BIONDO

Perspectives

Q4 • 2016

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FOURTH QUARTER REVIEW

A Challenging 2016 Closes with Focus on New Political Leadership and the Federal Reserve

Happy New Year! We hope that you had a happy and healthy holiday season and we wish you all the best for 2017.

2016 was a challenging year for many investors. As the year began, markets were in the midst of a correction that deepened quickly in the first few weeks. We had many concerns coming in to 2016, as we wrote about in prior newsletters. The three big concerns were the Federal Reserve, the economy and the election. In December of 2015, the Fed raised interest rates for the first time since the great recession and was signaling more hikes in 2016 (but did not do so until December 2016).

The economy was sputtering along with meager growth in GDP for Q4 2015 and Q1 2016 (although managed to avoid recession). S&P 500 earnings growth in 2016 was projecting a forecasted decline of nearly 2%. Finally, we were in the midst of a contentious election primary which was bound to lead to the most divisive Presidential election in modern history (the outcome of which surprised most prognosticators).

> *"While healthy to review the lessons of the past and to learn from them, we do begin a new year and must have our eyes forward on the future."*

While in the moment of the above occurrences, our inclination was to invest cautiously, which we did for the majority of 2016. This meant fairly strict adherence to our sell discipline, and it caused us to trim or eliminate positions that were acting poorly and had the ability to cause longer-term damage to portfolios. It also meant carrying elevated levels of cash in portfolios throughout the year, which is not typical for us as investors.

Our overriding sense throughout the year was that 2016 had the potential to be one of those big down years and we invested in a manner that sought to limit the potential downside. The risk we took with this approach was that equity markets would be up and we might not capture all of the upside (which turned out to be the case for most of our portfolios).

In retrospect, all of our hand-wringing throughout the year turned out to be unfounded. US equity markets turned in a positive year, with the S&P 500 Index up 11.96%, the Nasdaq Composite up 8.87% and the Dow Jones Industrial Average up 16.50% and hovering near 20,000 by year-end.

Biondo Strategies

While unaudited as of this writing, our three flagship strategies in 2016 were as follows: Biondo Growth Strategy up 0.20%, Biondo Focus Strategy up 1.06% and Biondo Dividend Strategy up 7.96%, all net of fees. Exposure to health-care was the biggest drag on Growth and Focus returns, as they represent a healthy allocation in these portfolios and were the worst performing sector in 2016. Allocations to International, Fixed-Income and Alternatives were generally slight drags on overall returns in 2016. As always, we encourage you to schedule a review of your personal performance with us so we can adjust allocations as necessary for 2017 and beyond.

While healthy to review the lessons of the past and to learn from them, we do begin

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a new year and must have our eyes forward on the future. As we begin 2017, the same three topics are top of mind as we implement our investment process: the implications of new political leadership, the Fed and the economy. While many have tired of politics from the exhausting events of 2016, we must spend some time discussing what the potential economic implications are of a Trump administration, as the impact could be substantial in terms of investment outlook. The Federal Reserve's interest rate policy will certainly play a major role and, as always, the economic backdrop in which our companies operate must always be considered. To some degree all three are intertwined, but we will try to address each separately.

Trump Trade

The election of Donald Trump as President of the United States came as quite a surprise to many in 2016. From our perspective, it appeared for much of the year that markets were anticipating a Clinton victory. As such, it was our expectation that a surprise (from a market view) Trump win would lead to a Brexit-like downside move that would be sharp and short and likely an opportunity to invest in high quality companies at cheaper prices than prior to the election. Like many, we were completely wrong—US equity markets opened mildly lower the day after the election, closed that day higher and have yet to look back. From Election Day through year end, the S&P 500 advanced 4.98%, the Dow Jones Industrials gained 8.21% while the Nasdaq Composite was up 3.85%—meaning nearly half of the year's gains came in the final 6-7 weeks.

"It will be important to keep a watch on the Federal Reserve, whose decisions are primarily keyed off of inflation and employment figures."

The "Trump Trade," as it has been termed, centers on the emerging premise of broadening economic growth and higher inflation. This is to be fueled by large deficit spending on infrastructure, a program aimed at the repatriation of foreign profits, an era of deregulation and "big-league" tax cuts for both individuals and corporations. In addition, the immediate focus appears to be the "Repeal and Replace" of Obamacare.

While prior policies led to nearly a decade of secular stagnation, any hope of revitalization in economic output and corporate earnings should not be ignored. While we have our doubts about the success in getting some of this agenda through, any of it will likely bode well for US equities in the future.

Federal Reserve

As this unfolds, it will be important to keep a watch on the Federal Reserve, whose decisions are primarily keyed off of inflation and employment figures. Should some of the aforementioned policies take hold, our expectation would be for higher inflation and job growth—both of which will dictate the Fed raising interest rates. Longer-term, this may become a roadblock for equity markets as lower-risk investments become much more attractive.

However, it appears to us that we have a long road to travel before this becomes detrimental, particularly if the Fed is raising rates for the right reasons. Our expectation is for two or three rate hikes in 2017, which should bode very well for the financial sector.

If some or all of the aforementioned policies are implemented, the likely outcome would be positive for the economy. More importantly, economic acceleration will lead to higher corporate earning—which we have long believed to be the primary driver of equity markets over the long haul.

As it stands now, expectations for S&P 500 profits in 2017 are for an increase north of 20% after essentially no growth over the past two years. This profit acceleration is likely to aid stock market returns in 2017 and, in our view, provides the most impactful driver as we build portfolios.

While there are certainly reasons for optimism (from a market perspective), much work remains ahead and time will tell how this all plays out. In the meantime, we will remain focused on the individual investments that we make in each of our strategies. We are confident in our ability to identify excellent investment opportunities and look forward to implementing this on your behalf.

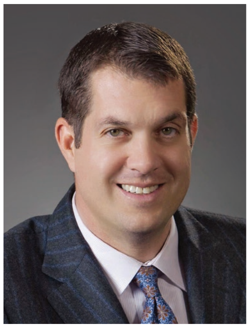
As always, our team stands ready to address all aspects of your financial lives and we appreciate the trust and confidence you have placed in us. Again, best wishes for a happy and healthy (and prosperous) 2017.

Joseph P. Biondo
Managing Director
Chief Executive Officer
Chief Investment Officer

Sources: Index Performance – Bloomberg; Strategy Performance & Sectors – IAS, Dorsey, Wright & Associates; Trading – Biondo Investment Advisers LLC; Rates, GDP & Election – CNN Money, WSJ, bea.gov

The information set forth regarding investments was obtained from sources that we believe reliable but we do not guarantee its accuracy or completeness. Neither the information nor opinion expressed constitutes a solicitation by us of the purchase or sale of any securities. Past performance does not guarantee future results.

Retirement Distribution Strategies



Karl Wagner

For most investors, a successful retirement is predicated on the slow, methodical process of investing in a qualified plan, i.e. IRAs, 401(k)s and SEPs. The benefits are many, primarily the ability to contribute pre-tax money and have the investments grow tax-deferred until eventual distribution, generally after age 59½. There are strategies that you may find useful in dealing with these plans that have many rules and restrictions.

Recently, we had a new client, who was not yet 59½, come to us wanting to retire and start living off the substantial amount in the 401(k) after leaving a Fortune 500 firm. We suggested rolling the money into a self-directed IRA and begin a 72(T) calculation. This IRS ruling allows investors to withdraw money from their IRA before age 59½ and not incur the 10% early withdrawal penalty.

Substantially Equal Periodic Payments

These withdrawals must be taken in a series of Substantially Equal Periodic Payments. Once started, these payments must continue for five years or until the age of 59½ is attained, whichever is greater. The withdrawal amount will depend on the calculation method, account balance, and age of the investor.

Another misperception we encounter is that you are unable to move money from a 401(k) while still working with the company. Many firms now allow for a non-hardship, in-service withdrawal from the plan while still employed. The availability and specifics lie in the plan documents themselves, but we have found that clients have been able to roll a portion of their 401(k) assets into an IRA while still working.

Tax Efficient Transfer

The disadvantage of this is that you are not able to take a loan from your IRA, unlike a 401(k). The advantage lies in the open universe of investments available in an IRA and the ability to create a much more tax efficient transfer of wealth in an estate plan upon death.

We understand that we have covered some extensive topics in this brief overview, so we welcome your calls to discuss this information. Please reach out to me or Kyle Clark for further clarification.

Sources: 72(T)-Forbes, Withdrawals-Transamerica.

Retirement Income Analysis: Annuities

The concept of Comprehensive Wealth Management encompasses the investor's entire financial picture in order to make investment decisions predicated upon current or future needs. We have found that one of the primary goals, and least understood, is Retirement Income Planning. In other words, how much do I currently have invested, when do I plan on retiring, and what is an income amount in retirement that will provide me (and my spouse if applicable) with a quality of life equal to or better than my current level?

Living Benefits

One of the tools available in the marketplace today to generate current and/or future income is annuities. An often misunderstood investment vehicle, the annuities of today can create a form of pension income for investors without the need to annuitize or, in other words, give up control of the asset in exchange for income. These forms of private pension plans, also known as Living Benefits, provide a 5% increase in the income base each year if no withdrawals are taken in the first 10 years of the contract.

These plans will pay out, at a future date, income that can never be outlived. For example, recently a $100,000 investment made at age 55 could in 10 years achieve an income base of $162,889 which pays out 6.25% for life (single life) beginning at age 65. That's $10,181 a year no matter how long you live! Please note there are no guarantees attributed to the actual account value, only the income base which is payable as a percentage on a monthly, quarterly or annual basis.

Know the Landscape

For many investors, having 10-20% of their portfolio in a guaranteed annuity makes sense, especially if they plan on self-insuring their retirement through their accumulated net worth.

Please call Karl Wagner if you are interested in developing a retirement income analysis and/or want to learn more about the competitive annuity landscape. We are also available to review annuities you may currently own elsewhere.

Sources: Lincoln Financial Group

Upgrades in 2017

Biondo Investment Advisors, LLC is pleased to announce an upcoming enhancement to our relationship with Fidelity Investment Services. We are excited and confident that this change will enhance the level of service and allow our entire staff to remain committed to excellence.

As many of our clients know, Fidelity now serves as trustee custodian for our qualified accounts and as our clearing firm, with National Financial Services, LLC as our custodian for our assets. This, of course, will not change.

What will change is the platform that our firm utilizes within the Fidelity family. What this means to our firm and our clients is better technology, the elimination of the IRA annual maintenance fees to our clients and greater access to research for our investment management team.

Our commitment to all of you always remains our top priority, and we continually work at providing premium services on all levels. Please expect a personalized letter coming to you shortly which will provide much more detail regarding this exciting news.

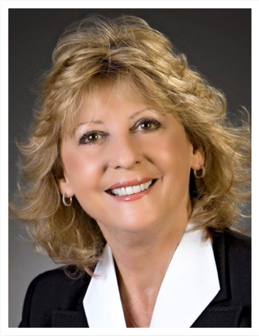
Stay Safe Online!

In partnership with the U.S. Department of Homeland Security, the National Cyber Security Alliance has released on its website (StaySafeOnline.org) information on how to recognize cybercrime and protect yourself online.

Recommendations include deleting suspicious communications, being wary of "too good to be true" offers, and using strong authentication. Additional guidance and tips include the importance of keeping a "clean" machine and security software updates on all electronic devices.

As always, helping you to protect against identity theft and mitigate potential security risks remains one of our firm's top priorities. We encourage you to visit the National Cyber Security Alliance website and share it with family members and friends.

Patrice Singleton
Chief Information Security Officer



Patrice Singleton

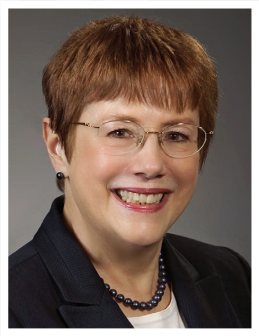
Who Do You Trust?

When the unexpected happens and you are temporarily unable to contact us or we become aware of suspicious activity in your account and are unable to contact you, who would you name as a "Trusted Contact?" Securities regulators are suggesting that investors name someone who can be contacted—or can contact us—if there is a concern.

The Trusted Contact would not be able to authorize any account activity, but would be a liaison between Biondo and a client. A proposed rule would allow firms to put a temporary hold on fund or securities disbursements based on a reasonable belief that financial exploitation exists. The Trusted Contact could be notified of the hold.

However, long-term concerns about travel, illness or disability require a Power of Attorney, a legal document drawn by an attorney. Depending on the authorizations included, a Power of Attorney does allow the named person to authorize transactions on your behalf. A Power of Attorney is preferable to putting someone else as a joint party on your account—even if it's a child you're adding.

Adding someone else's name to your account exposes your assets to any problems that other person experiences: lawsuits, settlements or liens for example. A small fee to appoint a Power of Attorney is far preferable to the problems that can arise from a joint account.



Jean Pavek

The important question remains—"Who do you trust?" That is an easy question for some and torturous for others, but one that is important to resolve.

Please contact us to discuss naming either a Trusted Contact or a Power of Attorney.