October 12, 2017

We appreciate the opportunity to have each of you as our clients and thank you for the trust you have placed in us to provide financial planning and investment oversight services to you. We have enclosed a couple of reports about your portfolio (s) and your monthly billing statement.

## New highs and the fundamentals

The S&P 500 Index finished the quarter at a record high. Notably, the closely followed gauge of 500 large U.S. stocks ran up its quarterly winning streak to eight consecutive quarters (*WSJ*, MarketWatch data). This has happened in the face of three devastating hurricanes—Harvey, Irma and Maria, dysfunction in Washington and unsettling news from North Korea.

As we have written in the past, markets focus on fundamentals. Stocks take their longer-term marching orders from corporate profit growth. Profits are driven primarily by economic growth at home and abroad. We are in the midst, of a synchronized global expansion, which has created a strong tailwind for earnings.

Interest rates remain near historic lows, and the Federal Reserve hasn't been shy about signaling that any rate hikes are expected to come at a gradual pace. If we developed a recipe for a bull market, you would go heavy on profits, economic growth, and low interest rates—Oh, wait a minute—*that's today's environment!*

We understand the hurricanes have changed lives and wrecked property in Texas, Florida, and Puerto Rico. Short term, the economic data is taking a hit from the storms. Longer term, it's unlikely to have much impact on the economic trajectory.

While North Korea's quest for an ICBM that can strike the U.S. is very unsettling, short-term investors seem to be pricing in the unpredictability of the rogue regime. More importantly—speaking strictly from an investment perspective—investors aren't anticipating a disruption in the economic cycle. So, while you should be prepared for more troubling news, it simply isn't affecting U.S. or world economic activity.

The IMF in their World Economic Outlook, October 2017 publications states "The global upswing in economic activity is strengthening, with global growth projected to rise to 3.6 percent in 2017 and 3.7 percent in 2018. Broad-based upward revisions in the euro area, Japan, emerging Asia, emerging Europe, and Russia more than offset downward revisions for the United States and the United Kingdom".

We do not see any indicators pointing to a near term recession which would cause the market to go down in price significantly. Markets will continue to react to geo-political events but until the fundamentals change, we should continue to see rising economic growth which creates higher corporate earnings which creates higher stock markets.

**Table 1: Key Index Returns**

| | MTD % | YTD % | 3-year* % |
|---|---|---|---|
| **Dow Jones Industrial Average** | +2.1 | +13.4 | +9.5 |
| **NASDAQ Composite** | +1.1 | +20.7 | +13.0 |
| **S&P 500 Index** | +1.9 | +12.5 | +8.4 |
| **Russell 2000 Index** | +7.4 | +9.9 | +10.1 |
| **MSCI World ex-USA**** | +2.3 | +16.5 | +1.8 |
| **MSCI Emerging Markets**** | -0.6 | +25.5 | +2.5 |
| **Bloomberg Barclays US Aggregate Bond TR** | -0.5 | +3.1 | +2.7 |

Source: Wall Street Journal, MSCI.com, MarketWatch, Morningstar
MTD returns: August 31, 2017-September 29, 2017
YTD returns: December 30, 2016-September 29, 2017
*Annualized
**In U.S. dollars

## Some Thoughts on Tax reform

"Don't tax you, don't tax me, tax that man behind the tree," was attributed to the late Louisiana Senator Russell Long, who chaired the powerful Senate Finance Committee from 1966 to 1981 *(NYT)*. He assisted with tax reform in 1986, and Congress is now considering the first major rewrite of the tax code since then. The initiative that's been proposed by the President and the Congressional Republican leadership is simply a blueprint.

The framework is silent on how dividends and capital gains will be treated, and no mention has been made of the 3.8% surtax on investment income for high-income Americans. Based on recent outlines, tax brackets will be reduced, certain itemized deductions will go away with an increased standard deduction to offset the impact. The outline calls for special treatment for retirement accounts, but no other details were provided.

A 20% top corporate rate has been proposed, down from 35% which is roughly in-line with most developed nations. This rate would be supportive of stocks since it would immediately increase earnings due to the lower tax burden. The debate and the political process has just started so nothing can be used to determine any potential changes to your plans until a more concrete bill is created with likelihood of passage.

Should have any questions, please contact us. We look forward to seeing many of you in the coming months as we have our regular meetings.

Quintin & Ginny