SECOND QUARTER 2017

Quarterly

THE PACIFIC FINANCIAL GROUP INC.

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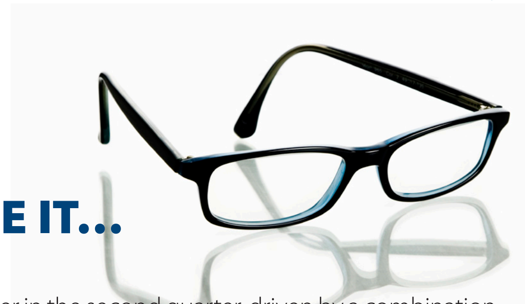
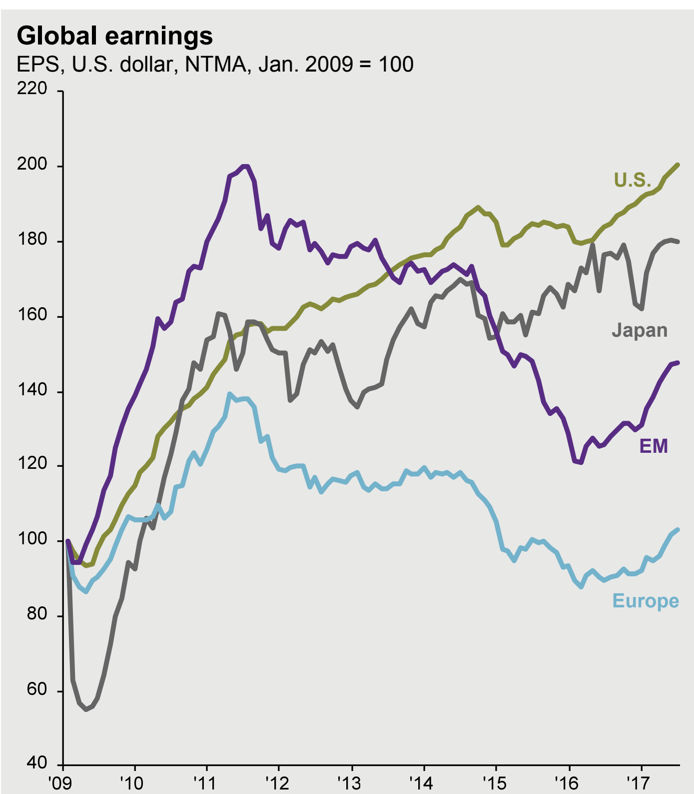


AS WE SEE IT...

Stocks pushed higher in the second quarter, driven by a combination of things, including healthier U.S. economic data and impressive 1Q earnings results. The S&P 500 gained 3.09%, with large caps outperforming mid and small cap stocks. Nine out of the eleven sectors delivered positive returns, with Healthcare and Industrials being the strongest, while Telecom and Energy were in the red. As we continued to hit new highs in the U.S., markets around the world have reacted to this by rising considerably. The MSCI EAFE NR Index was up 6.12%, while the MSCI EM NR Index gained 6.27% in the second quarter.

Economic activity in the U.S. continues to regain momentum. Real GDP increased at an annual rate of 2.1% in the first quarter of 2017, reflecting positive contributions from business investments, exports, consumer spending, and housing investment. Retail sales increased 3.8% YOY in May, while consumer sentiment was revised higher in June. New home sales increased above market expectations by 2.9% in May. The economic expansion also deepened and synchronized around the globe, as developed economies continue to benefit from tighter labor markets and accommodative monetary policy. Global composite PMI data, which measures manufacturing activity, has improved across both developed and emerging markets YOY. A recent decline in energy prices has also put extra money into consumers' pockets. Overall, the most recent data suggests that global growth remains on track for healthy expansion.



Source: J.P. Morgan Asset Management

Further, with economic data improving and global equity markets advancing year-to-date, the Fed continued to normalize monetary policy. As expected, the Fed raised interest rates by 0.25% in June, despite the recent weakness of core inflation. The move shows that the Fed believes that the U.S. economy is on track. The Fed entered the current tightening cycle in December 2015. Since then, the unemployment rate declined to a 16-year low of 4.3% in May, and the U.S. economy has improved. The Fed also laid out its plans to reduce some of the assets bought during its stimulus program. As short-term interest rates continue to move upwards, savers will begin to earn more for keeping their money in the bank, while mortgage loans will get more expensive. This should help the Fed achieve its dual mandate of full employment and price stability in order to cap the risk of the economy overheating.

Overseas, economic data in the Eurozone continues to strengthen. Business confidence is riding high, and credit growth is positive. As a result, consumer spending and corporate investment are driving corporate profit margins and revenue expansions. Political uncertainties diminished following the French and Dutch elections in May. We are also seeing further evidence of growth strengthening in Japan's economy, as it continues to benefit from strong demand for exports. Monetary policy has been accommodative and most likely will be maintained through the remainder of the year. Emerging markets have been lifted by global trade and the European recovery, and now have outperformed developed markets since the first quarter of 2016.

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PORTFOLIO COMMENTARY

Equity Portfolios: Equity and Strategic Multi-Cap

Low volatility persisted throughout the quarter, pushing major stock indices to record highs in June. U.S. equity markets posted solid results across market capitalization, with large caps leading the way. The S&P 500 Index finished the quarter up 3.09%, while the S&P Mid Cap 400 Index and S&P Small Cap 600 Index returned 1.97% and 1.71%, respectively. Economic conditions have been a driving force behind the lower volatility and robust returns. We continue to see solid employment gains, a slight uptick in wage growth and strong earnings growth. According to FactSet, corporate earnings grew 14% in first quarter. One area that shows a caution sign is valuations, which are elevated relative to historical averages. It is important to note that, valuations are rarely in-line with historical averages. They can stay either above or below the average for extended periods, and, in general, are a poor indicator of market direction.

Technology and Health Care were among the leading sectors for the second quarter in a row. Technology stocks are benefiting from an uptick in global growth, as a large percentage of their sales are generated outside the U.S. Health Care continues to benefit from a demographic tailwind and the low likelihood that drug prices would be negatively impacted by any new legislation. Financials got a boost late in the quarter due to strong results from the Federal Reserve stress test, along with significant increases to dividends and buybacks. Energy was among the worst performing sectors due to the decline in oil prices, as supply outpaces demand.

We made some small adjustments to our Equity strategies. Early in the quarter, we reduced large value holdings, while boosting the large growth allocation. In the later part of the quarter, we took some profits in our Technology holdings and increased exposure to Health Care and Financials.

Income Portfolios: Total Return and Cash Yield

Market conditions were favorable for fixed income investors, as yields declined and credit spreads tightened, with the Barclays U.S. Intermediate Govt/Credit Index posting a 0.94% return. The Federal Reserve continues to attempt to normalize interest rates, with their fourth quarter point hike in this cycle. This has caused the yield curve to flatten, as short term rates rise and longer term rates decline. The Fed's strongest influence is on the short end of the yield curve, while growth and inflation play an important role in determining longer term rates. Inflation expectations are once again declining, partly due to lower oil prices. Global central bank policy is another factor pushing longer term yields lower, as U.S. Treasuries offer attractive yields relative to other sovereign bonds. The divergence in monetary policy, with the Fed normalizing and continued easing by other central banks, is likely to persist and will likely keep long term rates range bound.

In this environment, we are focused on allocating capital to sectors with strong relative yield, while seeking opportunities in alternative assets. In both of our Income strategies we maintain an overweight to Non-Agency MBS, which provide a higher yield than comparable securities, along with improving credit quality. Preferred Securities, concentrated in the financial sector, is another sector that provides attractive yields with improving credit quality. Income Total Return maintains an allocation to Market Neutral strategies, which can offer compelling risk adjusted returns. Overall, we made minor changes to the strategies this quarter, modestly increasing exposure to Non-Agency MBS and corporate credit.

Balanced Portfolio

Favorable conditions across asset classes delivered solid results for moderate investors, with the S&P 500 Index up 3.09% and the Barclays U.S. Intermediate Govt/Credit Index posting a 0.94% return. The equity rally that began in November continued through the second quarter. The initial rally was related to investor enthusiasm for tax reform and infrastructure spending. However, as those initiatives have stalled, economic measures across the globe improved, supporting the equity market. Corporate earnings grew by 14% in the first quarter and global manufacturing PMIs consistently show expansion. Equity returns across styles and market capitalizations were positive, with large growth leading the way. Markets were unfazed by another rate hike in June by the Federal Reserve. The flattening of the yield curve has some economists concerned it is indicative of slower growth in the future. However, lower inflation expectations, driven by lower oil prices, and the divergence in central bank policy are playing a role in the slope of the yield curve.

The asset allocation of our Balanced strategies remained stable during the quarter. We eliminated one moderate allocation manager due to underperformance and allocated those proceeds to stronger performing existing positions. Our outlook continues to support a slight preference for equities over bonds, along with an allocation to alternatives. Moderate allocation managers, the largest weighting in the portfolio, were the strongest contributors to performance.

A global infrastructure manager and preferred securities led the alternative sleeve.

Absolute Return Portfolio

It was another positive quarter for equity and fixed income markets, and volatility across asset classes has been bouncing around historic lows. Suppression in volatility in the marketplace is likely due to declining stock correlations and expectations of improved economic conditions in 2017. We are starting to see economic activity in global economies regaining momentum. Real GDP in the U.S. increased at an annual rate of 2.1% in the first quarter, while GDP in Europe exceeded expectations and was positive across all nineteen countries of the euro zone. Throughout the quarter, we made changes to our strategy by slightly reducing the overall allocation to fixed income, and increased our allocation to the alternative asset class. We believe this change will optimize our Portfolio's risk adjusted returns by mitigating some of the instability in the markets.

Faith & Values Portfolio

Performance for stocks and bonds was solid in the second quarter, with the S&P 500 gaining 3.09%, while the Barclays US Intermediate Govt/Credit Bond Index rose by 0.94%. Equity returns were led by the Health Care, Industrial and Financial sectors, while Energy and Telecom Services were the only sectors with negative returns. In bond markets, long-term fixed-income outperformed short-term, as the yield curve flattened due to a decline in long-term rates and an increase in short-term rates. As expected, the Fed raised interest rates by 0.25% in June, for the second time this year. Investors are expecting to see one more rate hike before the year is over, which may put upward pressure on bond yields. We continue to maintain the relative advantage of equities versus fixed income; hence our strategy continues to hold a modest tilt toward equities.

Global Portfolio

Global stocks had another strong quarter, outperforming domestic stocks significantly. The MSCI EAFE NR Index was up 6.12% for the quarter, while domestic equity, as measured by the S&P 500 TR Index, was up 3.09%. Markets in Europe delivered the highest performance as geopolitical risk eased, especially after the election of Emmanuel Macron in France. Economic leading indicators have strengthened and unemployment is showing signs of improvement. First-quarter GDP growth exceeded expectations and was positive across all nineteen countries of the euro zone. The economy in Japan continues to maintain its momentum, despite recent hiccups in production. Exports expanded at the fastest pace in more than two years, and industrial production in the last 12 months remains strong. Monetary policy has been accommodative and will likely be maintained through the remainder of the year. Lastly, emerging markets delivered strong performance, as the MSCI EM Index gained 6.27% in the second quarter, outpacing developed markets year-to-date. Emerging economies continue to show strength, as they are well-positioned to gain from improving trade volumes, better corporate earnings and a benign dollar. Throughout the quarter, we made changes to our global allocation by reducing our exposure to domestic markets and increasing exposure to Europe and emerging markets. We believe further evidence points to economic growth strengthening in Europe and in emerging countries, and we would like to take advantage of those markets.

AS WE SEE IT... *continued from page 1*

All things considered, while the U.S. may be late in the economic cycle, we don't see any indicators of a bear market or recession. The U.S. economy continues to show signs of improvements, and better fundamentals overseas are creating a favorable environment for risk taking. We believe the current environment is set for moderately positive growth.

KEY TAKEAWAYS

- Equity markets continued to trend higher
- Economic growth regaining momentum
- The Fed hiked rates for the second time this year
- Political uncertainties eased overseas

Has anything happened we should know about? If there are any changes in your financial situation, investment objectives or specific restrictions, please contact your investment advisor or The Pacific Financial Group, Inc. It is critical to the achievement of your investment goals and the success of our relationship to discuss any changes in your financial needs.

Our clients receive quarterly performance on their accounts. For performance on any of our strategies, please contact your Investment Advisor.

WHAT'S IN THE FUTURE?

Global economic expansion is underway, and signs guide us to believe that it will persist. An improving global macro backdrop and fading political uncertainties in Europe have overshadowed questions arising from Brexit, supporting growth in the Eurozone. Stimulus has also shown success in Asian economies and markets.

The U.S. is no longer the only engine of growth. The second-longest expansion and bull market since WWII still has sufficient support to become longest on record. Recession remains unlikely, as the economy is still in good health. Economic and corporate fundamental improvements have been gradually replacing the hopes and optimism that emerged from the Trump election, adding greater validation to the market's upward move. Recent data points toward a rebound in GDP. Expect more of the same: slow, steady growth.

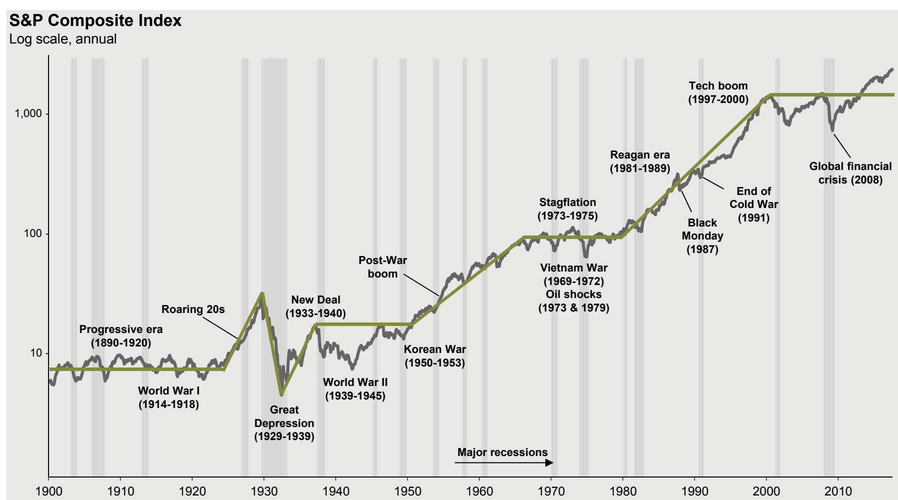
Manufacturing in the U.S. has reaccelerated. The ISM manufacturing index beat consensus expectations in June, rising to its highest level in nearly three years. The index was driven higher by improvements in production, new orders and a surge in employment. These readings suggest that GDP growth may have regained traction and upside surprise potential for second quarter.

Earnings season begins again very soon. While we believe that corporate earnings will continue to grow, the consensus expects the year-over-year (YOY) growth rate to moderate from first quarter's 14% to 7%. Given that earnings are driven by economic activity, and activity levels have remained above average, it appears that there is room for some upside surprises to this modest expectation. The fading U.S. dollar should also provide some additional support to earnings. We will be watching out for any disappointments to the rebound in the energy sector earnings. YOY crude prices increased sufficiently to forecast a return to profitability for energy companies, however the rapid decline from $56 in April to $45 in June may bring a little rain to their parade. Information Technology companies have enjoyed the clearest earnings visibility, and that is expected to continue.

Employment has been strong, leading to a tight job market, and that trend is likely to continue. The latest non-farm payroll report surprised to the upside, with more jobs added to the economy than a consensus of economists had projected. While a tightening labor market typically produces upward pressure on wages, which is inflationary, wage growth has been tepid. The lack of notable wage growth has contributed to inflation remaining below the Fed's 2% target. Comments from Fed members and meeting minutes indicate that they harbor concern over the potential for ever-tighter labor conditions to ignite inflation. With the global economy in a concerted growth phase and labor markets reaching full employment, the current benign view toward inflation may be changing, and unemployment could dip below 4% by early next year.

As always, a number of risks exist to the continuation of rising markets. Rich equity valuations and low volatility leave little buffer for any disappointment or shock. Most valuation metrics in the S&P 500 are in the 90th percentile or higher relative to history, and realized volatility is in its 1st percentile. Interest rates may rise, as the Fed begins to shrink its balance sheet, and global central banks prepare investors for reductions to their ultra-accommodative policies. Policy will still be very easy on a historical basis, however there is the potential for markets to adjust to a regime change.

A market notching new highs does not reverse just because it is reaching record levels. Investing is best done with a long term perspective. It is useful to occasionally step back and view markets over longer time horizons, in order to get better context.



Source: J.P. Morgan Asset Management

When we look at the performance of the S&P 500 since 1900, it is far more evident that extended periods of new highs is not unusual at all, and is, in fact, common. We believe that markets will continue to reward investors, and look forward to good things in the second half of 2017.

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SECOND QUARTER 2017

RETIREMENT AND ANNUITY COMMENTARY

Global Strategy

The Global Strategy is offered through our retirement plan program and is designed to provide the investor long-term capital appreciation. The Portfolio seeks higher returns by typically accepting a higher level of risk/volatility across global markets.

Stocks continued their upward march to finish the first half of the year with attractive gains. U.S. large caps, again, had higher returns than both mid and small caps in second quarter. International growth prospects were higher than domestic markets, and the MSCI EAFE NR Index (Europe, Australasia and the Far East) gained 6.12%. Continued weakness in the dollar helped propel emerging markets over the past three months. The MSCI Emerging Market Index rose 6.27%.

Technology re-established its leadership as the best performing sector for the first half of the year. Strong earnings growth continued to propel the sector. Energy remained near the bottom, but relinquished the low spot to Telecom. Growth maintained its advantage over value.

Our Global Strategy normally holds a blend of large, mid, and small cap stocks due to the long-term nature of this strategy. International exposure was increased during the quarter.

Strategic Equity Strategy

The Strategic Equity Strategy is offered through our variable annuity optimization program, as well as our retirement plan programs. Formerly called Moderately Aggressive, the strategy is designed to provide long-term capital appreciation with a moderately high level of risk/volatility.

Technology stocks took over from hopes for fiscal stimulus in propelling equity indexes higher. Another good earnings season also encouraged investors that rich valuations still had some fundamental support. Large caps, as measured by the S&P 500, were the highest performers during the quarter with a gain of 3.09%. Mid-caps, as measured by the S&P 400, rose 1.97%, while small-caps, as measured by the S&P 600, added 1.71%. Excess supply kept pressure on prices of oil for much of the quarter, and Energy struggled with negative performance again.

Our Strategic Equity Strategy usually holds a blend of large, mid, and small cap stocks due to the long-term nature of this strategy. International exposure has been added where advantageous over the quarter.

Asset Allocation Strategy

The Asset Allocation Strategy is offered through our variable annuity optimization program, as well as our retirement plan programs. Formerly called Moderate, the strategy is designed for more conservative investors, who wish to have income and capital appreciation through a blend of fixed income and equity securities.

Equities again finished the quarter with an advantage over fixed income sectors. The Federal Reserve hiked interest rates another quarter percent in June. The move was satisfactorily telegraphed in advance, so markets took it in stride. The Barclays Intermediate Government Credit Index was still able to add 0.94%.

Economic data supported a preference for risk assets, so a tilt toward equity was continued. Government bond exposure was still underweighted during the quarter, with a slight tilt toward credit sectors.

Moderately Conservative Strategy

The Moderately Conservative Strategy is offered through our retirement plan program and is designed to provide the investor income and long-term capital appreciation. As its name suggests, the Portfolio typically has a low level of risk/volatility, with the primary goal being capital preservation. Typically, this Portfolio does not hold more than 20% equities, with the remaining amount allocated to fixed income securities.

Despite another 0.25% hike by the Fed to their target Fed Funds rate in June, fixed income sectors posted modest gains over the past three months, with all major sectors posting positive returns. Corporate high yield and investment grade credit had the highest gains. Bonds, as measured by the Barclays Intermediate Government Credit Index, advanced with a 0.94% gain. Mortgage backed securities were reduced during the quarter in favor of broader intermediate duration.

Q2 2017 HIGHLIGHTS

- *Growth Domestic Product (GDP) expanded 2.1% in Q1 2017. Consumer spending and exports increased more than previously anticipated.*
- *The core inflation rate increased 1.7% in May 2017. It was the lowest core inflation since May 2015, and below market expectations of 1.9%. Prices for shelter, transportation, and medical care dropped.*
- *The Federal Reserve raised the target rate for its federal funds rate to 1.25% after the June 2017 meeting, reflecting increasing growth projections and lowering inflation expectations.*
- *The unemployment rate rose to 4.4% in June 2017, up from 4.3% in May, and above market expectations. The labor force participation rate edged up to 62.8%.*
- *Consumer Sentiment was revised higher to 94.5 in June 2017, as current conditions were assessed more positive.*
- *Personal savings increased slightly to 5.5% in May 2017, from 5.3% in April.*
- *Retail Sales increased 3.8% in May 2017, year over year.*
- *New home sales increased 2.9% in May 2017, to a seasonally adjusted annual rate of 610,000, above market expectations.*
- *The Case-Shiller Price Index (20 metropolitan areas) rose 5.7% year-on-year in April 2017. Seattle led with a 12.9% gain, followed by Portland (9.3%) and Dallas (8.4%).*
- *Business confidence (ISM PMI) rose to 57.8 in June 2017, way above market expectations of 55.2. The reading indicated the strongest rate of expansion since August 2014. Output, new orders, and employment grew at a faster pace.*
- *Non-Manufacturing PMI rose to 57.4 in June 2017, beating market expectations of 56.5. The majority of respondents' comments continue to indicate optimism about business conditions and the overall economy.*

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