

Year in Review

Amy Finley, CFP®

We would like to congratulate Amy on obtaining the CFP® certification. Amy has worked diligently to complete the rigorous program to earn this certification. We are extremely proud of her accomplishment!

We are pleased to announce our refreshed website for clients and friends of McCarthy Grittinger Financial Group. Please visit us at www.mgfin.com



Dear Valued Clients & Friends:

Nothing takes you away from dwelling in the past or agonizing about the future like living in the present" - Roy T Bennett, The Light in the Heart.

As we bring another calendar year to a close, we look back at what a year it has been. It is important to reflect and to learn from the past. In reflection, we are often amazed at the events that we experienced and how much different they were then we might have expected. This reflection process is where knowledge is truly gained. Knowing the power of hindsight bias allows us to better handle the unpredictable future. As is typical with most people, we have now mentioned the past and the future without a word about the present. This time it was not done on accident. We are going to use this final newsletter of the year to appreciate the present.

Remarkable Clients

It has been another amazing year. We are reminded every day of the great client group we are fortunate enough to interact with. Know that you inspire us every day. You allow us into your personal world as we help you prepare, live, and react to all that life has to give on a daily basis. From highs of births, weddings, anniversaries, reunions and health recoveries to the lows of death, sickness and separations, we get the opportunity to experience it all with you. The truly amazing part is how you handle the full range of these events. Grace, humility, excitement, courage, and appreciativeness are just a few of the words that immediately come to mind. We are truly blessed to work with such wonderful people.

Inspiration is just a part of the story though. To do our job to its fullest, we must experience these events with our clients. Current and future clients need to know that our firm is built on these trusting relationships that allow us to share in these events. This includes both the good and the bad events. These are real and meaningful conversations and not just an exercise we go through to check off boxes. It is our belief that you cannot have true financial planning and investment success unless you get the purpose correct. The purpose is not to grow the money to "X". The purpose is to achieve "Y". Financial accounts are intertwined with the personal life.

Stock Markets

For those living in the Midwest, you have gotten your snow white Christmas wish. It is amazing to be reminded every year of how fast the weather can rapidly change. Much like the investment markets this past month, sometimes the movements can be swift, without much warning. Being prepared for the elements is a very valuable strategy.

The election week brought many different emotions but, as we mentioned in the last newsletter, headline news should not be used to build an investment strategy. Here are two examples of headlines from the Wall Street Journal during the election week. The irony was not lost on us!

"Dow Jumps 371 Points After FBI Says It Won't Charge Clinton" - WSJ November 8, 2016

"Dow Jumps to Record on Stimulus Hopes After Donald Trump Victory" - WSJ November 9, 2016

As the stock market marches to new highs, investors should be thankful but prudent in their approach. Rebalancing portfolios to the target asset allocation in a tax and cost-efficient manner is the "secret" investment strategy that investors are continually trying to look for. Realizing that the smart strategy is to rebalance while not guessing the market top is valuable knowledge.

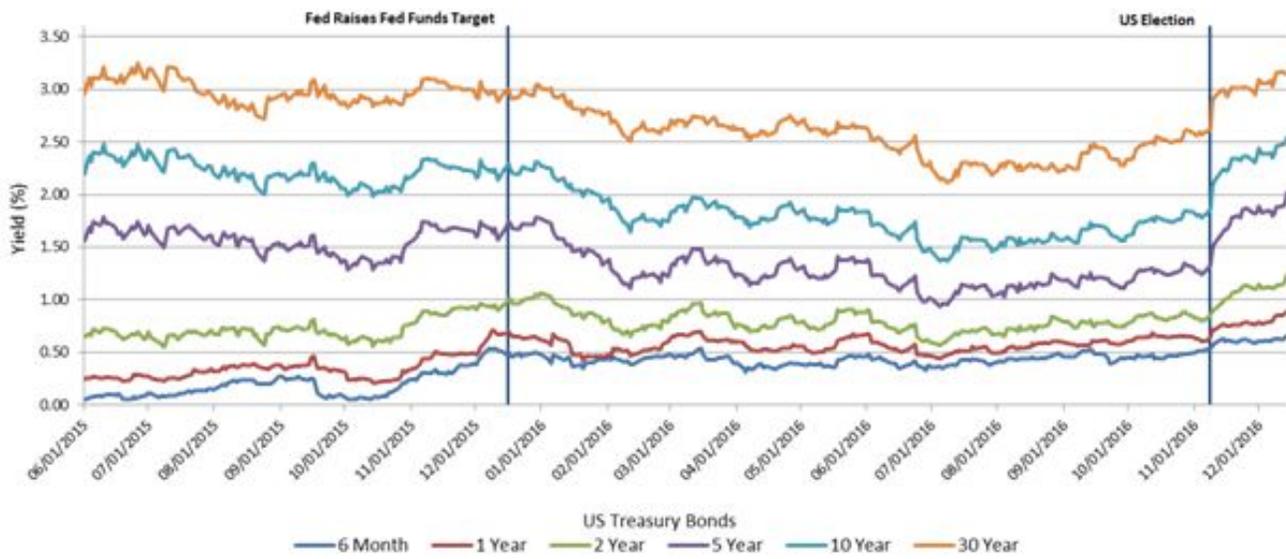
Bond Markets

On December 14, 2016, the Federal Open Market Committee (Fed) concluded its final meeting for the year and announced its decision to raise the federal funds target rate from its range of 0.25%-0.50% to 0.50%-0.75%.

As we have mentioned before, Fed watching is a favorite pastime for many market participants who often presume that Fed actions will lead to specific market outcomes. On December 16, 2015, the Fed raised the federal funds target rate for the first time since 2006. As a result, some market commentators believed this was a signal that multiple rate increases would occur in 2016.

As we now know, the Fed failed to prove the market prognosticators right; the Fed did not change the target rate until its last meeting of the year. Despite this, interest rates in the US have varied throughout the year. In fact, as shown in **Exhibit 1**, immediately following the Fed's rate increase in 2015, yields on many US treasury bonds *decreased* until the second half of 2016.

Exhibit 1. US Treasury Yields (%) as of December 14, 2016



Securities data provided by Bloomberg Barclays LIVE. Bloomberg Barclays data provided by Bloomberg.

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Timing interest rate moves has proved to be as futile as timing short-term equity market price moves. For long-term investors, this means focusing on the interest rates over a longer time period. Rising interest rates, if done at an appropriate speed, can be financially beneficial over the long-term for savers and investors.

Appreciate the Present

We needed to take this moment, to live in the present and to formally recognize what a great group of people we get to work for on a daily basis. From the entire McCarthy Grittinger Financial Group team, we thank you for being such an incredible group and know that we learn from and appreciate our interaction with you. Our hope is over the next few weeks everyone gets the opportunity to reflect on the past, ponder the future, but most importantly appreciate the present!

Have a Merry Christmas and Happy New Year!

Matt Miler, CPA, CFP®

Scott D. Grittinger, CFP®
Matthew T. Miler, CPA, CFP®
Jacqueline A. Schneider, CFP®
Amy L. Finley, CFP®
Alicia A. Nordwig, AAMS®
Robert P. Kult, CPA
Maggie Mayer
John T. McCarthy Ambassador