



Quarterly Client Newsletter

4th QUARTER 2016 REFLECTION

BY ALEC BETHURUM
SR. PORTFOLIO MANAGER

2017 turned out to be the year that proved something we have espoused for some time, which is the so-called “experts” and “pundits” have the same crystal ball used by side show psychics and carnival magicians.

To begin the year, the consensus was that a recession was imminent. Economic data was weaker than expected, a string of rate hikes appeared imminent, oil traded in the \$20's for the first time since 2003 and the major equity indexes opened the year with a 10% drop.

However, the downdraft was short lived and the economy and the major equity and commodity markets continued to demonstrate resilience. By the end of the first quarter the market had recovered the entire move down from the first two months of the year. On the rate front, the Federal Reserve made a turn to a more dovish stance. In commodity markets, cuts in domestic oil production as well as supply disruptions in the Middle East and Venezuela pushed oil prices back into the \$40's and traditional industrial commodities such as iron ore and steel made strong moves higher.

By the time the calendar turned to November, with the US Presidential Election on the horizon, equity markets were 5% higher YTD and fixed income markets, represented by the Barclays Agg Index, were up 4%.

By election week the major pundits declared that a Clinton administration was imminent. However, just like the call for a recession, in the year's first quarter, the declarations proved to be premature and the country and markets were surprised to wake up on the first Wednesday in November to learn Donald Trump had been elected the 45th President of the United States.

Again, the reaction to these events was surprising to most prognosticators. Rather than the downward market pressure most predicted, the markets rallied very strongly in the final six weeks of the year. In anticipation of a less stringent regulatory environment, broad based personal and corporate income tax reductions, and significant fiscal stimulus, the equity markets

YOU SPOKE, WE LISTENED

Based on your input that Fridays aren't always convenient, we are experimenting with this Quarter's Investor Call by offering it on two different days. This will be on a trial basis and we'd appreciate your feedback. Please plan to join us on the date that works best:

- Tuesday, January 24 @ 10am CST, or
- Friday, January 27 @ 10am CST

**Register by calling 816.531.2254
or emailing info@sterneckcapital.com**

doubled their returns from the first eight months of the year in just six weeks.

Conversely, in the face of Fed tightening, and the expectation for a major fiscal expansion, bonds and fixed income instruments experienced a sharp correction. The Barclays Agg was down 7% from its summertime highs and was down for the full year in late December. While we don't necessarily think this is the beginning a major bear market in bonds, the magnitude and velocity of the move in the “stable” portion of investor portfolios reinforced our long held stance that the risk/return in fixed income is high on risk and low on return.

For Sterneck Capital, the sharp rally in the last few weeks of the year also reinforced our belief in our value oriented investment style. Many of the equity names we owned had strong upside performance vs. the indexes in the last quarter. On the fixed income side, while some securities had modest downside, our focus on using instruments with low interest rate exposure, or which we bought at discounts to their net asset value (NAV), shielded even our most conservative accounts from the bond market volatility.

As we look forward to 2017 we believe that predictions will become even more difficult in the short term as there is great uncertainty in both the political arena as well as at the Fed. Despite this uncertainty, one thing is clear: over the long-term pursuing value-oriented securities across all markets is the strategy which gives our clients the smoothest ride to achieving their long-term goals. As far as the short term fortune telling, also known as expert prediction, we will leave that to the pundits on the nightly news.

MISSION

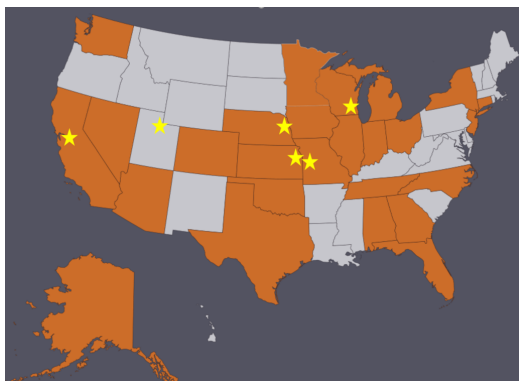
As a fiduciary we commit to excellence and high standards as we deliver tailored portfolios and financial planning to reduce risk, improving the probability of our clients' success.

CORE VALUES

Client-Centric Stewardship
Integrity
Excellence
Team Work

WE ARE HONORED

- * 25+ years as a trusted advisor in
- * 26 states and
- * 4 countries, serving
- * Multi-generational families,
- * Fortune 400 Executives,
- * Large & Small Business Owners
- * Medical Professionals,
- * Non-Profit Servants and
- * Dedicated Investors



As a result of introductions made by satisfied clients, Sterneck Capital's footprint is vast. With team members located across 6 states, we are honored to be your trusted advisor and dedicate ourselves to ongoing client-centric excellence.

WOMEN'S EVENT IN ST. LOUIS

Our *Empowered Women & Their Well-Being* series is coming to you! Watch for future details regarding this educational tea luncheon. Tools to enhance your financial stability will be offered. Carol Richardson, tea expert and proprietor of A Touch Of Tea, will also grace us with her knowledge of tea and its many benefits.

Save the date!
February 28, 11:30am

TRANSITION OF STERNECK VALUE AND OPPORTUNITY, LP

This past quarter, after thoughtful consideration, we decided to unwind Sterneck Value & Opportunity, LP, a private fund central to our firm's beginning many years ago. This decision is not easy. Not only did the fund represent the origins of Sterneck Capital, but the track record since 2000 was highly favorable and difficult to lay down (on a compounded basis, SVO more than doubled the return of the S&P 500). There are multiple reasons leading to this decision, but the most significant is that many of the tools and strategies once reserved exclusively for the private fund are now being utilized in individual accounts, making individual accounts better value for our clients. This decision will allow us to focus intensely on providing the best possible client experience for all.

EXPECT THE UNEXPECTED By Frank Sterneck, Co-Founder

Growing up, my father used to say "when you least expect it, expect it". Unfortunately for me, that was referring to when he would impose my punishment (being grounded) for bad behavior. Fortunately, I was generally a good kid and wasn't grounded too often.

2016 could certainly be described as a year of the unexpected, finishing with a highly unorthodox presidential election and a surprising result to many. Regardless of political beliefs, all who have and maintained exposure to the stock market have benefited since the election. Those with significant bond exposure have not fared as well since the market is clearly anticipating an acceleration in economic growth. While rapidly rising rates (a potential surprise mentioned in last quarters' letter) can have real negative implications, it is nice to see the market taking control of where interest rates should be, instead of the market waiting for the Fed to take control.

Just as things are constantly changing, Sterneck Capital continues to evolve in our commitment to help you meet your financial goals. Our client base continues to grow, expanding into 26 states and three countries outside the US. We regard this as a positive reflection of the trust clients place in us. This growth brings with it increased responsibility and accountability, which requires us to be better in all that we do for you.

On the investment side, we have added technological and human resources to help us identify unique and attractive investment opportunities. The introduction of "non-correlated" investments has served as a gainful diversifier, and in many cases, an ideal substitute for traditional fixed income securities. We plan to continue seeking unique, quality investment exposure.

From a client servicing perspective, we continue to invest in tools that enhance our ability to communicate on a regular and timely basis. In addition to one-on-one meetings, we plan to continue holding educational and social events in Kansas City as well as other client locations.

I personally am grateful to the entire Sterneck Capital team and am equally grateful to you, our clients who put their trust in us every day. In the weeks and months ahead, please keep us in mind should you have family, friends, or acquaintances who you think may benefit working with us.

Wishing you and your family a healthy and prosperous 2017.

