WELLESLEY INVESTMENT PARTNERS
WEALTH MANAGEMENT
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75 Central Street, Wellesley, MA www.wellesleyinvestmentpartners.com 781.431.1325 info@wellesleyinvestmentpartners.com

Sign of the times — Amazon buys Whole Foods

Source: MarketWatch/Bloomberg.

Performance of Notable Indices[b]	Q2 2017	1-Yr (7/1/16 – 6/30/17)
S&P 500 Index	3.1%	17.9%
U.S. Midcap Equities	2.0%	18.6%
U.S. Small Cap Equities	2.5%	24.6%
International Developed Market Equities	6.1%	20.3%
Emerging Market Equities	6.3%	23.8%
U.S. Core Bonds	1.4%	-0.3%
Global Bonds	2.7%	-2.0%
Gold, $/troy oz	-0.6%	-6.1%

Total return indices unless otherwise stated

"It's been a whirlwind courtship. Because, little over six weeks after we met on this blind date, we're officially engaged."

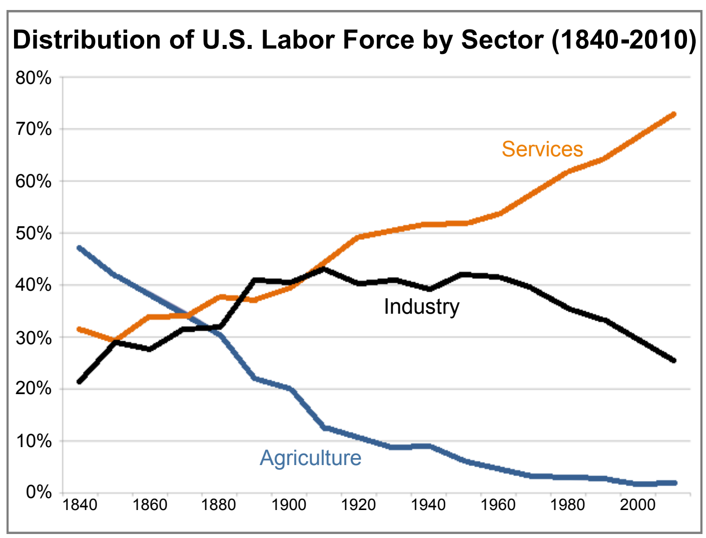
Whole Foods CEO and co-founder John Mackey on meeting with Amazon CEO Jeff Bezos and deciding to sell the company.

In a quiet quarter for investors, the sale of Whole Foods to Amazon got people's attention. For years, John Mackey zealously guarded the independence of Whole Foods, a firm he ran since co-founding it in 1980. Amazon, a firm founded by Jeff Bezos in 1995, has been recently pushing into the grocery space and making life more difficult for firms like Whole Foods. Mackey fully recognized the business challenges he was facing and decided the right course was to merge Whole Foods into Amazon.

The merger of Amazon and Whole Foods may signal if there is a limit to how far technology can replace the human touch. Whole Foods is known for its worker-first culture and that translates into a high level of customer service. Amazon is known as a brutally competitive place to work where efficiency is prized.

While news stories understandably report on the loss of coal mining and manufacturing jobs, the loss of retail jobs has been surprisingly absent in the press. Between 2001 and 2016, jobs at traditional department stores have fallen 46%[a]. Over this same time period, coal mining jobs have dropped 32%[a] and factory employment has fallen 25%[a]. These trends seem likely to continue. Amazon itself is working on stores without cashiers. Coal mining jobs have been displaced as wind, solar and natural gas have become cheaper due to technology gains and manufacturing workers face the reality of rapidly improving factory automation.

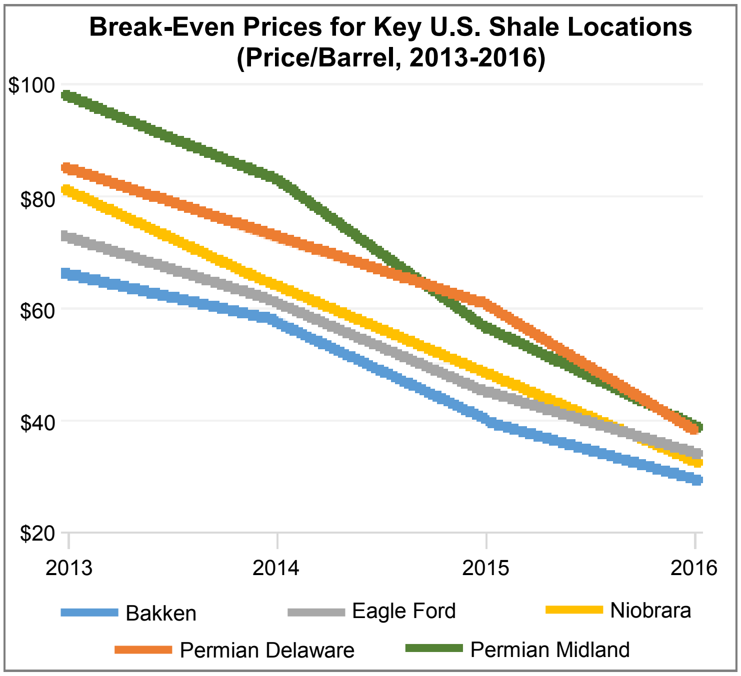
Bruce Greenwald, professor at Columbia Business School, makes a compelling case that manufacturing is 'dying' in the same way that agriculture did. In 1790, 90% of total U.S. jobs came from farming[c]. Technology and efficiency gains have relentlessly cut that number down to under 2%[d]. The same has been happening in manufacturing in recent decades. Employment for manufacturing has been dropping because technology-driven productivity growth is 5 – 7% per year while demand for manufactured goods is rising perhaps 3% annually[e].



Source: MinnPost, "History Lessons: Understanding the Decline in Manufacturing", Louis D. Johnston, 2/22/2012.

a. Department of Labor, CNN Money
b. Bloomberg
c. U.S. Department of Agriculture
d. World Bank
e. Bruce Greenwald, "U.S. Economic Outlook Forecast." Hyman P. Minsky Conference, April 12, 2016, Bard College.

And we're not just seeing it in manufacturing of goods. Below is a chart showing the cost of oil in key spots in the U.S. Just in the space of three years, producers have brought the cost of oil production to below $40 per barrel.



Source: Rystad Energy NASWellCube

So, what are the long-term investment implications?

1. These trends are clearly deflationary and we suspect inflation and interest rates will stay low as a result.
2. This relentless drive for efficiency suggests that high corporate profit margins could stay relatively high which would serve as support for global stock markets.
3. Countries that are export driven in order to protect manufacturing jobs could be challenged going forward. Already, China has lost its once sizable lead in the cost of manufacturing. We prefer countries and companies that are more service oriented and less dependent on exporting. The U.S. stands out as an example.

Market Thoughts

Global equities and bonds broadly appreciated during the second quarter as corporate earnings were strong and inflation stayed low. Economic strength outside the U.S. was surprisingly strong which led to a weaker U.S. dollar and higher returns for markets outside the U.S. These gains were marked by continued low volatility.

We do suspect, however, that volatility will return. With recent economic strength, central banks are broadly talking of reducing stimulus by either buying fewer bonds (Britain and the European Union) or by further raising rates (U.S.). The market would likely adjust with higher interest rates and potentially lower equity valuations if central banks were to tighten monetary conditions more than the market suspects.

In our Global Asset Allocation strategies, we continue to hold a neutral position towards stocks and have kept our average maturity for bonds on the shorter side. Longer term, our preference is to own equities as we feel the return will be greater than the low yields offered by the fixed income market.

Wellesley Investment Partners has been recognized by Financial Advisor magazine as one of the top 50 fastest growing Registered Investment Advisor in the United States with at least $250 million of assets under management[a]. We appreciate the trust you place in us and will work hard to continue to earn that trust.

We all hope you are having a pleasant summer, and we are here to answer any questions you may have.

Richard Sipley, CFA
Wellesley Investment Partners

a. Financial Advisor Magazine, "Top 50 Fastest-Growing Firms with more than $250M in AUM," July 2017. List consists of Registered Investment Advisors that reported their 2016 asset growth directly to Financial Advisor Magazine, and firms are ranked in terms of growth in percentage terms. In total, 638 firms submitted data to Financial Advisor Magazine. Ranking is not indicative of Wellesley Investment Partners' future growth.

NOTES AND DISCLOSURES