



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 three quarters. This is the first time in the past eight years that foreign stocks have taken the lead, and there's no sign of it ending.

While all asset classes except commodities have positive gains so far this year, none compare to Emerging Market stocks. The return for this category is an astounding 24% through September. The rally reflects faster earnings growth, a weaker dollar and easy global monetary policies that make riskier investments more attractive.

Despite continued low interest rates, corporate bonds, as represented by investment grade and high yield, have managed to return about 5% and 6% respectively. Treasury Inflationary bonds have grown only 2% for the first three quarters, perhaps due to tepid inflation, which is running only 1.4%. Fed Chair Janet Yellen announced plans to gradually increase interest rates at least one more time before the end of 2017, according to the Chicago Mercantile Exchange "FedWatch".

Here are five theories to help explain why stocks keep hitting records:

- 1) Resurgent earnings growth – the stock market's trajectory may be determinable by the rate of earnings growth, which has been on the rise
- 2) Brighter Global Outlook – as global growth picks up, big multinational companies fare better
- 3) Cautious Fed – the U.S. economy is expanding, but not fast enough to raise interest rates quickly.
- 4) Passive Inflows – large inflows into passive index-tracking and exchange-traded funds may be divorced from corporate fundamentals
- 5) No Alternative – with bonds offering paltry yields, stocks remain many investors' asset class of choice

While it is understandable that many of you may be anxious about when the inevitable bear market will arrive, predicting the markets is a difficult game to win. Instead, we encourage you to match your portfolio's asset allocation strategy to your specific goal, i.e. retirement, lifestyle expenses, funding a child's education, etc. In the meantime, enjoy the ride.



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Sources: Emerging Markets Have a Torrid Year, But Investors Wary, Wall Street Journal, Oct 2, 2017.

Nobel Goes to Economist Richard Thaler, Wall Street Journal, Oct 10, 2017.

ValMark Advisers, 3rd Q 2017, Market Update, Oct 15, 2017.

Past performance is not a guarantee of future results. It is also important to note that one cannot invest directly into an index. Diversification cannot assure a profit or guarantee against a loss of value.

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