Dear Client,

"History doesn't repeat itself, but it rhymes," as Samuel Clemens (a.k.a. Mark Twain) is reputed to have said. This time, history is rhyming as Americans go into debt at levels last seen during the credit bubble nearly a decade ago. Between mortgages, auto loans, student loans and credit card debt, U.S. households are in the red by $12.73 trillion. That's $50 billion higher that the record set back in the third quarter of 2008.

Some economists think a willingness to borrow reflects Americans' optimism about the U.S. economy and job prospects. It's just as likely, however, that people are borrowing to pay their living expenses. Interestingly, the debt profile has changed. Mortgage debt has declined but student loans that have soared since 2008. Students today owe $1.3 trillion, which is more than double $611 they owed nearly nine years ago, according to the New York Federal Reserve, which tracks household debt. Auto loans (and loan delinquencies) have climbed, too, along with credit card debt.

As we remarked earlier this year, declining auto and retail sales tells us that the consumer is tapped out. More debt, a shortage of affordable housing and rising interest rates obviously makes it more difficult for young people to form households. It's no surprise that Fed Chairman Janet Yellen sounded dovish about raising interest rates in her remarks to Congress in mid-July. This economy is still in recovery, and a bout of something—unemployment, terrorism, political crisis-- could send it back to sickbay.

The stock market, meanwhile, continues its steady ascent, making this the second longest and second strongest bull market since World War II. From March 2009 to early June 2017, the S&P 500 Index gained 260.5%. Only the dot.com boom's 351.9% gain from 1990 to 2000 was bigger, as the accompanying chart shows.

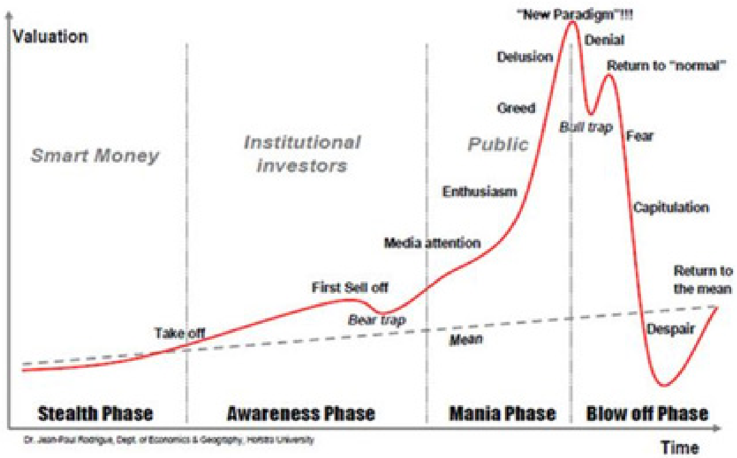
BULL MARKET SINCE WWII

	SPX Start	SPX End	Days	Mos	Yrs	9th Yr End	9th Yr % Chg	Total Chg
1	4/28/1942	5/29/1946	1492	50	4.1			
2	6/13/1949	8/2/1956	2607	87	7.2			
3	10/22/1957	12/12/1961	1512	50	4.2			
4	6/26/1962	2/9/1966	1324	44	3.7			
5	10/7/1966	11/29/1968	784	26	2.2			
6	5/26/1970	1/11/1973	961	32	2.7			
7	10/3/1974	11/28/1980	2248	75	6.2			
8	8/12/1982	8/25/1987	1839	61	5.1			
9	12/4/1987	7/16/1990	955	32	2.7			
10	10/11/1990	3/24/2000	3452	115	9.6	1335.21	35.6%	351.9%
11	10/9/2002	10/9/2007	1826	61	5.1			
12	**3/10/2009**	**6/2/2017**	**3006**	**100**	**8.4**	**2439.07**	**3.1%**	**260.5%**
	Average	Days	1834	61	5.1		19.4%	306.2%

Source: Schwab Center for Financial Reserach

Our cautious outlook leads us to look for undervalued securities and to avoid the highflying, high-priced tech sector, notably the FAANG stocks—Facebook, Apple, Amazon, Netflix and Google—and Tesla and a few others. Indeed, the tech-heavy Nasdaq Composite gained 14.1% through the first half of 2017. This chart showing the four stages of a bubble is a reality check.

MAIN STAGES IN A BUBBLE



Source: Dr. Jean-Paul Rodrigue, Dept. of Economics & Geography, Hofstra University

We added to our three positions in Under Armour (NYSE:UAA), FireEye (NASDAQ:FEYE) and Enbridge Energy Partners (NYSE:EEP) that we discussed in our previous letter. We took a contrarian position in FirstEnergy Corp. (NYSE:FE), an Akron, Ohio-based electric utility holding company that serves some six million customers in Ohio, Pennsylvania, West Virginia, Maryland, New Jersey, and New York. We bought it at around $29 a share, well below the $82.33 a share price it fetched in 2007. Our long-term view is that even with mainstream adoption of solar over time, demand for energy will push utilities stock prices higher. In the meantime, FirstEnergy pays a near 5% dividend.

Before closing, I'd like to formally introduce Janice Cam to you. She joined us in January to work with client services, and some of you may have met her over email or the phone. Janice and I have known each other since our undergraduate days at UCLA, where she majored in economics and graduated cum laude. You can read her impressive bio on the 7Summit Advisors website. Our families are friends, too, which makes us feel especially fortunate to welcome her to 7Summit Advisors.

As always, thank you for the trust you have placed in me and in 7Summit Advisors. We work hard to earn that trust each day.

Sincerely yours,

Li Chang