GAMBLE JONES
CELEBRATING 60 YEARS

January 2017

Instead of experiencing "the calm before the storm" this year, the markets experienced "the storm before the calm." Right out of the gate, the U.S. stock market dropped nearly 9% in the first few trading days of the year. It then continued its downward move until February 11, when it bottomed out. On this day oil prices hit $26.05 – their lowest in 13 years, junk bond yields skyrocketed as fearful investors sold their securities, and U.S. government bond yields hit 1.66% as investors piled into these "safe-haven" assets. Things then calmed down a bit until the end of June when an unexpected approval of Britain's exit from the EU went through. Following this "Brexit" vote, U.S. government bond yields again plummeted, with the 10-year Treasury rate eventually hitting 1.36% in early July, the lowest level ever recorded. The U.S. stock market dropped significantly as well, and the British pound fell to its lowest level in decades.

Since these volatile days following "Brexit," the "storm" seemed to be over. With Donald Trump being elected November 8th and all the optimism associated with the expectation for an expansive fiscal policy coupled with less regulation, interest rates and stock markets have increased significantly. In the end of November, OPEC (The Organization of the Petroleum Exporting Countries) made a groundbreaking agreement to cut oil production for the first time in eight years. A few days later, in early December, Russia and other large producers agreed to follow suit and cut their production as well. With these cuts oil prices rose as intended, touching prices of over $54 a barrel – more than double the prices seen in January. Following the strength in capital markets and a strong economic outlook, the Federal Reserve finally raised short-term interest rates for the first time during the year and only the second time since the recession began in 2007.

Since the election, the S&P 500 has continued to hit new highs and the Dow Jones Industrial Average has come within just a few points from hitting 20,000 points, a milestone value never reached before. At the same time interest rates have climbed considerably. The 10-year Treasury rate went from 1.85% the day before the election to a 26-month high of 2.6% in mid-December. With Trump's plans to likely cut taxes while also building the U.S. through roads, bridges, etc., the bond market deemed it highly probable that the funding would come from increased debt issuance. This increase in money supply would likely lead to inflation, which is one of the main drivers of longer-term yields, so it is logical that both inflation expectations and the 10-year Treasury yield have increased together. Although the U.S. stock indices have increased a large amount since the election, not all stocks have risen. With interest rates improving, rate-sensitive stocks such as defensive dividend-paying stocks and REITs did not receive the same positive enthusiasm as others. Moreover, many technology stocks with global exposure did not rise as much as others either, as Trump's trade policies seemed potentially detrimental to some of these companies. The stocks that performed the strongest were those in the Financials sector that do best when interest rates increase and those in the Industrials sector and other cyclical sectors. Industrial companies would potentially benefit as they take on new business in areas such as building bridges.

WWW.GAMBLEJONES.COM
301 EAST COLORADO BOULEVARD ▪ SUITE 802 ▪ PASADENA, CALIFORNIA 91101 ▪ TEL (626) 795-7583 ▪ FAX (626) 795-7689

Since our inception in 1956, Gamble Jones has prided itself on its conservative investment philosophy. Although some of the aforementioned more volatile stocks may have increased more than your holdings in the short-term, we want to remind our clients that owning more conservative stocks of companies that grow their profits and dividends, even during tough times, has been a philosophy that continues to work successfully. The stocks we select have more downside protection, often due to strong economic moats and/or recurring revenues and cash flows. These stocks can stand the test of time and stay strong during difficult times. Ultimately, it is still unclear what exactly Trump's plans are, when they will take effect, how exactly they will affect companies here and abroad, how they will impact other countries, and what the other ripple effects may be. Rather than operating under a "herd mentality" and following others into the more volatile stocks that have been doing well as of late, we will continue to hand-pick individual companies that have a strong likelihood of staying healthy in the face of difficult times while also growing earnings and cash flow. We feel fairly optimistic about what 2017 holds for the U.S. economy but are keenly aware that the U.S. equity market as a whole is fully valued. Our investment process, therefore, is especially valuable at times like these, as we can select individual companies with attractive valuations rather than buying an entire market index that may not be trading at what we deem to be an attractive valuation. We look forward to continuing to manage your hard-earned assets with prudence and care.

From all of us at Gamble Jones, we wish you a Happy New Year!

Sincerely,

Alison J. Gamble, President

PS The Securities and Exchange Commission requires that we annually offer to our clients our Form ADV, Part II. We would also like to offer a copy of our Proxy Policy. Please contact us should you desire a copy of either document.

PPS If you are in a broker-directed relationship, the SEC requires us to advise you that other brokerage firms may charge lower commissions.

PPPS Attached is a copy of our Privacy Policy.

Also, in order to comply with a section of the Investment Advisers Act of 1940, we are required to state the following: should any change occur in the future with respect to the organization of this firm, now a corporation, we shall advise all clients whom we are then serving of such change either prior to its effective date, or within a reasonable time thereafter; and no agreement with any client will ever be assigned to others without the full knowledge and consent of all parties thereto. Please be assured that the foregoing is a bureaucratic requirement. We do not anticipate nor are we contemplating the sale of Gamble Jones Investment Counsel.

PRIVACY POLICY

The respect for confidentiality by Gamble Jones Investment Counsel is stated in the Client Retention Letter Agreement. In order to further articulate our feelings on this subject, we have developed this policy to let you know how important your privacy is to us. We will do the utmost to maintain the confidentiality of the nonpublic personal information you have disclosed to us. Below we have outlined how we collect your information and how we use your information.

Gamble Jones Investment Counsel collects nonpublic personal information about you from the following sources:

•Information we receive from you on applications or other new account forms, correspondence, or conversations (such as your name, address, telephone number, social security number, assets, income and date of birth); and

•Information about your transactions with us or others (such as your account number, account balance, payment history, parties and transactions, cost basis information, and other financial information).

We do not disclose any nonpublic personal information about you. If an individual at Gamble Jones Investment Counsel acts as trustee or co-trustee on a client account, Gamble Jones is deemed to "have custody" of those assets. As such, those accounts are included in an annual surprise audit, required by the SEC. Gamble Jones must provide specific private information related to those accounts to auditors hired by Gamble Jones to fulfill the SEC's annual surprise audit requirement. The purpose of the audit is to provide additional client protection, and the private information given to the auditors is used strictly for the audit. Since we are required by the SEC to provide this information, we do not offer an "opt-out" option for our clients. However, if you would like to make changes so that we no longer have custody of any of your assets, please notify your portfolio manager. In order to conduct business in the client's best interest, we will only disclose nonpublic personal information to a nonaffiliated third party upon specific client request.

Gamble Jones additionally safeguards client information by utilizing paper shredders and burn bags to dispose of sensitive client information.

Cyber-security is of the highest priority.

If you decide to close your account(s) with us, we will adhere to the privacy policies and practices described in this notice.

Gamble Jones Investment Counsel restricts access to your personal and account information to those employees who need to know that information to properly manage your relationship with Gamble Jones Investment Counsel. We maintain physical, electronic, and procedural safeguards to protect your nonpublic personal information. One of the ways in which we protect your privacy is by requiring that our employees sign a Code of Ethics certification, which includes a confidentiality statement regarding our clients.