



Registered Investment Advisor Firm

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FRAUD ATTEMPTS

There has been a recent increase in incidents where cybercriminals use malware to gain access to your financial accounts online, and then initiate unauthorized disbursements, such as wire transfers.

How do you protect yourself? Davis Investment Group (DIG) follows several procedures to detect and prevent:

- DIG regularly monitors alerts from Schwab for unusual activity; especially client-initiated transactions. If we suspect fraud we contact Schwab and the client immediately.

- DIG confirms suspicious email instructions verbally, by calling the phone number listed. If you send a new phone number via email, that number will not be used for verification purposes. During the conversation we will confirm obscure facts.

- Schwab uses multiple-factor authentication.

The following are more DIG procedures but should also be part of your procedures:

- Avoid opening links and attachments, or downloading programs from unknown sources.

- refrain from using public Wi-Fi available in hotels, restaurants, airports, coffee shops or libraries, especially to conduct business.

- keep your operating system up-to-date and frequently run virus scans.

- use a firewall.

- use software patches when sent

- back up data frequently

We are continually reviewing our procedures, enrolling in detection and prevention webinars and closely monitoring client accounts for unusual activity

If you would like more information, please contact Bob Davis at DIG.

BALANCE SHEET UNWIND

The Federal Reserve (FED) left interest rates unchanged at its May meeting and signaled it will continue gradual tightening for the remainder of 2017.

Earlier in the year it announced it would

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start unwinding its \$4.5 trillion balance sheet.

The March meeting minutes noted the Fed's intention to start unwinding later this year. The Fed did not mention the balance sheet at its May meeting, more details are needed to make appropriate investment decisions. The Fed is in uncharted territory, and unwinding its balance sheet has the potential to spook investors and the markets.

The Fed began building its balance sheet during the financial crisis after near-zero interest rates failed to spur economic activity. The theory behind the Fed's Quantitative Easing (QE) program was that large scale asset purchases would increase the money supply and lead to economic growth. Some have concluded that the Fed accomplished its mission and it is time for the central bank to unwind.

In 2014 the Fed indicated that it would taper in a "gradual and predictable manner" after the Fed funds rate had normalized. However, what a normal rate looks like was never specified.

The method and the pace are of concern not only to the Fed but also to investors.

One hurdle is that a large portion of the portfolio matures in the next two years. The Fed is likely to slowly phase out reinvestments to smooth out the tapering. As the economy continues to improve, this phase out should be accomplished without too many problems.

Another problem is the fact that the Fed may not be alone in its efforts to unwind. Central banks across the globe followed the Fed's lead and entered an era of unprecedented monetary expansion after the financial crisis.

While it is difficult to anticipate the effect of synchronized monetary tightening across the globe, U.S. Treasuries have already experienced a sell-off. China sold \$281 billion over the last several years and was offset by big buyers. This should provide some peace of mind for investors that a large Treasury sell-off doesn't always result in market chaos.

Amid the uncertainty of how the Fed will unwind; how much the fed will unwind and whether Janet Yellen will stay as the Fed chair, a flight to quality could put downward pressure on yields. Navigating the unwinding will require prudent yield/duration/credit risk management. This is where DIG can help you.

If you need more information contact me so we can discuss.

FED Watch

No Fed action since the last meeting.

Market observers give an 83% chance of a quarter point rise in the Fed Funds at the next meeting, June 13th and 14th.

[Davis Investment Group](#)

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servicing the needs of clients across the United States.

Davis Investment Group custodies all client assets at Charles Schwab & Co. Davis Investment Group's home office is located at 714 Marin Street, Suite #C, Vallejo, CA 94590. The telephone number is (707) 648-2024.

If you have questions or would like further information on this month's topics or any other financial or investment related subjects, including Social Security claiming strategies, please contact me by phone or through my email address at:

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