KACHKOVSKY & FISHER

REGISTERED INVESTMENT ADVISOR

Summer 2017

Less than two months into their remarkable expedition to the Pacific Northwest, Meriwether Lewis and William Clark awoke on the Kansas side of the Missouri River and realized it was "independence" day, a time to celebrate the nation's 28th birthday. During the day the party came across two unnamed streams and named them "4th of July 1804 Creek" and "Creek Independence." The names didn't stick. Historians say they were likely the two streams known today as White Clay Creek and Whiskey Creek that empty into the Missouri River near Atchison, Kansas. Except for Joseph Fields, whose snake-bitten foot was treated by Lewis using either slippery elm or Peruvian bark, everyone in the Corps of Discovery seems to have had a fine day. You may have planned a less adventurous celebration of the Fourth, a day without naming bodies of water – perhaps simply a gathering of family and friends for a backyard barbecue, or a quiet evening watching fireworks on TV. No matter how you observed the Fourth, we hope you had a pleasant and entertaining holiday. Let's review the numbers.

	(As of 6/30/17)
Dow Jones Industrials	+ 8.03 %
S&P 500 Index	+ 8.24 %
NASDAQ Composite	+ 14.07 %
MSCI EAFE Index	+ 14.23 %
Major Bond Indexes	(As of 6/30/17)
Lipper U.S. Government	+ 1.59 %
Lipper Short-term Investment Grade	+ 1.21 %
Lipper Corporate A-Rated	+ 3.88 %
Major Mutual Funds Indexes	(As of 6/30/17)
Lipper Large-Cap Core	+ 8.52 %
Lipper Mid-Cap Core Index	+ 5.75 %
Lipper Small-Cap Core Index	+ 3.45 %
Lipper Emerging Markets Index	+ 17.41%

Source: The Wall Street Journal and Barron's

*Inclusion of these unmanaged indexes is for illustrative purposes only. Keep in mind that individuals cannot invest directly in any index and index performance does not include transaction costs or other fees, which will affect actual investment performance. Individual investor's results will vary. Past performance does not guarantee future results.

FINANCIAL AND INVESTMENT PLANNING

"The obscure we see eventually. The completely apparent takes a little longer."
-- Edward R. Morrow

Before we get into our usual economic commentary, we would like to invite you to visit our new website – www.kachkovskyandfisher.com. We welcome your feedback.

If 2016 felt like a year flown by, 2017 is speeding by us even faster. Half the year is in the rearview mirror and what six months it has been. The new president and his administration, in spite and despite praise and ridicule, are trying to move forward with their agenda outlined in the 2016 presidential campaign. Healthcare reform is the "regulation hurdle du jour". Senate Majority Leader Mitch McConnell failed to win over the Republican holdouts with a revised bill to the one passed in the House. In a timely conversation, Andrew Ross Sorkin, financial columnist for the New York Times, had an interview with the "Oracle of Omaha" Warren Buffet, in which they addressed the bigger issue in healthcare - total cost of our system vs. how we pay for it.

Mr. Buffet said, "A specter much more sinister than corporate taxes is looming over American businesses: health care costs. And chief executives who have been maniacally focused on seeking relief from their tax bills would be smart to shift their attention to these costs, which are swelling and swallowing their profits." Buffett argues that, "these chief executives are missing the bigger issue — the one that should be their Holy Grail. As a percentage of our gross domestic product, the cost of maintaining our American health care system — hospitals, HMOs, doctor visits, prescription drugs, medical devices, insurance companies, Medicare, Medicaid — is rising at an alarming rate. And Corporate America pays a big (and growing) chunk of the bill. We're not talking about the cost of health insurance, which is a fraction of the overall cost."

The Oracle continued, "Our global competitiveness had fallen largely because our businesses were paying far more for health care — a tax by another name — than those in other countries. If you go back to 1960 or thereabouts, corporate taxes were about 4 percent of GDP. I mean, they bounced around some. And now, they're about 2 percent of GDP. By contrast, while tax rates have fallen as a share of gross domestic product, health care costs have ballooned. About 50 years ago health care was 5 percent of GDP, and now it's about 17 percent. When American business talks about strangling our competitiveness, or that sort of thing, they're talking about something that as a percentage of GDP has gone down. While medical costs, which are borne to a great extent by business, have swelled". Comparatively, that figure in Germany is only 11.3 percent. Japan's is 10.2 percent. Britain's health care costs are 9.1 percent of GDP. And China's is only at 5.5 percent. That puts America at a substantial disadvantage far beyond the tax discrepancy. And it impairs U.S. enterprises, since they bear such a big share of those costs. Corporations spend $12,591 on average for coverage of a family of four, up 54 percent since 2005, according to a study by the Kaiser Family Foundation. "Medical costs are the tapeworm of American economic competitiveness," Mr. Buffett said. Andrew Ross Sorkin remarked, "His is one of the most cogent arguments for renewing attention on the underlying costs of our health care system — an issue far beyond the debate around the Affordable Care Act and what it is going to look like if it is repealed and replaced."

On the banking "de-regulatory" front, on June 8th the House of Representatives passed the Financial CHOICE Act, a move to roll back the banking reforms and consumer protections in the landmark Dodd-Frank 2010 federal law, including the toughest Wall Street regulations from the financial crisis. There is moderate opposition from both sides of the aisle in the Senate to this as well, but less grumbling in the media and in public, which might lead us to believe some sort of reform is expected. Liaquat Ahamed, an Indian American Pulitzer Prize-winning author best known for his recent book "Lords of Finance: The Bankers Who Broke the World" and an honorary member of the Brookings institution, eloquently explained that, "You get these generational cycles, where you get a crisis, and then it takes about a generation for people to get over the crisis before you get a new one. And, a typical response after a crisis is to regulate. And, often that regulation is like closing the barn door after the horse has bolted. So, you are responding to the past". When the crash of 2007-2009 materialized, in the immediate aftermath lawmakers were under the gun to make sweeping changes. It could be argued that they got some things right and some wrong. It's been reasoned that regulation (i.e. Dodd-Frank, Sarbanes-Oxley, DOL Fiduciary Rule) has been terrible for big business and even worse for small business, and the recent de-regulation push from the right to unburden the economy from said regulation would free the economic engine for growth. But, by unburdening the economy, do you allow it to repeat the blunders of yesteryear?

"Internationally, the United Kingdom's general election failed to provide the incumbent Conservative party with the mandate it sought, adding uncertainty to the UK's withdrawal from the European Union in the early stages of negotiations. The now weakened position of the Conservative party in the United Kingdom likely reduced any "hard Brexit" negotiating power the UK might have had, which kept the pound from falling", Raymond James European

Strategist Chris Bailey reported. In France, the election of a pro-Europe president sparked hope of Parliament-led reform.
China's economic development over the last generation has been staggering. It has steadily increased its share of global economic interaction over the last 30 years. The World Bank and International Monetary Fund now show China's share of the global economy at 17.2% (in real GDP terms), exceeding the United States' equivalent statistic of 15.7%. Such is the benefit of a population of well over a billion people and a progressive series of economic reforms over the last generation that have seen a largely agrarian economy become the world's manufacturing powerhouse. In regard to the latter, the economy has been augmented by policy initiatives designed to expand consumption and the service sector.

Turning to the markets, equities around the world continued to climb through the end of June, supported by increased earnings. Domestic, international and emerging equity markets posted positive returns in the second quarter of 2017. U.S. investors owning international stocks also benefited from a declining dollar. Domestic equity markets followed a strong first quarter with more positive returns in the second quarter, marking the seventh consecutive quarter of positive returns for the major indices. Two major U.S. stock indices closed at new highs in June, continuing the new-high trend that began after the presidential election in November 2016. On June 2, the NASDAQ topped 6,300. And on June 19, the Dow Jones Industrial Average closed at 21,528.99.

"The Federal Open Market Committee raised its short-term interest rate 0.25% in June, as it did in March, raising the target range to 1.0% - 1.25%. The yield curve has flattened, but is a long way from inversion", Raymond James Senior Fixed Income Strategist Doug Drabik remarked. Fed officials continue to expect GDP growth of about 2.2% for 2017, but expectations for inflation and the unemployment rate were revised lower. Fed officials downplayed the recent dip in inflation figures, expecting the underlying trend to move toward the 2% goal in the quarters ahead. "According to the U.S. Bureau of Labor Statistics, the unemployment rate fell to 4.3% in May, below what the Fed considers to be a long-term equilibrium rate. Wage inflation has been moderate, but officials fear a sharp pickup in inflation if the unemployment rate were to decline further", according to Raymond James Chief Economist Scott Brown. He added, "Little progress has been made on infrastructure spending plans and tax reform will be difficult to achieve, but economic fundamentals appear to remain sound. Historically, the strength of the U.S. economy has been its ability to evolve and adapt to changing circumstances. One hundred and fifty years ago, most of the economy was in agriculture. Sixty years ago, one out of every three jobs was in manufacturing. The future will look different to us in ways we cannot see now. However, it seems clear that the U.S. will need a more adaptive, better-educated workforce."

A low growth rate and lack of clear imbalances indicate the recovery still has fuel in the tank. The current growth cycle has been around for a long time, but history has shown that expansions don't die of old age. Recessions generally are the result of imbalances in the economy, such as high inflation, excess inventory or a housing bubble. Given the relatively modest pace of growth thus far in the cycle, it could still take some time for such imbalances to build up. When looking at historical economic growth cycles since World War II, the average cumulative GDP growth is 24% and the average length of the recovery is 64 months. Our current recovery is at 95 months, but the cumulative GDP growth is only at 17%. The 1990s expansion saw cumulative GDP reach over 40% and the 1960s growth cycle saw an increase north of 50% (Sources: National Bureau of Economic Research, U.S. Bureau of Economic Analysis. Expansion duration uses monthly data through 5/31/17, as reported by NBER. Cumulative GDP Growth uses quarterly data through 3/31/17).

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PERSONAL

The second quarter was not short on activity for the Kachkovskys, who, to the delight of family, made the much anticipated move to San Diego. Au Revoir to the five hour commute every other weekend from San Diego to Phoenix and back - Emily's mom and aunt are overjoyed to have the grandkids a mere twenty minutes away. Transition for the children was remarkably seamless. Leaving the Russian pre-school behind in Phoenix, Ava finished up the year in TK (transitional kindergarten). Created by the 2010 California law called the Kindergarten Readiness Act**,** TK is an educational opportunity that offers children with birthdays between September and December a developmentally appropriate curriculum readying them for kindergarten. Elle also adjusted quickly to her new surroundings and is getting well-cared for by an attentive Russian speaking nanny during the day.

As the saying goes, if you don't use it, you lose it. Just a couple of months in San Diego and Ava is primarily speaking in English, gradually gravitating away from her second tongue. Thus, Garry has been working hard on keeping her engaged in the Russian language, speaking exclusively to her in the tongue-twisting vernacular and taking her to Russian immersion classes at the local library. Elle effortlessly flows between English and Russian. She is quite the character, often entertaining her parents and older sister with dance routines and general tomfoolery. "You're my best friend ever" is a recent saying, which we can't get enough of. Imitating and following big sister's lead has sparked an interest in bike riding. Elle is trying her best with the balance bike, which proved to be invaluable for Ava's riding progression. In other news, the Kachkovsky family has a new addition - a blue and red betta fish, appropriately named Goldie, since that was the name Ava settled on before walking into the fish store. This betta may be the best fed fish in San Diego. Both girls insist that Goldie is hungry and must be fed every couple of hours. Garry's mom came to out for a visit from Chicago and loved every minute of the never ending "circus" of raising kids.

A day after Macy celebrated her 5th trip around the sun, Angie attached race bibs to her daughters' shirts. Kora (6) and Macy then ran around the living room saying they were as fast as a cheetah! Soon after, the family listened to The Star Spangled Banner at the start line for the 5k Freedom Run in Evergreen. Kora's torrent pace for the first mile soon turned into a comfortable walk. Macy must have used up all her speed in the living room, as she paced herself from start to finish without running. The girls loved listening to the bands along the course and the treats after the finish line. The playful sisters can't wait for next year's race!

Once their feet hit the sand, Kora and Macy bolted into a sandbox of epic proportions. The tallest dunes in North America are the main attraction at the Great Sand Dunes National Park. The tallest mountain of sand towers over 750 feet. The park is nestled at the base of 13,000 and 14,000 foot peaks, leading to a diverse landscape of aspen forests, alpine lakes and tundra. The girls soon realized running up steep drifts of sand was exhausting. Joining the Fisher girls were there two cousins, Ella and Ali. The four energetic girls tore through the dunes at a pace not advised for adults. After a few hours, everyone was ready to head back to the campsite. The parents have been removing sand ever since. Back in Evergreen, the girls continue to ride their bikes almost daily. Kora has really improved her mountain biking skills on the trails nearby. Learning when to shift gears has allowed her to ride more comfortably on small climbs and windy days.

"Life isn't about finding yourself, it's about creating yourself."
- George Bernard Shaw

Thank you for your trust, confidence and friendship.

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