



Momentum Mobilizes Markets, But Dangers Lurk Ahead

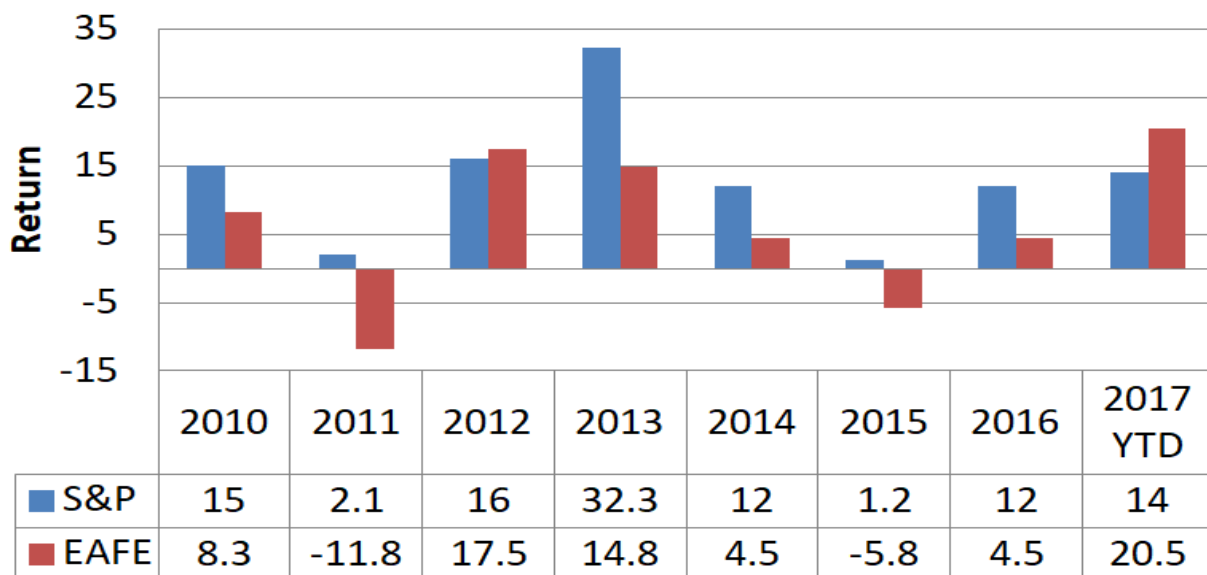


- Newton's 1st Law of Motion: *An object in motion stays in motion unless acted upon by an unbalanced force.*
- What started in January has continued through September.
- U.S. stock market styles and sectors continue to favor last year's losers and disfavor last year's winners.
- All foreign markets continue to outperform the U.S.
- Dangers lurk ahead that will harm some people much more than others.

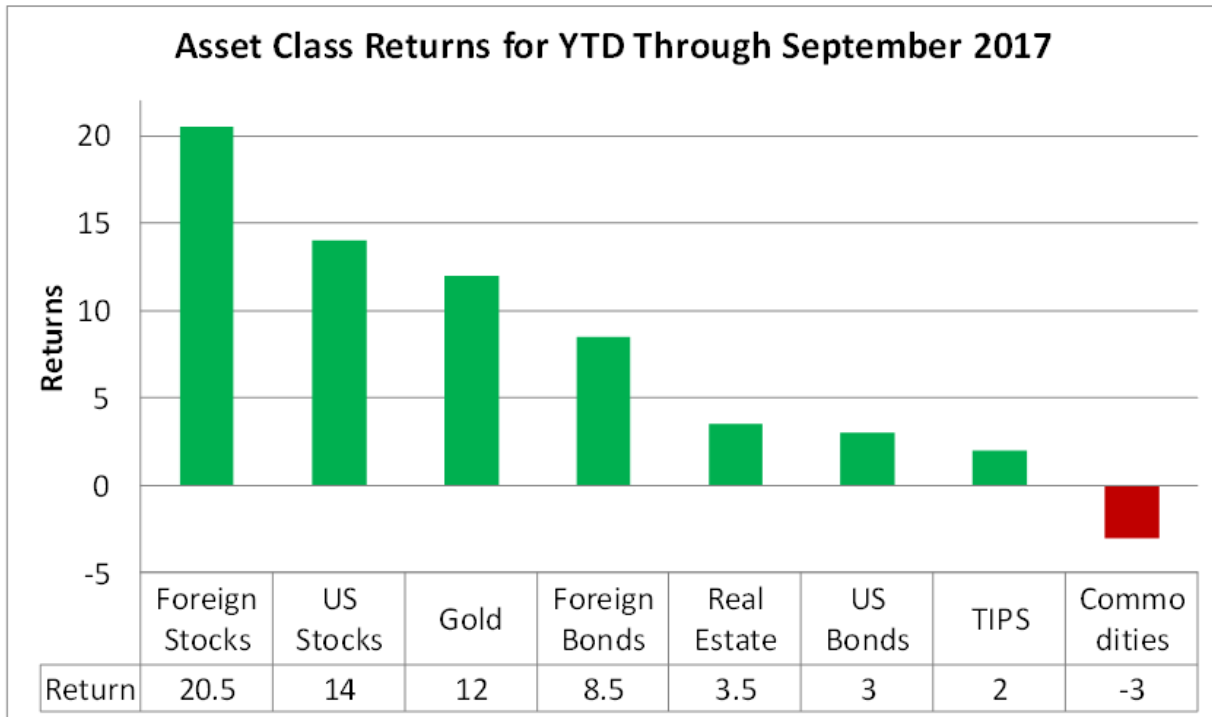
Foreign stocks outpace U.S.

The U.S. stock market has earned an auspicious 14% return in the first nine months of 2017, and foreign markets have done even better with a 20.5% return. Foreign markets have outperformed U.S. markets in all 3 quarters. This is the first time in the past 8 years that foreign stocks have taken the lead, and there's no sign of it ending. Every country except Canada is performing better than the US in 2017.

US and Foreign Stock Markets



All asset classes except commodities have positive returns so far this year. Commodities have lost 3%, a far cry from being the second best performing asset in 2016, slightly behind US stocks.



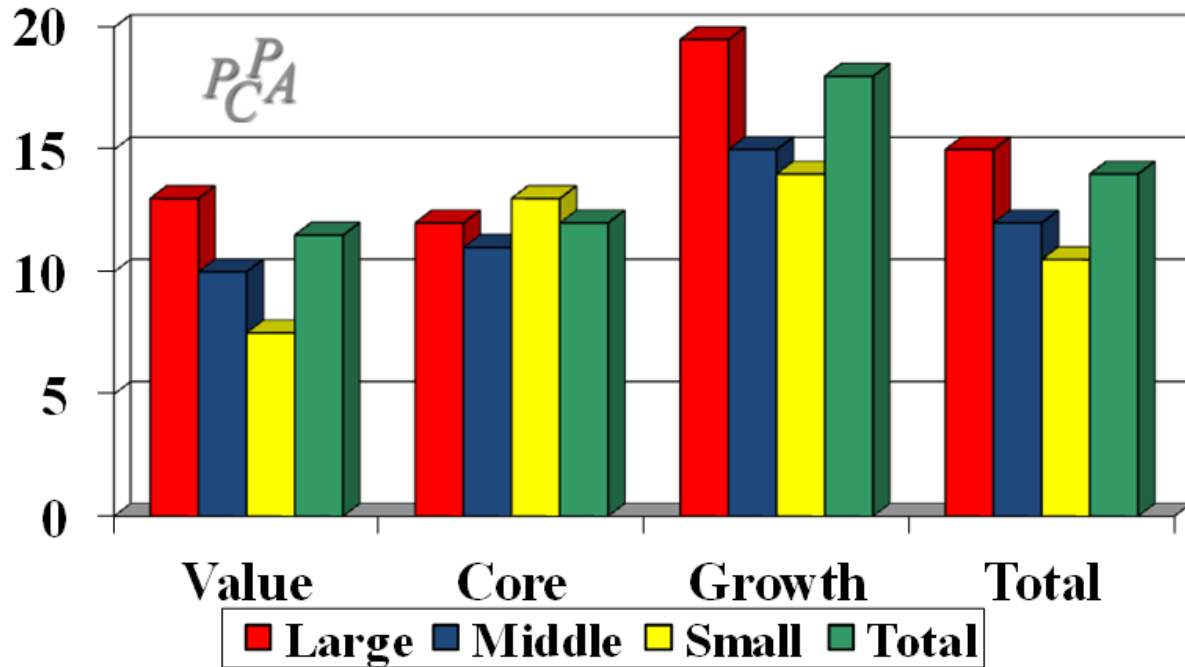
Source: The Capital Spectator

U.S. Stock Market

Reversing the trend of 2016, large growth companies have led the way in the first 9 months. In our [end of year commentary](#) we attributed the 2016 dominance of smaller value companies to fundamental indexing, AKA “Smart Beta”, and predicted that the ride was about to end. We like being right even for a little while.

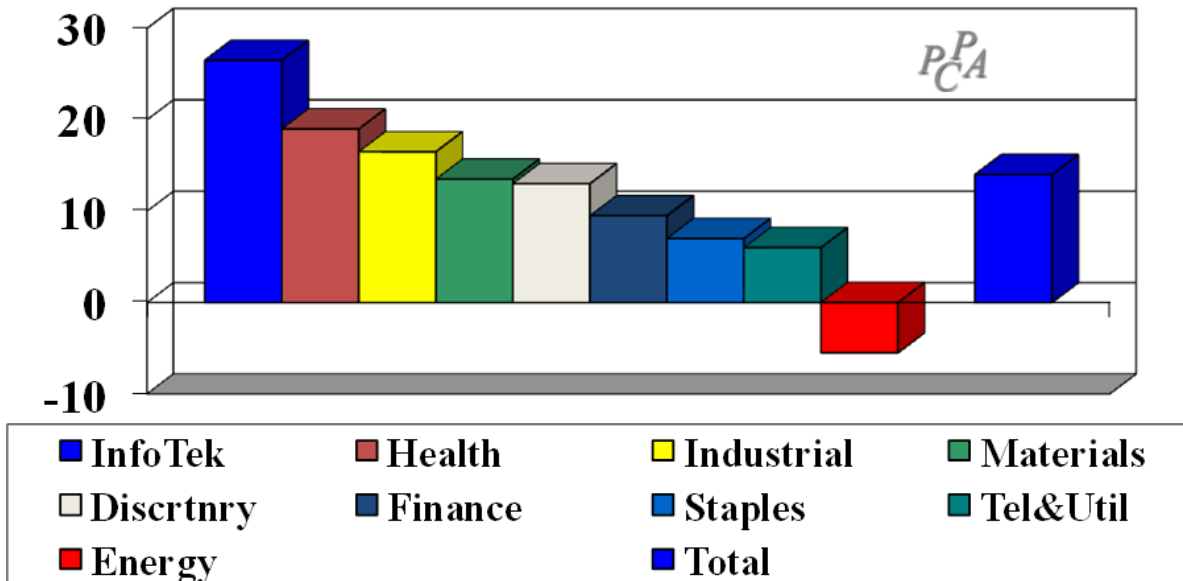
We use [Surz Style Pure](#)[®] classifications throughout this commentary.

Style Returns for 1st 9 Months of 2017



Sector performance shows total reversals from 2016. All of last year's winners are this year's losers, and vice versa. InfoTek performed best with a whopping 26.5% return, while energy stocks have lost 5.5%.

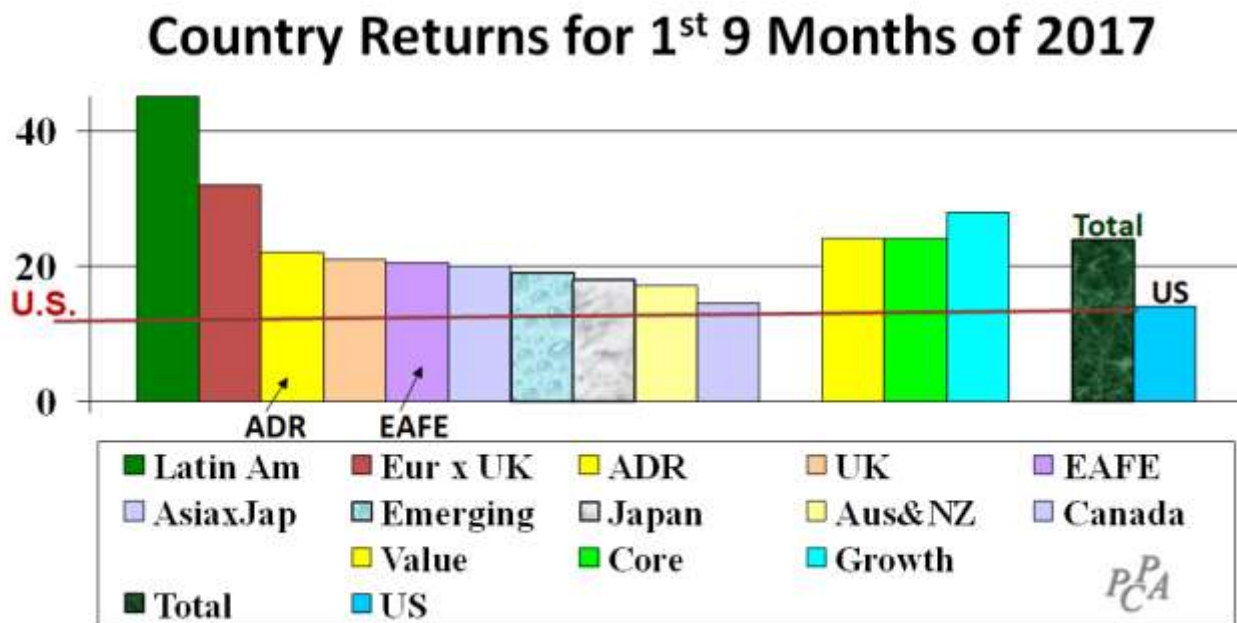
Sector Returns for 1st 9 Months of 2017



Foreign Stock Markets

Looking outside the U.S., foreign markets earned 24% in the 9 months, exceeding the U.S. stock market's 14% return, and EAFE's 20.5% return. Unlike the U.S. there were no reversals in country returns – better performing countries last year were good performers in the year-to-date, and vice versa. There has been momentum continuing from 2016 in foreign market country performance.

Latin America has dominated with a 45% return, Europe x UK earned 31%, followed by a clustering of country performances near 20%, and then Canada at 14.5%.



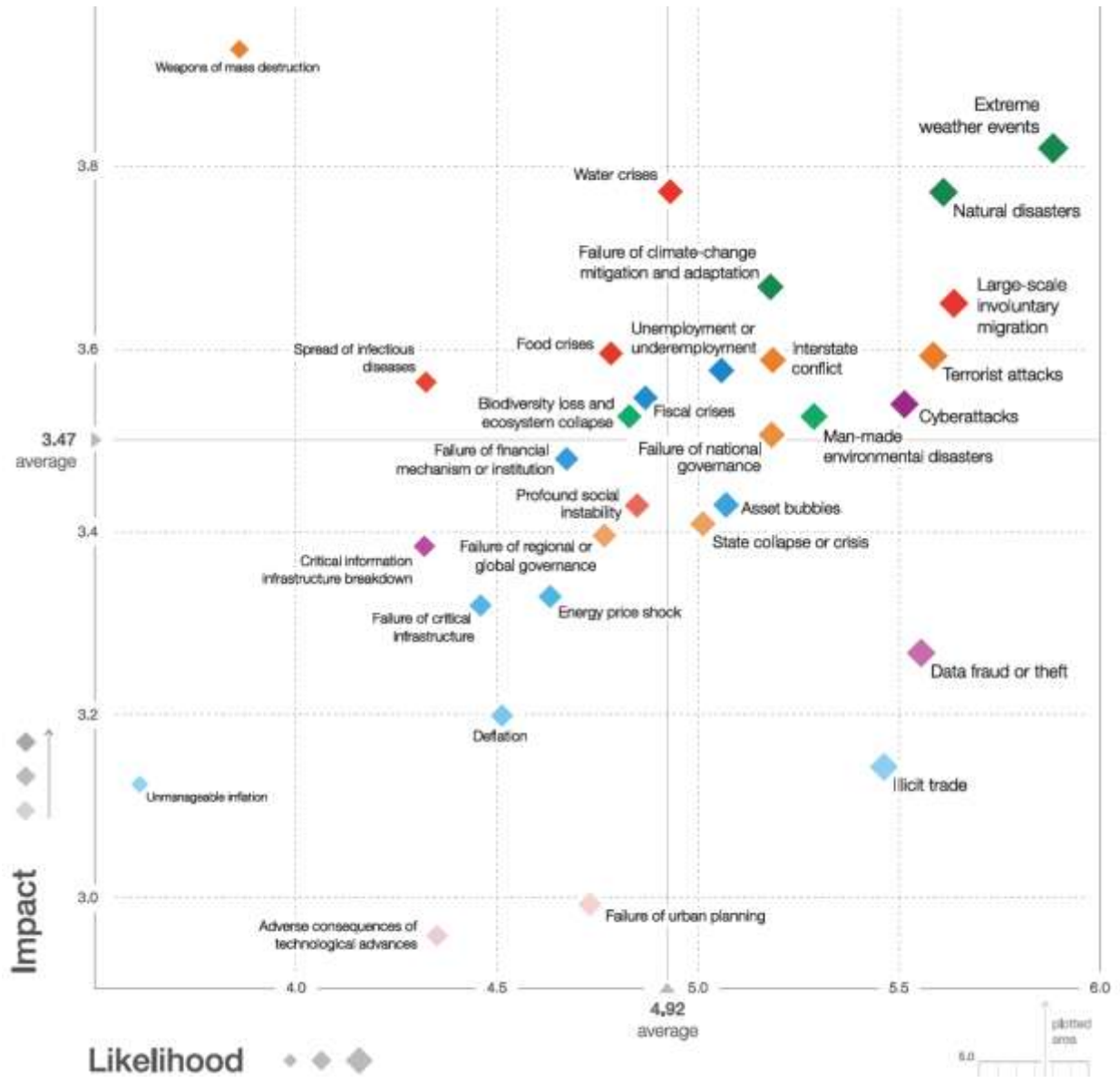
On the style front, growth stocks performed best with a 28% return, while core and value earned 24%, similar to the U.S. where growth has clearly dominated.

So Far, So Good, Until...

It's easy to slip into a sense of comfort, enjoying the great ride we've had so far this year, and the previous 7 years, but we all know that current stock and bond prices are high and risks lurk ahead that could spoil our fun.

The following graph from the World Economic Forum pinpoints the sources, magnitudes and likelihoods of potential future shocks. For example, "Extreme weather

events” has a high Likelihood because hurricanes have already decimated several U.S. cities and territories, and the Impact is high because the costs of recovery are enormous.



Top 10 risks in terms of
Likelihood

- 1 Extreme weather events
- 2 Large-scale involuntary migration
- 3 Natural disasters
- 4 Terrorist attacks
- 5 Data fraud or theft
- 6 Cyberattacks
- 7 Illicit trade
- 8 Man-made environmental disasters
- 9 Interstate conflict
- 10 Failure of national governance

Top 10 risks in terms of
Impact

- 1 Weapons of mass destruction
- 2 Extreme weather events
- 3 Water crises
- 4 Natural disasters
- 5 Failure of climate-change mitigation and adaptation
- 6 Large-scale involuntary migration
- 7 Food crises
- 8 Terrorist attacks
- 9 Interstate conflict
- 10 Unemployment or underemployment



Categories

- Economic
- Environmental
- Geopolitical
- Societal
- Technological

Source: World Economic Forum Global Risks Perception Survey 2016

Note: Survey respondents were asked to assess the likelihood of the individual global risk on a scale of 1 to 7, 1 representing a risk that is not likely to happen and 7 a risk that is very likely to occur. They also assess the impact on each global risk on a scale of 1 to 5 (1: minimal impact, 2: minor impact, 3: moderate impact, 4: severe impact and 5: catastrophic impact). See Appendix B for more details. To ensure legibility, the names of the global risks are abbreviated; see Appendix A for the full name and description.

Fasten your parachutes: Don't let the next market correction spoil lifestyles



Some of us will be hit much harder than others by the next market correction simply because we are a certain age. There's a time in all of our lives when market corrections are especially damaging because it's hard to recover from losses.

The \$trillions invested in Target Date Funds and Individual Retirement Accounts are destined to be devastated by a risk that is well documented but generally unrecognized. [Sequence of Return Risk](#) will destroy lifestyles and this time it will be much worse than 2008. Fortunately, you can control this risk, but don't wait until it's too late. You only get one chance in a lifetime to dodge this risk. Unlike other risks, we know when this risk is greatest so we can protect or take the [gamble](#) that losses won't occur in the [Risk Zone](#). It's like sky-diving risk where there is no recovery from being unlucky.

We are developing the first and only Robo Analyst – Age Sage -- to help investors through their lifetime investment allocations, protecting them through the Risk Zone,

and re-risking in retirement to support a lifestyle. It's the mature Robo for adults, whereas other Robo Advisors help kids. You could go it alone, but we plan to charge very little for keeping you safe.

A Robo Analyst is Financial Technology (FinTech) designed for advisors and do-it-yourself investors, in contrast to a Robo Advisor that competes with human advisors.

Please contact Ron Surz (Ron@TargetDateSolutions.com) to receive notification of the launch of Age Sage.

Ron Surz (Ron@targetdatesolutions.com (949)488-8339) is President and CEO of PPCA Inc and its Target Date Solutions subsidiary. Both are in San Clemente, CA. Ron is a performance evaluation veteran who started with A.G. Becker in the 1970s. [PPCA](#) provides contemporary investment manager due diligence [software](#) and [Surz Style Pure Indexes](#)[®] including [Centric Core](#). [Target Date Solutions](#) manages target date funds using its [patented Safe Landing Glide Path](#)[®], and has published a [book](#) to help fiduciaries select TDFs.

He is also a partner of [Paladin Financial Technology](#) and [Sortino Investment Analytics](#).