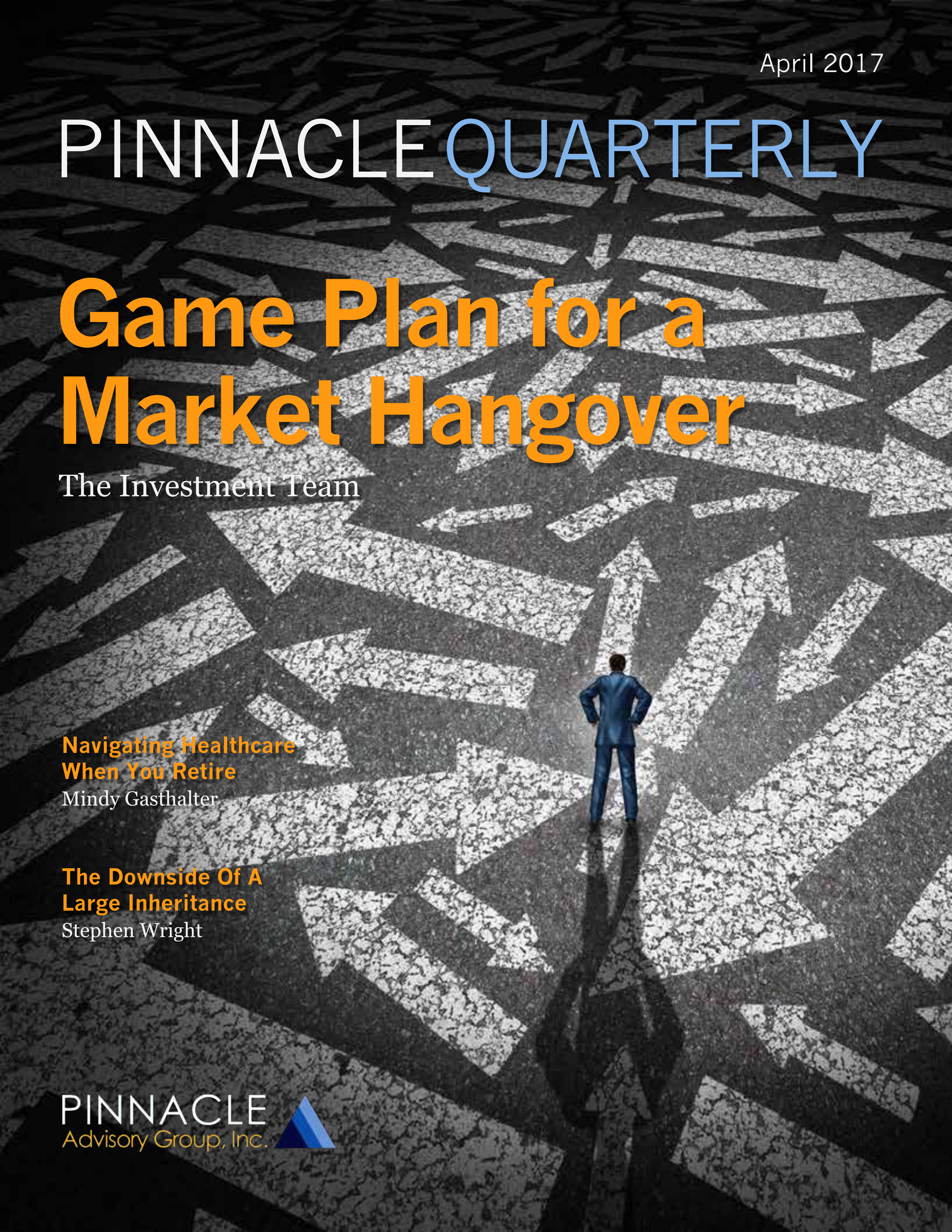
PINNACLE QUARTERLY



Game Plan for a Market Hangover

The Investment Team

Navigating Healthcare When You Retire

Mindy Gasthalter

The Downside Of A Large Inheritance

Stephen Wright

PINNACLE
Advisory Group, Inc.

April 2017

MARYLAND
6345 Woodside Court
Suite 100
Columbia, Maryland 21046
410.995.6630
410.505.0960 Fax

FLORIDA
5150 North Tamiami Trail
Suite 500
Naples, Florida 34103
239.692.8888
239.692.8878 Fax

7355 SW 87th Avenue
Suite 300
Miami, Florida 33173
305.274.1600

PINNACLE
Advisory Group, Inc.

Table of Contents

Navigating Healthcare When You Retire

Mindy Gasthalter
Wealth Manager

Securing a Health Care Plan in retirement can be a challenge if you retire before age 65 and are Medicare eligible. If you are under 65, there are typically two options available. First, you can continue on your employer's health insurance (assuming you had an employer who offered health care) for up to 18 months. This is called COBRA. With COBRA, you will pay 102% of the premium—the full cost of the insurance plus a 2% administrative fee. Second, you can obtain your own coverage through the marketplace paying the going rate and keeping that coverage until you are Medicare eligible at age 65. Note that with the first option, the 18 month COBRA period may not take you to age 65 so you might still need to obtain your own policy for some period of time.

Once you reach age 65, you will be eligible for Medicare. However, you should enroll for Medicare approximately 90 days before turning 65. If you have not yet begun Social Security, you will receive a quarterly bill from Medicare. If you have started receiving Social Security, your Medicare premium will be deducted automatically from your monthly benefit. Part A is free; Part B comes with a cost that is generally based on your income from two years prior. If your income from the prior two years was significantly higher than the current year, you can appeal to Medicare to reduce the premium. No guarantees that they will lower it, but you can try.

In addition to Medicare, most people also obtain a Medigap policy (supplemental insurance) which covers a lot of what Medicare doesn't (but not dental, long-term care, hearing aids, eyeglasses, and a variety of other items). The cost will vary depending on the policy selected, and they are identified by letter—A through N (although E, H, I and J are no longer available). Each has different features and benefits and your personal situation will determine which is best for you. Finally, there's Medicare Part D—the prescription drug plan. Again, this comes in a variety of flavors and the one you select will depend on the medications that you use. Pharmacies can help determine which plan is best for you, and you can also go to www.medicare.gov to help you determine which plan best meets your needs.

Health care in retirement can be complicated. Please make sure that you work with your Wealth Manager as you approach retirement in order to map out the options that are best suited for your unique circumstances.

Mindy Gasthalter, MBA, CFP® is a Wealth Manager at Pinnacle Advisory Group.

Email: mgasthalter@pinnacleadvisory.com
Profile: pinnacleadvisory.com/mgasthalter/

The Downside Of A Large Inheritance

Stephen Wright
Wealth Manager

Many people dream of receiving a sudden financial windfall. Wouldn't it be great to win the lottery or get an unexpected inheritance? But when someone you love dies and leaves you with a large amount of money, the experience is usually much different than expected—especially if the loved one is your spouse.

Emotions

A lottery winner's emotions are mainly positive. However, a person who receives a large inheritance experiences an intense, bittersweet gamut of emotions: grief, sadness, exhaustion, fear, guilt, denial, anger, loneliness, confusion. Often people feel guilty for benefiting from the death of their loved one. Selling inherited investments can feel like a betrayal, even when those investments made sense for your loved one but do not make sense for your situation. All these emotions are perfectly normal.

Pressures

When you receive a large inheritance, you will often feel pressure to make significant long-term decisions at exactly the time you are least emotionally ready to make them: in the depths of a painful grieving process. But everything does not need to be done at once; only a few things need immediate attention. Most decisions can and should wait until your emotions have stabilized and you can think more clearly, especially significant decisions. It might take a few months or even more than a year. Until that point, do not make impulsive decisions or allow anyone to pressure you into making decisions.

Most importantly, do not make any gifts to family members, friends, or charities until you meet with your Wealth Manager, update your financial plan, and verify that those gifts will not damage your long-term financial security.

Decisions

People leave money because they want to improve the lives of their loved ones. This presents the inheritor with a unique opportunity to create a new life, develop new goals, visualize a new future, and plan for a new 'normal.' But unique opportunities can also be scary. People are often afraid of making decisions for fear of making bad ones, so they procrastinate. They can feel paralyzed from trying to figure out what the person who gave them the money might have wanted them to do with it. They may also be afraid of offending other people, so they do what other people want… and hurt themselves in the process.

Good financial planning is important when receiving a large amount of money, and wealth due to an inheritance presents unique challenges that require specialized help. For example, there are special tax rules that apply to inherited assets, and failing to understand those rules could lead to an unexpected tax bill. The Wealth Managers at Pinnacle Advisory Group have years of experience in helping our clients through difficult situations like this. Should you have any questions, or know of someone who might benefit from Pinnacle Advisory Group's expertise in this area, please let your Wealth Manager know.

Stephen Wright, CFP® is a Wealth Manager at Pinnacle Advisory Group.

Email: swright@pinnacleadvisory.com
Profile: pinnacleadvisory.com/swright/

MARKET REVIEW

Rick Vollaro
Chief Investment Officer

Carl Noble
Senior Analyst

Sean Dillon
Technical Analyst

Sauro Locatelli
Quantitative Analyst

The first quarter picked up where the fourth quarter left off, with equity markets celebrating the surprise of a new U.S. administration that global investors perceived to be more business friendly than the previous one. During the quarter, stocks rallied around the world and along with a pullback in the U.S. dollar and signs that global growth was slowly reviving, many international stocks enjoyed gains in excess of the U.S. While the stock market roared, the bond and commodity markets were less enthused, as bonds bounced and commodities gave back some of the gains that accrued towards the end of the year. By the end of the quarter the equity markets were mostly calm, but with tensions that were beginning to build and signal that some of the election-driven luster was beginning to wear off.

Has the Hangover Arrived?

Last quarter we surmised that the results of the U.S. election provided a roadmap to help guide investments over the next few years, mostly based on potential future policy changes.The roadmap was based on three major forces that we believe will drive markets, sectors, and asset classes over a multi-year period: the likelihood for some degree of fiscal stimulus, deregulation, and protectionism. This thesis was constructed around the idea that these forces should act as a positive catalyst, but also included the caution that recent market euphoria might bring about a market hangover in 2017, as lofty expectations were primed to produce short-term disappointment as it became clearer that making major policy changes in the current political climate would be more challenging than advertised.

Admittedly, recent market strength held in a bit longer than anticipated during much of the first quarter, but recent activity suggests that a market hangover may now be unfolding. While the major U.S. indices have held firm, a variety of other markets have not been in sync with equities. Bond prices have drifted higher, defensive stocks have been outperforming their cyclical counterparts, and safe havens like gold and the Japanese yen have shown strength over the last few months. None of these market movements ensure that stocks will decline more meaningfully, but enough evidence is accumulating to suggest that an overdue correction may be approaching.

Game Plan for a Market Hangover

Market corrections never feel good as they are occurring, but they shouldn't be viewed as a calamitous event, either. The truth is that after more than 200 days without even a 5% correction in U.S. stocks, the major indices might be ripe for a healthy cleansing of some of the momentum buyers who jumped on board over the last few quarters. It's impossible to know how far a correction might carry once it starts, but considering that most of the broader evidence we follow is not signaling that a bear market is on the horizon, our current intent is to use any corrective activity to further align portfolio positioning with the areas of the market that should benefit from the catalysts previously mentioned.

Candidates to Build Into

The forces of fiscal stimulus, deregulation, and protectionism are leading the way in pointing to those areas that appear attractive to build into. Some of those areas are:

U.S. Financials, Regional Banks: The banking sector has enjoyed a marvelous run that started last summer, and the combination of tax cuts, deregulation, and protectionism should provide good catalysts to unlock the value that has built in a sector that may be finally awaking from a slumber it's been in since the Great Recession. The entire sector clearly became overbought in the wake of initial election euphoria and a consolidation is now in progress, which should provide opportunities to add to positions there. Within Financials, smaller regional banks may benefit disproportionately from deregulation and tax cuts.

Homebuilders: Homebuilders represent another area that seems poised to outperform when the risk aversion phase runs its course. Deregulation could bode well for these companies, and fundamentals for the sector appear solid while relative value is attractive versus the overall Consumer Discretionary sector.

Smaller Capitalization Stocks: Smaller companies may disproportionately benefit from lower corporate tax rates in the years to come. These stocks have been reversing sharp election gains recently and will likely represent a good buying opportunity coming out of the correction. There are several ways to own smaller companies, both through sector and industry exposure as well as broader small or mid-cap indexes. It's important to tread carefully with small caps, because they are typical ly more volatile and might fall quite a bit further than their larger cap counterparts in a decline.

Candidates to Reduce

Treasury Bonds: Government bonds sold off heavily following the election due to fears that faster growth and inflation would cause interest rates to rise. Like other post-election moves, bonds fell too far too fast, and they have recently been rallying back since March. We have already begun reducing some of our treasury holdings as bond prices have appreciated, and this will likely continue on further price strength.

Defensive/Income-Oriented stocks: Certain equity sectors are more defensive in nature and tend to demonstrate relative outperformance to the overall market when it's falling. One example is Consumer Staples, which has a higher yield than the overall market and is known to benefit from the safety trade when investors are running for cover. Real estate is another high yield market that tends to do well as bonds rally, and poorly when bonds sell off. We are currently overweight both sectors and if they outperform on general market weakness (as they typically do), it may provide a great opportunity to sell into relative performance strength and reposition the proceeds into higher growth sectors that will be cheaper after a sell-off.

What Could Change Our View?

We realize that corrections are always scary events, and it's a fairly safe bet that if the market correction intensifies there will be headline stories that tend to fray nerves and encourage investors to question whether the current market cycle is ending. Our job is to look beyond the noise of the day, and to make sure nothing major is cracking in the evidence. While our current plan is to take advantage of a potential buying opportunity, we must also be on guard for what could make the pullback worse than expected.

Below are some of the things that would likely be material enough to change our view:

The Business Cycle: One potential game changer in the evidence is the prospect of an economic contraction. Recessions are typically associated with the most meaningful drawdowns in the market, so if the outlook suddenly deteriorated and it became apparent that one was looming, it would lead to a defensive repositioning in portfolios. There are some risks to the current cycle given that it is late in age, inflation has picked up, and the lagged effects of higher interest rates and a rebound in oil from last year may still be filtering through the system. In addition, first quarter GDP has consistently been weak over the last few years due to ongoing seasonal anomalies in that data. On the bright side, global leading indicators are still rising and imply that any weakness is more likely due to short-term fluctuations within the ongoing cycle, rather than a major change from expansion towards recession. We're not anticipating a recession anytime soon, but if that were to change, it would have clear implications for our overall view and positioning.

Technical Conditions: The technical environment will always show some minor cracks as markets consolidate prior gains, but most of the current softening implies a correction within a healthy ongoing primary uptrend. Complacent sentiment is starting to reverse and some shorter-term trends are breaking down, but most markets are still well above their long-term averages. As long as the primary trend remains intact, the pullback should be viewed as an opportunity to exploit. However, if the primary trend began to break down, that would also be a negative development.

Monetary Cycle: Extremely accommodative monetary policy has been a major driver of asset market inflation and has provided plenty of support to the global economy that has mostly sputtered post the Great Recession. If global central banks decide to collectively remove the punch bowl, this could weigh heavily on our market outlook. In the U.S., the fact that the Federal Reserve has raised interest rates three times does present a risk. However, the Fed has been insistent that additional rate hikes will occur at a very gradual pace, and if they stick to this approach, the economy can likely withstand rates that are slowly ris ing from very low levels. However, if they decide to increase the pace of rate hikes, then the risk of a monetary mistake would substantially increase.

Outside of the U.S., most of the other major global central banks are still providing plenty of monetary stimulus, which is helping to keep global liquidity flush. One notable exception is China, where authorities have recently been tightening financial conditions. Overall, our assessment of global monetary policy is that it is still supportive, but a bit less so than previously. If other central banks decide to follow the Fed's lead and begin to reign in the accommodation, this would also elevate the monetary risk level.

Concluding Thoughts

Overall, the first quarter was a positive one for investors. However, as the second quarter gets underway, markets seem to be entering an overdue post-election hangover phase. For now, the overall weight of the evidence suggests the backdrop remains constructive, and thus any pullback should provide an opportunity to adjust portfolios to take advantage of anticipated policy changes that have so far been delayed, but are still likely to fall into place eventually. Of course, there are also risks to the outlook, so we'll continue to look for signs of more deterioration that could create an unexpected detour on our roadmap.

Pinnacle's Three Dynamic Strategies

PRIME SERIES

Pinnacle's Prime Series offers investors an array of actively managed portfolios that are globally diversified and designed to provide market-like returns with less risk. Our Prime Series is comprised of five distinct options that include conservative portfolios that prioritize stability and income, moderate portfolios seeking a balance of stability and growth, and growth portfolios designed for appreciation and growth.

The Prime Series portfolios are managed by our experienced investment team to pursue value anywhere in the world—in any asset class—and evaluate opportunities using both qualitative judgment and quantitative tools. Our over-arching strategy is based on long-term economic themes where we build our portfolios in line with the strengths and weaknesses in the market. Our investment team evaluates the qualitative and quantitative data and adjusts our portfolios accordingly. These portfolios have been managed by our investment team since 2002 through all market cycles and have a GIPS verified track-record. The Prime Series should appeal to clients who want an active, tactical management strategy that blends the best of qualitative judgment and quantitative tools.

MARKET SERIES

Pinnacle's Market Series provides an investor with a globally diversified portfolio that is primarily managed with strategic asset allocation and complimented with tactical management in a smaller portion of the portfolio. The strategic holdings are low cost and efficient, and the satellite portion provides a way for the portfolio to increase return potential when markets are cheap, and dampen risk when markets are expensive or volatility increases.

The series offers three portfolios to investors: Conservative, Moderate, and Appreciation. The strategic allocation comprises 70% of the portfolio and is diversified across twelve asset classes that are systematically rebalanced to retain targeted allocations. The tactical allocation comprises 30% of the portfolio and consists of U.S. stocks and fixed income securities. The tactical satellite includes the flexibility to move between stocks, bonds, or cash, and rotates between them depending on market valuations and technical conditions. By combining both strategic and tactical strategies, the Market Series offers the benefits of both passive and active management.

QUANTITATIVE SERIES

The Pinnacle Quantitative Portfolio provides investors with an actively managed portfolio that uses a 'Core and Satellite' approach to combine tactical asset management and quantitative analysis. The Core strategy invests approximately 60% of the portfolio in our Dynamic Moderate Growth model, which strikes a balanced approach between capital appreciation and income. The Satellite strategy comprises about 40% of the portfolio and uses sophisticated quantitative analysis that leverages value and momentum data as it rotates equity sectors, bonds, and cash to balance growth and risk.

Our proprietary quantitative model evaluates current market conditions based on a set of valuation and technical indicators, and rotates the allocation between ten U.S. equity sectors and bonds or cash. This portfolio will appeal to clients who are looking for a heavily rules-based approach to investing and are willing to make aggressive allocation changes depending on market conditions.

PINNACLE
Advisory Group, Inc.

HEADQUARTERS
6345 Woodside Court
Suite 100
Columbia, MD 21046
410.995.6630
301.621.8007
info@pinnacleadvisory.com

FLORIDA BRANCHES
5150 North Tamiami Trail
Suite 500
Naples, FL 34103
239.692.8888

7355 SW 87th Avenue
Suite 300
Miami, FL 33173
305.274.1600

WEBSITE
pinnacleadvisory.com

LINKEDIN
linkedin.com/company/pinnacle-advisory-group