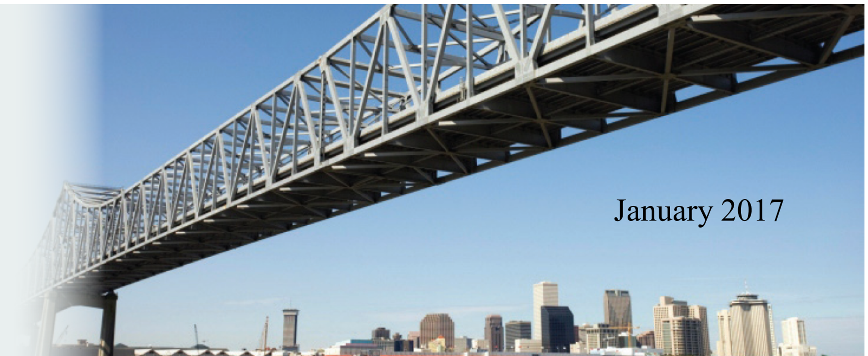

DELTA
FINANCIAL ADVISORS
Investment Counsel

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Economic Comments

The big economic, and market news, as the year closed out was the election of Donald Trump as the next President of the United States. In comparison, the Federal Reserve's mid-December meeting, where overnight interest rates were raised by 0.25 percentage points, was anti-climactic at best. With this hike, the U.S. central bank raised over-night interest rates for just the second time since the Financial Crisis. Justification for the rate increase was found in the continued expansion of the U.S. economy and the steady decline of unemployment. Looking ahead, policy makers penciled in their expectations for three more quarter-point rate increases in 2017.

Bolstering the Fed's perception on the jobs market, new jobless claims having now hovered beneath 300,000 for 95 consecutive weeks, the longest period since 1970, and when the U.S. workforce was far smaller. Highlighting this relative strength, the unemployment rate in December was 4.7%, the lowest year-end level in a decade. Growth in nonfarm jobs averaged a solid 180,000/month during the first 11 months of 2016, although the year's performance represented an appreciable decline from the average 229,000/month of 2015.

Of course, the unemployment rate alone doesn't tell the full story of the labor market. Wage growth has only recently started to improve. Overall participation in the labor force is still at historically low levels and full-time jobs aren't as plentiful as they once were. New research shows a majority of jobs created from 2005 through 2015 were considered "alternative work"- either temporary or contract employment, according to two Ivy League researchers. When taken in this context, a better understanding is gained why a broader measure of underemployment, which the government calls the "U-6," remains elevated. The U-6 has been trending lower, and fell to 9.3% in November, although that is substantially above its pre-Financial Crisis low of 7.9%.

After a slow start to the year, gross domestic product picked up steam and expanded at an adjusted rate of 3.5% in the 3rd quarter - the most robust growth in two years. Strong household outlays during the summer helped bolster the quarter's performance. Current expectations for the final quarter are less robust with GDP estimates targeting ~2.0% growth. Underscoring the slackening pace, economic indicators such as income growth, consumer spending and inflation all weakened in November following a 3rd quarter spurt.

On a positive note though,

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Economic Comments continued from cover

U.S. manufacturing finished the year with wind at its back as it closed out 2016 with the strongest growth in two years. The Institute for Supply Management's Purchasing Managers Index for December reached its highest level in two years while factory activity surged as the year closed. Additionally, most consumer confidence readings surged following the presidential election.

On the inflation front, the personal consumption expenditures price index was unchanged in November and up 1.4% from a year earlier. The measure, the Federal Reserve's preferred inflation gauge, has risen at a modest pace each month since March, reflecting stabilizing energy prices and somewhat firmer consumer demand which has allowed businesses to pass along price increases. This stronger demand helped support the Fed's December move to raise its benchmark interest rate for the first time in a year. While officials indicated the pace of rate increases could quicken in 2017, inflation readings, for now, remain well below the central bank's 2% target.

As we look forward to 2017, most expectations are for continued, albeit lackluster growth, with modest inflationary pressures prevailing. An ongoing restraint on accelerating economic activity has been the continued low level of labor productivity gains. Until, or if, this gauge moves up, the nation is unlikely to be able to sustain growth much above 2.0%.

The biggest unknown as we enter 2017 is the ramification of the new presidency combined with the Republican controlled Congress. While many economic and tax policy ideas have been bandied about, we will have to wait and see what policies are actually implemented. The only certainty at this stage is that the goals and objectives of the Trump presidency sharply differ from that of the outgoing Obama Administration.

Analyst Corner

The old adage that cash is king is increasingly less so as global consumers increasingly shift to the use of electronic payments. The crowned king in this arena is Visa Inc., *NYSE: V*, the world's largest retail electronic payments network providing processing services and payment product platforms. V dominates the global market for electronic payments, accounting for about half of all credit card transactions and an even higher percentage of debit card transactions. While much has been discussed about the threats of new disruptive payment methods, rising competitors like PayPal are choosing to partner with, rather than attempt to disrupt, incumbents like Visa. With a rock solid balance sheet, quickly growing dividends, and rapidly growing revenues and earnings, Visa could be an attractive addition to many portfolios.

Market Comments

Wall Street had an interesting year as the markets weathered several events in 2016, including a recession scare, the Brexit vote, and the presidential election. After a precipitous drop for the first 5 weeks of the year, the markets recovered their losses by April. The bulk of the year's gains came in the second half where a rebound in corporate earnings, accelerating U.S. economic growth and stabilizing oil prices helped stoke investor enthusiasm.

The year's rally gathered additional steam after the U.S. presidential election as investors bet that the new Administration would shepherd in more business friendly policies. For the year, the market's underlying sectors ended fairly bi-furcated as investors bet heavily on those sectors anticipated to be most impacted by the new Washington leadership. Oil clocked its biggest annual gain since the Financial Crisis, with U.S. crude surging up 45% - its best year since 2009. On the back of the these rising energy prices, the energy sector was the best performing stock sector with a gain of more than 27% for the year. In comparison, the healthcare sector sharply lagged the broader market, with a decline of almost 2.7%, as investors sought out market sectors with more volatile/economically sensitive earnings.

In the fixed income arena, buy-and-hold investors could have slept through 2016 and would hardly have noticed the difference as U.S. government bond prices modestly declined for the second consecutive year. Those who were actively buying and selling, on the other hand, had ample cause for regret as U.S. Treasury rates showed sharp moves during the year. The yield on the benchmark 10-year Treasury note closed 2016 at a level of 2.48%, up from 2.27% at the end of 2015, the closing rate was up appreciably from mid-summer when the 10-year Treasury's yield hit the year's low of 1.37% after the June vote for the U.K. to leave the European Union.

These extremes tell a story of fears and hopes: investors flocked to the world's largest bond market for safety as 2016 started, when a sinking Chinese stock market and yuan heightened worries about the global economy and caused a swoon in U.S. stocks compounded with the pro Brexit vote. But over the past several months, global data and Federal Reserve announcements drove investors to expect stronger growth, higher inflation and potentially a faster pace of interest-rate increases which drove bond yields upwards.

Additionally, brighter economic prospects have boosted the dollar late in the year. The WSJ Dollar Index, which measures the dollar against a basket of 16 other currencies, was up 3% for 2016 following several years of steady gains. A continued concern is the negative impact of a strong greenback on the recent recovery in U.S. corporate earnings. However, we believe that these concerns are overstated as the dollar still remains sharply lower than its highs of the mid-1980s.

Looking ahead, some investors remain skeptical that corporate earnings will grow enough to support currently elevated stock valuations, which remain appreciably above their historical average. More specifically, shares of companies in the S&P 500 traded at an average of roughly 21 times their past 12 months of earnings at year's close, considerably above their 10-year average of 16, according to FactSet. The consolation to these stretched valuations is that stock levels appear much more reasonable when factoring in current inflation and interest rates.

For 2017, analysts' earnings expectations are currently very rosy with projections for profit growth in excess of 11% for the full year. Whether the optimistic earnings outlook for the new year are actually realized, the only certainty is that there will be large changes afoot in coming months as the newly Republican White House and the Republican controlled Congress look to imprint their agenda on the nation. While many proposals being floated by the incoming administration appear to be favorable to Wall Street in the short-term, the longer-term ramifications remain less clear. Investors should prepare themselves for yet another interesting year.

Performance as of 12/31/16

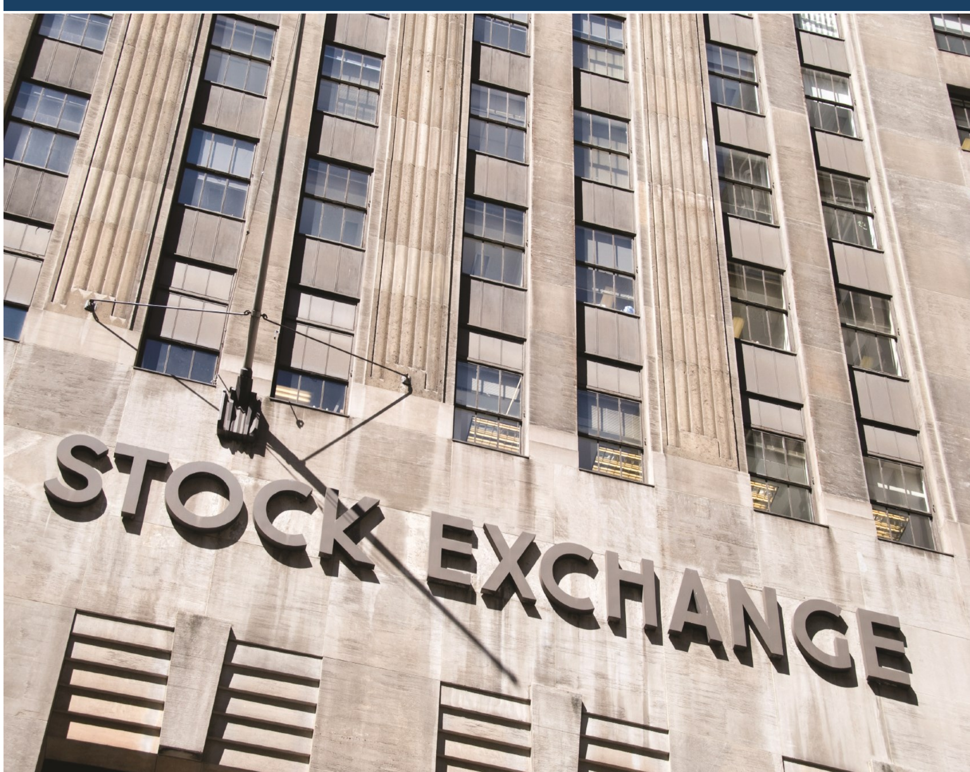
	Close	Month	1 Year
DJIA	19762.60	3.44%	16.50%
S & P 500	2238.83	1.98%	11.96%
NASDAQ Comp.	5383.12	1.12%	7.50%

	Year end yield	Prior Year end yield
10 yr. U.S. Treasury	2.48%	2.27%

Planning Thoughts

While many people purchase life insurance due to concerns about premature death, far fewer people appear to be concerned about becoming disabled – even though the likelihood of becoming disabled during working years is far higher than dying. To insure against this risk, disability insurance can be purchased as a group through an employer or on an individual basis. While group coverage is typically far more affordable than individual coverage, individual policies have the benefit of being portable if your employment and/or health changes.

We are huge believers in this insurance coverage and encourage everyone who is still working to acquire this protection. If you decide to purchase this insurance, make sure to pay for it with post-tax dollars as this allows the benefits, in the event of a claim, to be paid tax-free. If you do not currently have this type of coverage and are interested in better understanding its place amongst your various insurance needs, please give us a call.



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