THE PACIFIC FINANCIAL GROUP INC.

THIRD QUARTER 2017

Quarterly

Volume XXXI, Issue 3 | www.tpfg.com

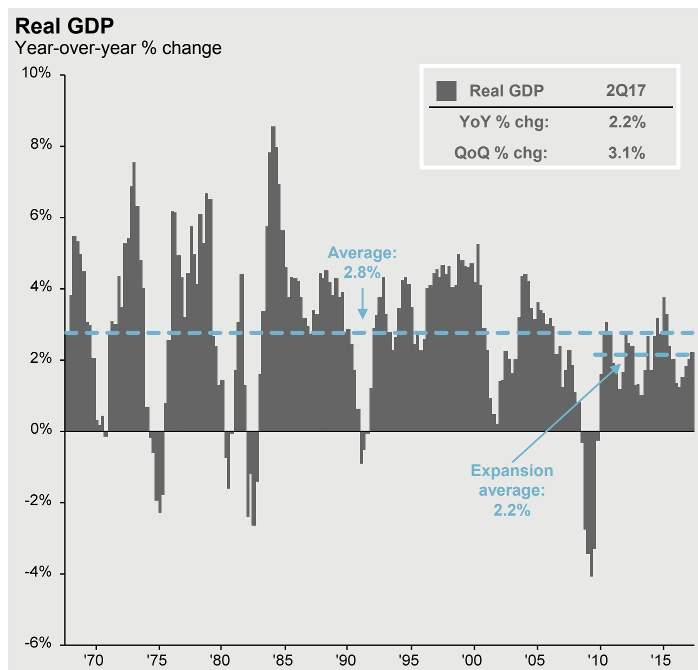
AS WE SEE IT...

Global equities across developed and emerging economies recorded their third straight quarter of positive returns, with the MSCI Emerging Markets Index leading the way, up 7.89%. International developed markets edged U.S. large cap equities, with MSCI EAFE Index up 5.40%, while the S&P 500 finished higher by 4.48%. Risk assets are benefiting from an uptick in synchronized global growth, producing strong profits and earnings growth across a wide variety of sectors and regions. U.S. investors with investments abroad have benefited from currency movements, particularly in Europe and emerging markets. The U.S. dollar has weakened relative to those currencies, which acts as a tailwind for dollar based investors in those equities.

In the U.S., we saw leadership in Technology and Energy across all market capitalization. Technology has had strong momentum all year, supported by 18% earnings growth in the second quarter. A wide variety of macro trends, such as cloud computing, artificial intelligence and robotics, have provided numerous growth opportunities. Energy got a lift in September, as oil prices rose due to supply concerns after Hurricane Harvey struck the gulf coast of Texas. Prior to the hurricane, we saw inventory levels begin to trend downward, which also provided some support for oil prices. Small cap stocks benefited the most from the Energy rally and finished ahead of large caps, with the S&P Small Cap 600 Index posting a 5.96% return for the quarter.

Fixed income sectors also saw positive returns, with solid results across sectors and regions. Emerging market debt and international corporate bonds were two of the top performing sectors, benefiting from improving growth and central bank policy. In the U.S., credit sectors were the top performers, as spreads tightened while yields remained range bound. In September, the Federal Reserve announced it will begin to reduce its balance sheet in October. The current plan calls for allowing $10 billion in securities to mature each month and slowly increasing the amount to $50 billion per month. The market took the news in stride, as it was well telegraphed.

The final reading of second quarter Gross Domestic Product (GDP) came in strong, showing 3.1% growth over the previous quarter. The initial estimate for third quarter will be released at the end of October. However, we can get a sense of economic activity for the quarter, if we examine the various data points within the four primary components of GDP.



Source: BEA, FactSet, J.P. Morgan Asset Management.

- Personal consumption expenditures is generally the largest contributor to growth, and covers areas such as retail spending, auto sales and the service economy. The ISM Non-Manufacturing Index posted a 2 year high in September, indicating strong business activity in the services sector. Monthly data on retail spending can be volatile, however year-over-year growth is over 3%. Auto sales beat expectations by a wide margin in September, reversing the recent trend.
- Gross private domestic investment covers both residential and non-residential spending, along with changes to inventories.

continued on page 3

KEY TAKEAWAYS

- Synchronized global growth pushed equities higher
- Low volatility persisted across asset classes
- The Fed to begin balance sheet reduction in October
- GDP growth remains on trend

PORTFOLIO COMMENTARY

Equity Portfolios: Equity and Strategic Multi-Cap

Large cap stocks finished with their eighth straight quarter of positive results, with the S&P 500 posting a 4.48% gain. However, a late surge in the Energy sector boosted small caps to the best performance, with the S&P Small Cap 600 Index up 5.96%. Mid cap stocks lagged the other market caps, but produced a respectable return of 3.22%. Technology and Energy sectors were among the strongest performers. Tech stocks have strong momentum, driven by earnings growth and innovation in new opportunities. Energy benefited from higher oil prices, supported by the dual impacts of modest inventory reduction and supply concerns after the hurricane season. Overall, equities continued to benefit from a synchronized global expansion and a recovery in earnings growth. PMI surveys, for both manufacturing and services, posted consistent expansionary results during the quarter.

In our Equity strategy, small cap and large cap growth holdings were the top contributors in terms of market cap and style. Market cap and style allocations remained stable during the quarter. In our sector allocations, Home Construction and Robotics were the top performers, while Consumer Staples detracted. We made several changes to this portion of the portfolio. We increased Energy to an equal weight, increased global coverage and added Aerospace and Defense exposure. In addition, we broadened our Technology overweight into additional subsectors. We remain fully invested, as conditions are favorable for risk assets.

Income Portfolios: Total Return and Cash Yield

Bond investors have benefited from a supportive rate environment due to the combination of modest growth and low inflation. Interest rates have been largely range bound for most of the year, despite two rate hikes, partly because inflation remains in check. Spreads have contracted on credit and securitized instruments, as earnings growth has accelerated and economic momentum continues. Returns for broad bond indexes have been solid, given the level of rates, with the Barclays U.S. Intermediate Govt/Credit Index up 0.60% for the quarter and 2.40% year to date. Economically sensitive sectors, such as corporate credit, convertible bonds and non-agency MBS, were among the top performers, while Treasuries lagged. The Federal Reserve released details on the reduction of their balance sheet at the September meeting. Beginning in October, they will let $10 billion in Treasury and MBS securities run off per month, slowly increasing the amount to $50 billion. The announcement was expected, so there was no immediate market impact. We will continue to monitor the issue and will make adjustments to our portfolios, if warranted.

In our Income Cash Yield SMA portfolio, we had strong performance across the strategy. A multi-sector bond manager was the top performer due to exposure to emerging market debt and non-agency MBS. Diversification in sources of yield remains important, as exposure to preferred securities, floating rate bank loans and corporate credit all contributed to performance. Our Income Managed portfolio produced strong results with all components contributing. The strategy also benefited from exposure to non-agency MBS and preferred securities. In addition, the alternative allocation contributed to performance. We made no changes to the allocations in either strategy during the quarter.

Balanced Portfolio

The continued rally in stocks and bonds was a benefit to investors in balanced strategies again this quarter. Domestic equities, as measured by the S&P 500 Index, were up 4.48%, while the Barclays U.S. Intermediate Govt/Credit Index was up 0.60%. Favorable macroeconomic conditions, such as earnings growth and low inflation, pushed asset prices higher. Technology stocks were among the leaders, benefiting from new computing trends and higher demand overseas. Large cap technology companies generate more than half of their sales overseas. Energy stocks rallied late in the quarter, as the supply/demand imbalance in oil began to correct. Credit sectors led fixed income, as spreads compressed and yields were range bound.

In our Balanced strategy, we are focused on three main themes. First, we maintain an overweight to equities relative to the benchmark. We have a favorable view of economic growth, and believe equities will deliver more favorable returns than bonds. Second, we are utilizing high conviction moderate allocation managers, who have produced strong performance over time. Finally, we have incorporated alternatives into the portfolio to provide uncorrelated return streams. All three components contributed to performance over the last three months. Moderate allocation managers benefited from strong stock selection, while a long-short equity manager led alternatives.

Absolute Return Portfolio

Volatility in the returns of most asset classes stayed low during third quarter. The CBOE Volatility Index (VIX) did spike in August for a few days, but then calmed at the end of the quarter to its lowest levels for the year. Investors' risk appetites have remained strong this year, as they shrugged off headlines related to U.S. politics, geopolitics and even weather. Hence, most asset prices have continued to appreciate. As a result, over the third quarter, global equity markets have moved higher, corporate credit have gained, and government bonds have rallied. Throughout the quarter, we made a few minor changes by shifting weights from our weaker to our stronger performing active managers. Our Absolute Return Strategy remains well diversified across asset classes, as we continue to maintain exposure to equity, fixed income and alternatives.

Faith & Values Portfolio

Investors weren't dissuaded by headlines related to U.S. politics, geopolitics and even weather from adding risk assets to their portfolios. The U.S. stock market, as measured by the S&P 500 Index, rose an impressive 4.48%, while the Barclays U.S. Intermediate Govt/Credit Bond Index gained 0.60% in the third quarter. Economic growth in the U.S. continued at a solid pace, with consumer and business confidence remaining strong. Outside the U.S., economic growth and confidence have been improving all year, and are now at multiyear highs. Even the Fed seems to be on board, as it was more optimistic about the economy during its latest meeting. There were no significant changes made to the strategy during the quarter. We continue to maintain a slight tilt towards equities, as we remain positive on stocks in the near term.

Global Portfolio

The global economy's strong momentum over the summer resulted in strong gains in global equity markets. The MSCI EAFE NR finished the third quarter up 5.4%, with markets in Europe delivering the highest performance. Stocks in Italy, France and Germany were up 13.7%, 8.4% and 7.7% respectively, as economic growth continued to remain strong and forward-looking indicators remain at elevated levels. Annual real GDP for the Eurozone has been growing at 2% for the past three years, with 2Q17 coming in at 2.3%. On the political front, recent elections in France and Germany have diminished risks, which should further support European stocks. We expect the recovery to continue but at a slower pace due to the strong appreciation in the euro, which will be a drag on exports and earnings. In Japan, we are seeing its economy experiencing its longest expansion in more than a decade, as it posted its sixth consecutive quarter of growth. A weaker currency has made Japanese exports more competitive abroad, and as a result, industrial production has increased, while business confidence has risen. We are moderately bullish on Japan as we believe earnings are likely to grow in the low teens over the next few years. Emerging markets continue to outperform developed markets, due to a broad acceleration of economic growth. The MSCI EM NR Index was up 7.9% in the third quarter, with stock markets in Brazil, Russia and China delivering 23%, 17.6% and 14.7%, respectively. We believe stocks in emerging markets will continue to appreciate largely due to better fundamentals, however, differentiation among emerging markets remains key. Throughout the quarter, we increased our exposure to Europe, as political risks subsided. We also increased our exposure to emerging markets, as we believe profits and economic growth will continue to run ahead of developed markets. While we are positive on domestic markets, we have been reducing our overweight position to U.S. equities, relative to our benchmark, as we are finding more compelling opportunities overseas.

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

Residential building remains on trend with housing starts in excess of 1.1 million units. Home sales, both existing and new, softened recently primarily due to limited inventory. Equipment spending remains robust, with durable goods orders posting solid gains. Inventories were relatively stable during the quarter.

- Net exports of goods and services measures trade activity, and can be impacted by currency fluctuations. The decline in the dollar this year has helped boost exports, showing a small positive contribution to GDP growth in the first two quarters. In August, we saw exports grow and the trade deficit narrow, which is an indicator that the trend is continuing.
- Government consumption expenditures, both federal and local, have not made an impact to growth over the last year, as spending levels remained stable. However, we could see positive impact this quarter, due to the response to recent hurricanes and an uptick in military exercises in the Pacific.

Based on our analysis, we would expect third quarter growth to remain on trend. Overall, investors benefited from an environment of broad global growth, low volatility and supportive central banks.

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?

The global economy continues to improve. We believe that the global economy remains around mid-cycle, and the probability of recession in the near term is low. A supportive backdrop of easy monetary conditions, low inflation, and growing consumer confidence provides continued support for economic growth. Federal Reserve data also suggests that the chance of a recession in the U.S. in the next 6-9 months is very remote, with a current reading of 0.18%.

There is the possibility for distortions in quarterly domestic rates of growth due to disruptions from a destructive hurricane season (that is not yet over), however the upward trend is expected to continue.

Monetary policy will begin to tighten. We are at an inflection point, where global central banks have begun to slowly close the spigot of ultra-liquidity in reaction to global economic stability. The timeline is not certain, and it is expected to be quite gradual, but we believe it is inevitable. Some of the changes are known; others are speculations. A passive reduction in the Fed's balance sheet begins in October, while the ECB is expected to taper their quantitative easing program next year. This may pressure asset prices, especially if the Fed hikes the policy rate faster than expected. Some of this has been priced in, but markets have enjoyed unprecedented liquidity for the last 10 years, and may be jittery at times as they adjust to a new regime. We believe equity performance can withstand the normalization of global monetary policy. No one, not even central bankers, knows how markets will react, but upward pressure on interest rates and volatility could develop.

Fiscal policy help for markets may finally arrive. Not that financial markets have needed much help in their sustained march higher, yet substantive changes may provide another boost. A domestic tax reform plan has been announced, and now must go through Congressional development and debate. The plan is very broad and encompasses all three areas discussed on the campaign trail: corporations, households, and repatriation. The centerpiece is a lower corporate tax rate. Whether it remains at the proposed 20% or changes to a different rate, the effect on markets would likely be quite positive, due to a strong potential for improving corporate profitability. Successful passage of tax legislation could require bi-partisan support, so it is far from certain. That being said, some form of lower taxation is growing in likelihood, and many market participants are hoping for Trump bump 2.0.

Earnings are expected to keep growing. The strengthening global business cycle benefited U.S. companies, and contributed toward their profitability. Earnings were given a tailwind, as large-cap businesses source almost half of their revenues from overseas. Corporate profits came in ahead of schedule, as a stronger global cycle helped U.S. businesses deliver 14% earnings growth in Q1 and 10% in Q2. We could see a moderation in the quarters ahead, but expect healthy growth in U.S. corporate earnings, nonetheless. The resurgence of foreign growth prospects coupled with accommodative policy has increased the attractiveness of international equities, and we would expect this to continue.

Risks are ever-present to all investors. Geopolitical uncertainty still represents a real risk to our outlook, with North Korea leading the list. Stretched security valuations also pose vulnerabilities should any news upset the market consensus that the growth story remains intact. Inflation has been largely absent and has contributed toward a level of complacency. The Fed remains on alert to any signs of inflationary pressures, but we believe that is a 2018 situation at earliest.

Moderate growth, low inflation and easy monetary policy provide a positive backdrop for financial markets and investments, as the last quarter of 2017 begins. We remain optimistic that upside is still available to investment portfolios.

KEY TAKEAWAYS

- No recession on the horizon
- Tighter monetary policy is inevitable
- Fiscal policy changes may provide a boost
- Earnings growth continues

THIRD 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.

Markets around the globe finished the quarter higher, with emerging markets leading the way. The MSCI Emerging Markets Index gained 7.9% on improving growth prospects and a boost from a weaker dollar. Developed markets also rewarded investors, as the MSCI EAFE rose 5.4%. Markets overcame concerns over various geopolitical risks, most notably the war of words between the U.S. and North Korea, and added risk assets to portfolios.

As with global markets, nearly all sectors achieved gains the past three months. Technology remained on top, edging out basic materials, and energy staged a comeback quarter. Consumer Staples pulled up the rear with negative returns. In large caps, growth maintained its advantage over value, but value was very strong in September.

International exposure was increased in our Global Strategy during the quarter, and we continued to hold a blend of large, mid, and small cap stocks due to the long-term nature of this strategy.

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.

Small caps bounced off of a mid-quarter low in August, and finished strong over the final six weeks to overtake large caps as the return leader. The S&P SmallCap 600 jumped 5.96%, and the S&P 500 gained 4.48%. One contributing factor was the growing belief that some form of tax relief may emerge from Congress in the near future, which is expected to help small companies most. Mid-caps also turned in a good quarter, rising 3.22%.

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, and small cap was modestly increased.

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.

Equity returns were much stronger than fixed income in third quarter, but both were positive. The Federal Reserve left their policy rate the same, but outlined their plan to reduce the size of their balance sheet, thereby adding another step toward the normalization of monetary policy. Fed Chairwoman, Janet Yellen, successfully signaled intentions ahead of the meeting, and markets had limited reaction to the news. The Barclays Intermediate Government Credit Index added 0.6%.

An investment backdrop of low interest rates, growth in earnings, and easy monetary policy continued to support our preference for risk assets, and a tilt toward equity was continued. Diversification was increased among fixed income sectors, and duration was de-emphasized.

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.

Fixed income sectors held onto gains to finish the quarter with positive returns, but nearly all sectors were negative in September. U.S. Treasuries posted the lowest gains, while tighter credit spreads helped corporate sectors to deliver another quarter of good returns. A weak dollar during much of the quarter boosted international bond returns. Diversification was increased among fixed income sectors, and duration was de-emphasized by underweighting government sectors.

Q3 2017 HIGHLIGHTS

- *Gross Domestic Product (GDP) expanded at a 3.1% annualized rate in Q2 2017. This was above estimates, and the strongest growth rate since Q1 2015.*
- *Exports of goods and services increased by 0.4 percent month-over-month in August 2017. It was the highest level of exports since December 2014.*
- *The Consumer Price Index increased by 1.9% in August 2017. This was higher than market expectations, due to rising shelter and gasoline costs from Hurricane Harvey.*
- *The Federal Reserve maintained the target rate for its federal funds rate at 1.25% at the September 2017 meeting. Policymakers expect higher GDP growth with lower core PCE inflation.*
- *The unemployment rate fell to 4.2% in September 2017, down from 4.4% in the previous month, and below market expectations. The labor force participation rate rose to 63.1%.*
- *Average hourly earnings increased to $22.23 per hour in September, which is the highest since 1964.*
- *Retail Sales increased 3.2% in August 2017, year over year.*
- *The Case-Shiller Home Price Index (20 metropolitan areas) rose 5.8% year-on-year in July 2017. Seattle led with a 13.5% gain, followed by Portland (7.6%) and Las Vegas (7.4%).*
- *ISM Purchasing Managers Index (PMI) rose to 60.8 in September 2017, beating market expectations of 58. Reflecting business confidence of 18 manufacturing industries, it was the highest reading since May 2004.*
- *Non-Manufacturing PMI rose to 59.8 in September 2017, well above market expectations. This was boosted by a rise in production and new orders, despite the recent hurricanes. It was the highest reading since August 2005.*
- *Industrial production increased by 1.5% year-on-year in August 2017. Manufacturing output rose 1.5% boosted by higher production of chemicals, food, beverage, tobacco, fabricated metal, machinery, and computer and electronic products.*

THE PACIFIC FINANCIAL GROUP, INC.
777 – 108TH AVENUE NE | SUITE 2100 | BELLEVUE, WA 98004 | TOLL FREE 800-735-7199 | SALES 866-583-8734 | WWW.TPFG.COM