

• Firm Update by Jim Steffen, CFP®, President



The New Year is a time to look back and reflect as well as a time of resolutions and predictions. 2016 was clearly a year of the unpredictable and unimaginable... and the year of the upset. As you would expect in an election year, the headlines were dominated by politics as we watched the field of seventeen Republican candidates for president dwindle to Donald Trump. Trump going on to win the White House may go down as the biggest political upset in history. It is hard to disagree with TIME Magazine that Donald Trump had

the biggest influence on the events of 2016, for better or worse. The "Divided" States of America seems to be an accurate description of the electorate in our country today.

Last year also presented unimaginable violence across the world, our country and even here at home. Minnesota made the news after a stabbing at a St. Cloud Mall was linked to terrorism. The shooting death of Philando Castile by a St. Paul police officer sparked protests in the streets. At least 64 law enforcement officers across the country were shot and killed last year, including five during a protest in Dallas. Our nation's worst terrorist attack since 9/11 and deadliest mass shooting occurred at a nightclub in Orlando. Horrific attacks using bombs and buses continue across Europe. My prayer is that we return to some sense of calm this year.

Last year's stock market rode a very bumpy and unpredictable ride to record highs. The year began with a panic. Investors feared a slowdown in China after years of rapid growth. Another concern was the December 2015 Federal Reserve rate increase and additional expected boosts would push the U.S. into recession. The Dow Jones Industrial Average (Dow) began the year by losing over 1,000 points in the first five days; the worst ever five day start in history. By mid-February the market was down more than 10% and strategists were already revising downward their year-end estimates. However, by mid-march stocks had erased the year's losses and were back in positive territory.

Another political surprise of 2016 was Britain's referendum on June 23rd to leave the European Union. Financial markets reacted violently around the world with government bonds rallying as investors sought safety and stock prices plunged. In the two days following the shocking vote, the S&P fell over 5%, the sharpest sell-off of the year. "Brexit" became a household word and Collin's dictionary named it the word of the year. But the drop in stocks was short-lived as markets bounced back within days to reach record highs in July.

On election night, as the results started indicating an increasing likelihood of a Trump victory, the markets went haywire. Near midnight, the futures for the Dow were indicating the market would open down 900 points. However, a sense of relative calm returned by morning as investors reversed course and the Dow finished the day up 257 points. The "Trump rally" continued to pick up steam as the Dow ended the year up over 13%.

The world of sports had its share of rallies and upsets as well. The Cleveland Cavaliers came back from a 3-1 deficit to beat the Golden State Warriors in game 7 of the NBA finals. And perhaps the greatest upset of the year was the Chicago Cubs rallying to beat the Cleveland Indians in the 10th inning of game 7 to win the World Series after a 108 year drought!

We lost several icons in 2016: Nancy Reagan, Muhammad Ali, Arnold Palmer, Prince and so many others. From politics to markets and from sports to life, 2016 reminds us that the only thing predictable about life is its unpredictability. And as JFK said, "the only unchangeable certainty in life is that nothing is unchangeable or certain." I wish you a happy, healthy and prosperous New Year!

All performance referenced is historical and is no guarantee of future results. All indices are unmanaged and may not be invested into directly.

Disclosure: Source: Yahoo Finance, 12/31/2016

• Commentary by Ted Erhart, CFP®, Chief Investment Officer



Jim and I get asked about investing in start-up companies on a somewhat regular basis. Often times the companies are working to develop a new drug or medical device. I tell people that these businesses should be looked at more as a lottery ticket than an investment. Many are not profitable and some don't even have sales because they're just in a research phase. What virtually all of these companies have, however, is a good sounding story.

For some reason, people are easily persuaded by stories, even when they seem too good to be true. Getting fooled isn't exclusive to unsophisticated people. Even the most successful and prominent among us are susceptible to being deceived.

Perhaps the best example in recent years is the Silicon Valley blood testing company, Theranos. The company claimed to have developed technology enabling it to screen for hundreds of medical ailments from only a few drops of blood. At one point the start-up was valued at over \$9 billion.

The founder of the company, a now thirty something woman from California, told a good story and played the part of young technology visionary well. Her background of a college dropout with a vision to reinvent an entire industry sounded reminiscent of other famous tech entrepreneurs such as Bill Gates (Microsoft) and Mark Zuckerberg (Facebook). She even wore a black turtleneck regularly drawing comparisons to the late co-founder of Apple, Steve Jobs.

But in October of 2015, the Wall Street Journal began a series of articles questioning the firm's claims. The articles spawned a number of investigations which ultimately exposed the fact that the company wasn't even using its own technology for many of the blood tests it offered. This further led to the company's founder being banned from operating a lab in California, the dissolution of a corporate partnership and a number of shareholder lawsuits. Today some consider the company of no value.

What amazes me most is the large list of prominent people who got caught up in the ordeal. The list includes those who either are or were at the highest levels of business and government: Richard Kovacevich (Wells Fargo), Riley Bechtel (Bechtel Group), Larry Ellison (Oracle), Rupert Murdoch (News Corp), James Mattis (retired general and Donald Trump's pick for Secretary of Defense), George Schultz (former Secretary of State), Henry Kissinger (former Secretary of State), William Perry (former Secretary of Defense) and David Boies (famed litigator and founder of law firm Boies, Shiller & Flexner).

There are many lessons to be learned from the story of Theranos. Once again, it shows that even the most successful people in a society are vulnerable to being duped. It also shows the power of endorsements.

The company's success in attracting high level business and political figures to its board of directors and as investors created a sense that the firm was the real deal. It is very reminiscent of the Bernie Madoff fraud. I even read that one investor in the company commented, "You would think with all these A-listers that someone would have done their due diligence." Perhaps the most important lesson of all is if it sounds too good to be true, it probably is.

John Carreyrou. "How Startup Theranos Has Struggled With Its Blood-Test Technology." Wall Street Journal, October 16, 2015

Upcoming Event...

State of the Markets

Tuesday, February 7th at 7:30am

at Fountains of Ramsey

Contact Krisandra at 763.213.1000 to reserve your spot

Investing involves risk including loss of principal.



Jim & Lisa Steffen

Our summer vacation included a road trip to Mackinac Island where we watched Lisa's brother Jon captain his first Chicago to Mac Sailboat Race. With two teenagers at home, our lives continue to move at a fast past...cars, dating, high school sports, college exploration, and never seeing your kids. I guess this prepares you for the days to come. Lauren is now a junior and we feel the minutes ticking away. Lauren's Legacy soccer team advanced to the section semifinal game but fell short to the #1 seed. Now her basketball season is in full swing. Tommy, now in the 8th grade, has enjoyed endless rounds of golf throughout the summer and fall and is proud to have made the 9th grade basketball C-Team! Lisa has a new found freedom with Lauren having her driver's license but with that comes a whole lot of new anxiety! She continues to help others who are struggling with their health with her Passionate Wellness Explorers group. The beautiful fall meant more time on the River for Jim. He and Tommy also enjoyed their pheasant hunting trip to South Dakota. Life is about making memories and we certainly try to make as many as we can!



Nikki Cellette

Happy New Year 2017! As I plan for this upcoming year I realize life certainly does pass by in a blink of an eye. George and I will be celebrating our 20th wedding anniversary, Zach will turn 18 this year and will graduate from High School, and my 10th anniversary at Trott Brook Financial is this fall. Thinking of all the upcoming momentous occasions definitely brings many mixed emotions of happiness and sadness. It certainly makes me stop to think that we must enjoy every moment in life. We are in the midst of planning our next family vacation to do just that! We will be staying in Miami for a few days followed by a cruise to the Bahamas and Mexico. A new adventure awaits us. We are fortunate to be traveling with friends as we celebrate Zach and their son Kevin's senior year. I cannot tell you what a relief it is that seniors don't travel on Spring Break without their parents anymore. Brooklyn and Zach of course are still keeping us beyond busy with their hockey schedules. Brooklyn has very much taken on hockey as her #1 sport and is in and out of the penalty box!



Ted Erhart

The second half of 2016 was productive and marked a number of memorable events. I spent much of my time this summer working on home projects. The projects included building a large outdoor kennel for my dog, Sadie, and a bird pen to house pheasants and or chukar. Speaking of my dog Sadie, she spent much of the summer and first part of fall getting trained at Dokken's Oak Ridge Kennels in Northfield. I had a great experience there and would highly recommend them. By the time Sadie came home in October, she was a lean, mean hunting machine. Pheasant hunting has been good but the duck hunting was a bust. I haven't mentioned my wife Kelly to this point because she wasn't able to do much this summer being in the second half of pregnancy! She had to sacrifice most of her horse riding season but it was all worth it as we welcomed our first child into the world in late October. Avery Joyce Erhart entered the world at 8 lbs., 15 oz. I feel so lucky every day that the pregnancy went well and both Kelly and Avery are healthy as can be. As of late we've been adjusting to our new schedule. Looking forward to a baby that sleeps through the night!



Krisandra French

Well, we made it through another year. Christmas was a true blessing as we celebrated with our children and grandson Jax. In March we will be blessed with another grandchild. My daughter is expecting a little girl. So Jax will be a big brother and we are all very excited and looking forward to expanding our family!! Life continues to keep us busy and moves more quickly than we want. As we look back on 2016, we find that we have been truly blessed and appreciate everything that we have. Some are a little less fortunate than others and it's always important to reflect on what you have and what you can give to others. Always give hugs and say I love you to your family and friends as you never know when they can be taken away from you. Cherish every moment and be thankful and grateful for the time you get with loved ones. Impact someone in 2017 and you will be amazed at how good you feel. I wish each and every one of you a blessed and wonderful 2017.

A more balanced approach