFU 10-2017

Sources: Federal Reserve Board, First Trust, and The Wall Street Journal.