2018 State of the Economy

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State of the Firm

1. **Recognized as a "Best Managed Firm"**
   - One of 79 RIAs out of 1,321 participants from Charles Schwab's annual study
   - Of the top 79 firms – we ranked in top half of group

2. **Accepted to the Charles Schwab Referral Program**
   - Only local wealth manager to participate
   - Part of a nationally recognized group of firms

State of the Firm (cont.)

3. **Continued growth of the business**
   - Currently manage over $475 million in client assets
   - Client referrals have never been stronger – THANK YOU
   - Level of service to our clients is key to our growth
   - 8 Professionals including 4 CFP®s, 1 CPA, 1 AIF®, and 1 CFP Candidate

4. **Technology Updates**
   - Bloomberg
   - Yodlee
   - Mobile Apps
   - Financial Planning Integration

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2017: A Historical Year

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2017 Outlook Review

1. Labor market & rising wages supports economic growth
   - ***Portfolio Positioning***: Overweight Technology, Financials & Consumer-oriented names (focused on U.S. Regional Banks & Housing Industry)

2. Interest rates and inflation expectations may rise above current levels
   - ***Portfolio Positioning***: Underweight Fixed Income relative to Equities (focused on higher credit quality & lower duration)

3. U.S. Dollar strengthens subject to higher rates & trade policies
   - ***Portfolio Positioning***: Increased exposure to Small & Mid Cap stocks while overweight U.S. stocks relative to both Developed and Emerging Markets

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What Actually Happened...

- Equities posted their best year since 2013
- Unemployment hit a 17 year low while wage growth picked up towards year end
- Bond yields ended the year where they began
- Volatility receded to multi-decade lows
- A historic tax reform bill passed

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Historically Low Volatility

- 2017 was the first year in the history of the S&P 500 Index to have a positive return in every calendar month
- Through January 2018, the index has been positive for 15 consecutive months for the first time in 60 years
- Slow & Steady rise – best single day was +1.38%
- 14 Months without a 3% Decline – longest ever
- Lowest sustained level on VIX since 1995

Volatility Returns in 2018

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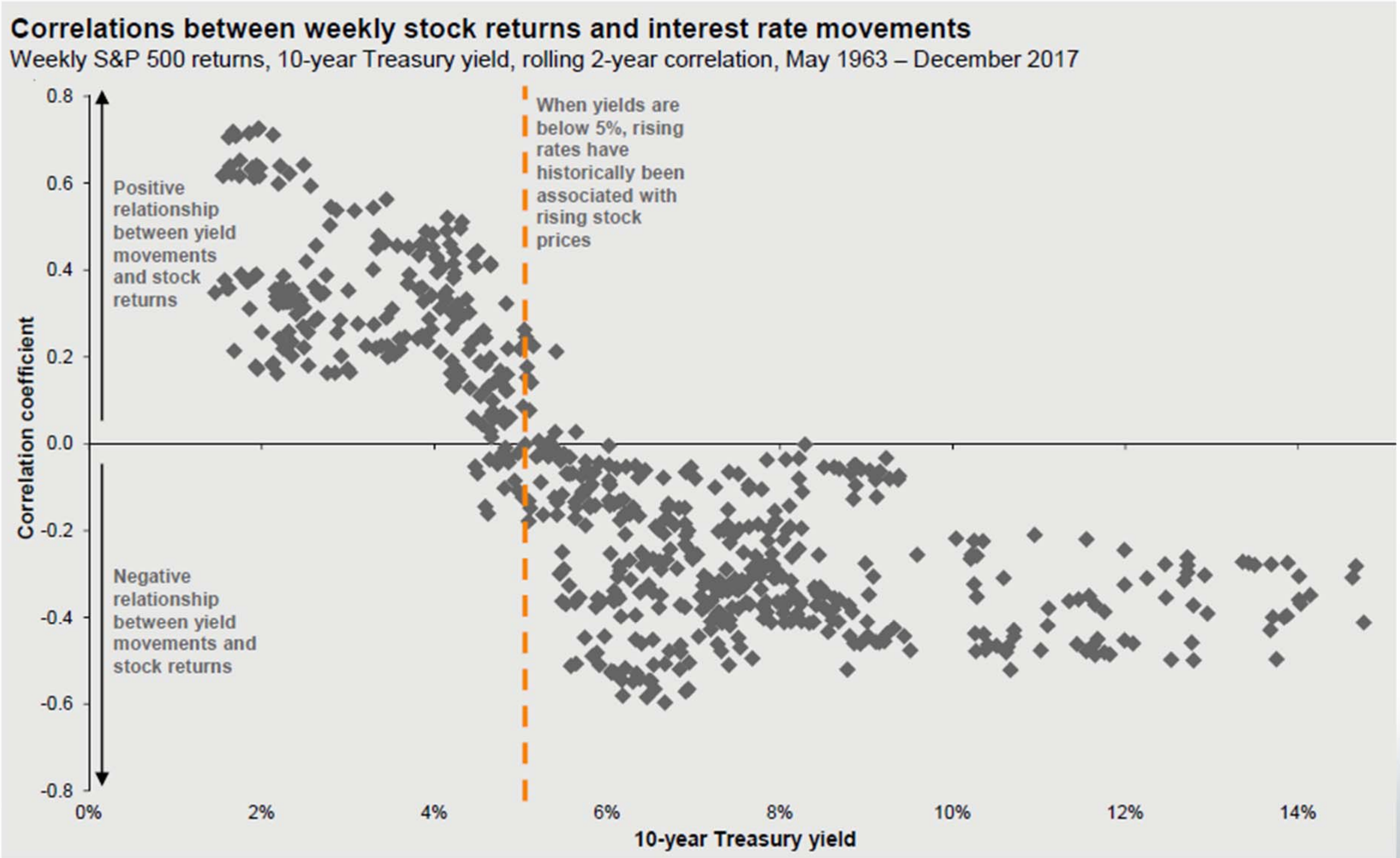
What Happened this Week?
Cause & Effect

- Strong jobs report acted as a catalyst to the sell-off
  - 2.9% wage growth was key
- Wage growth caused inflation concerns
- Inflation concerns caused interest rate hike fears
- Interest rate fears caused sell-off in the markets

How Rising Interest Rates Impact Stocks



Source: FactSet, Standard & Poor's, FRB, J.P. Morgan Asset Management.
Returns are based on price index only and do not include dividends. Markers represent monthly 2-year correlations only.
Guide to the Markets – U.S. Data are as of December 31, 2017.

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We've Seen this Trend Before

S&P 500 price performance after first 18 trading days - Best 10 Starts to the Year (1928-2018)				
Year	YTD change (day 18)	Rest of year (from day 18)	Entire year	Maximum intra-year drawdown
2018	7%	?	?	?
Average	**8%**	**1%**	**9%**	**-20%**
Median	**7%**	**8%**	**19%**	**-13%**

- Source: Charles Schwab

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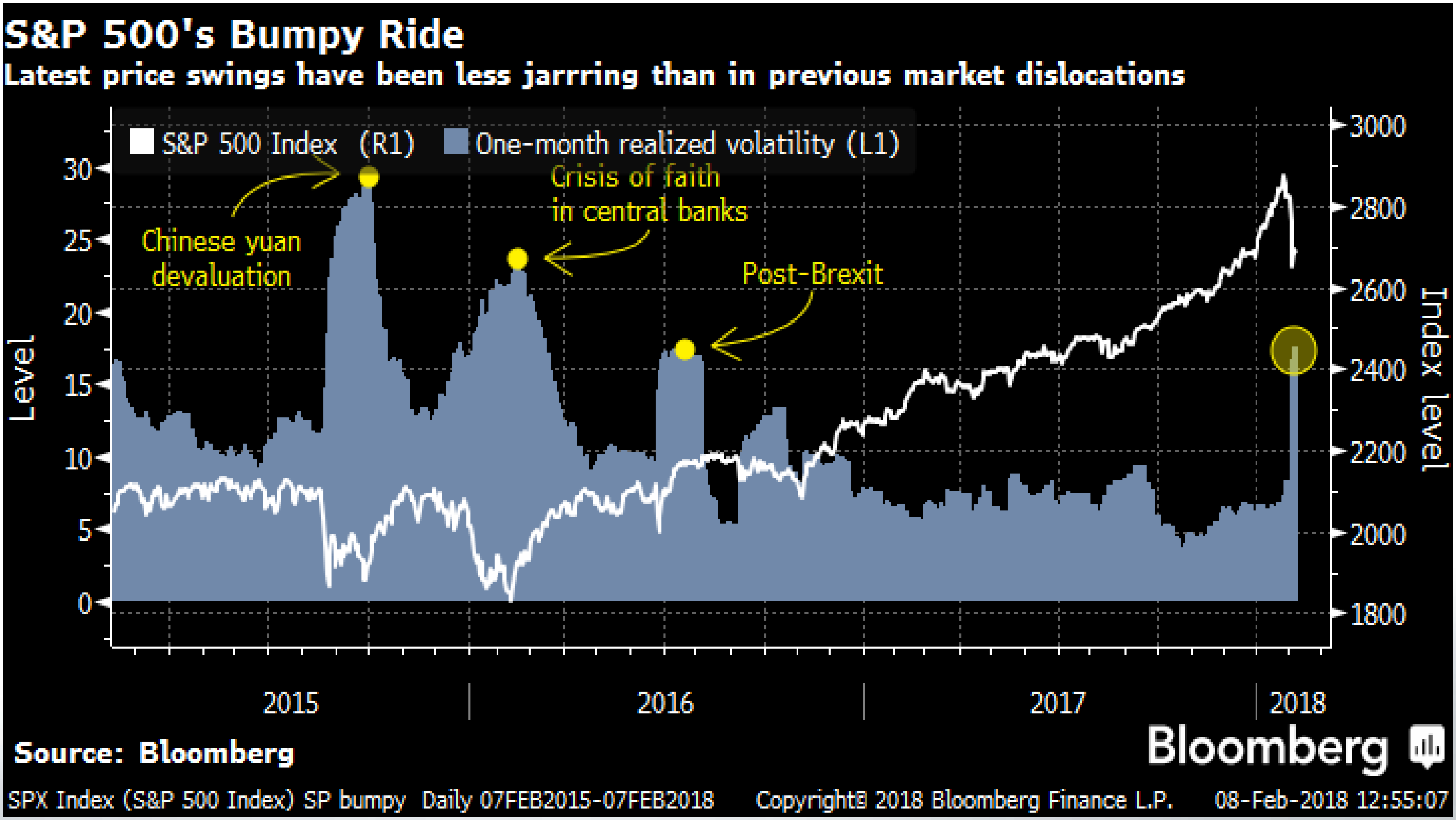
Less Volatile Than Last Correction



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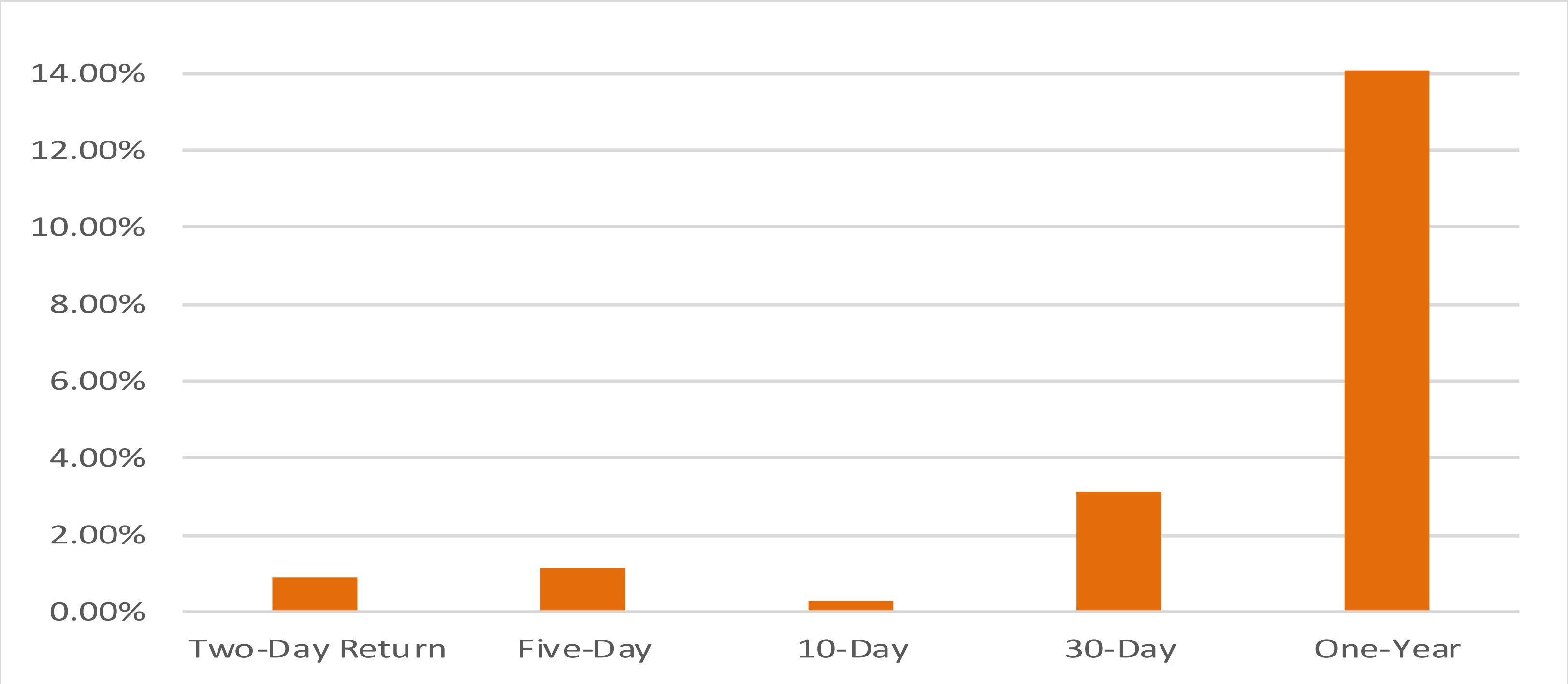
Stocks Tend to Gain After Sharp Declines

Median Return of the S&P 500 Index after one-day decline of at least 4% during non-recession years since 1928



- Source: Bloomberg

2018 Outlook: U.S. Economic & Equity Markets

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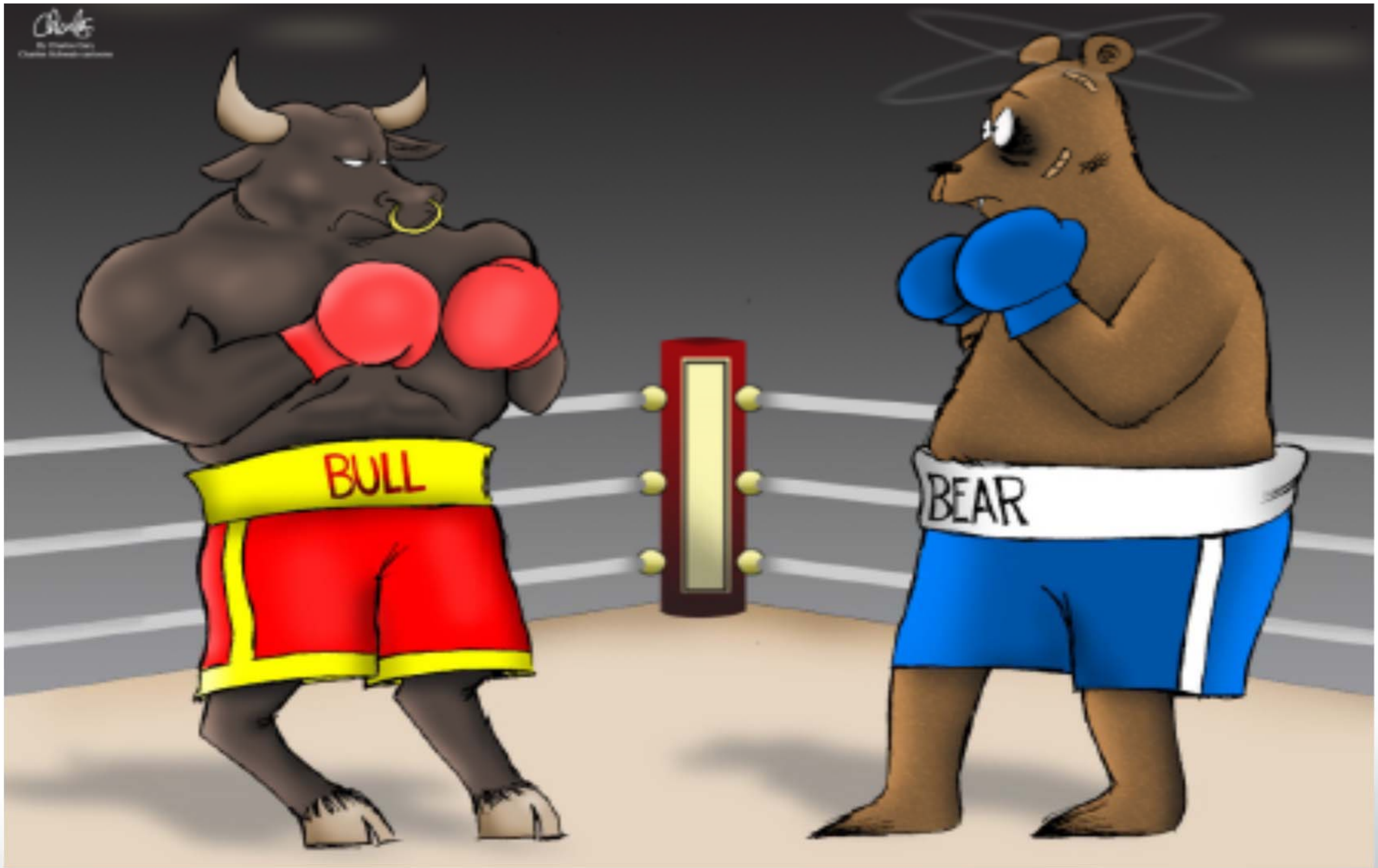
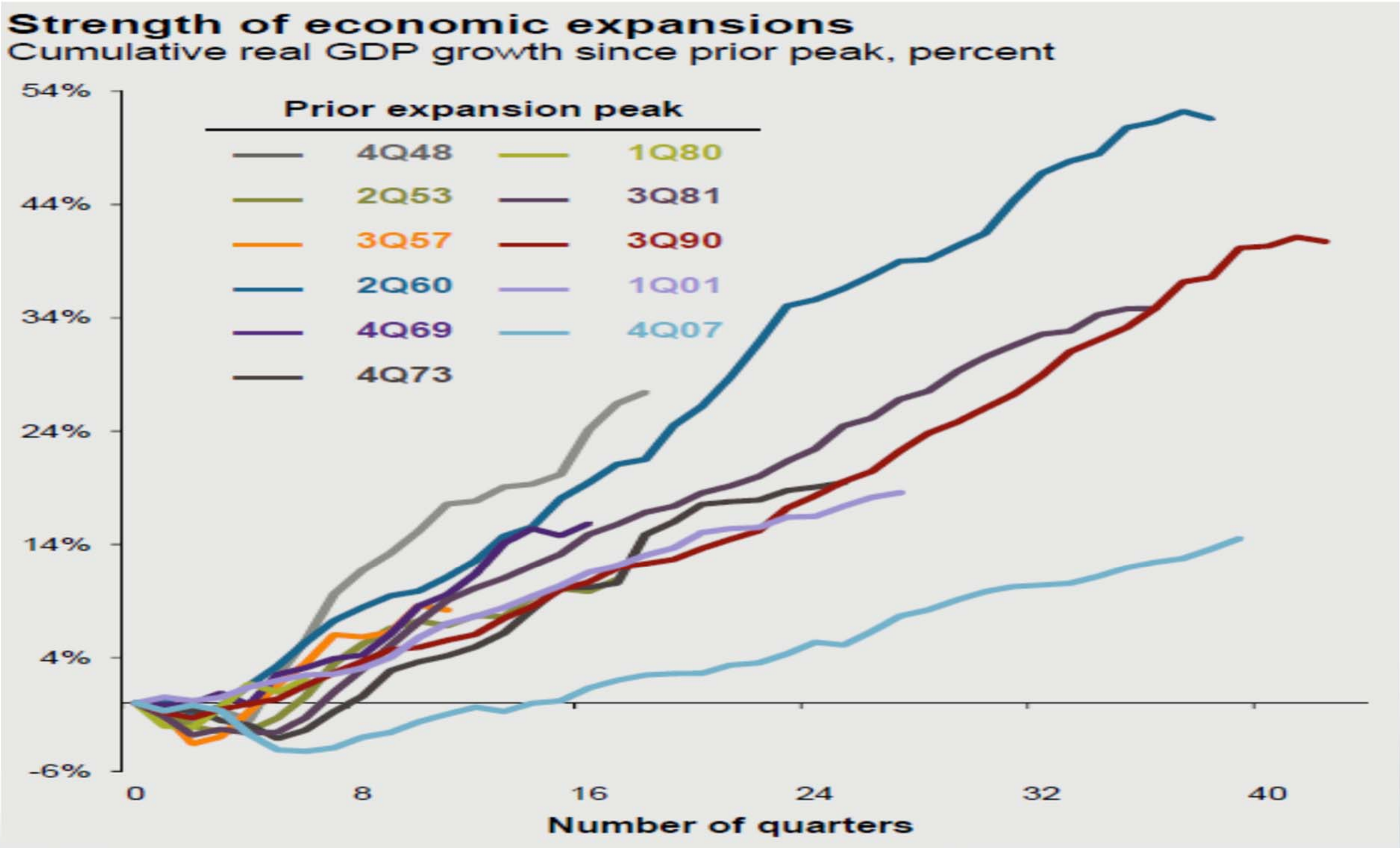
The Fight Continues...



One of longest but weakest recoveries since 1900



- Source: JPM, BEA, NBER

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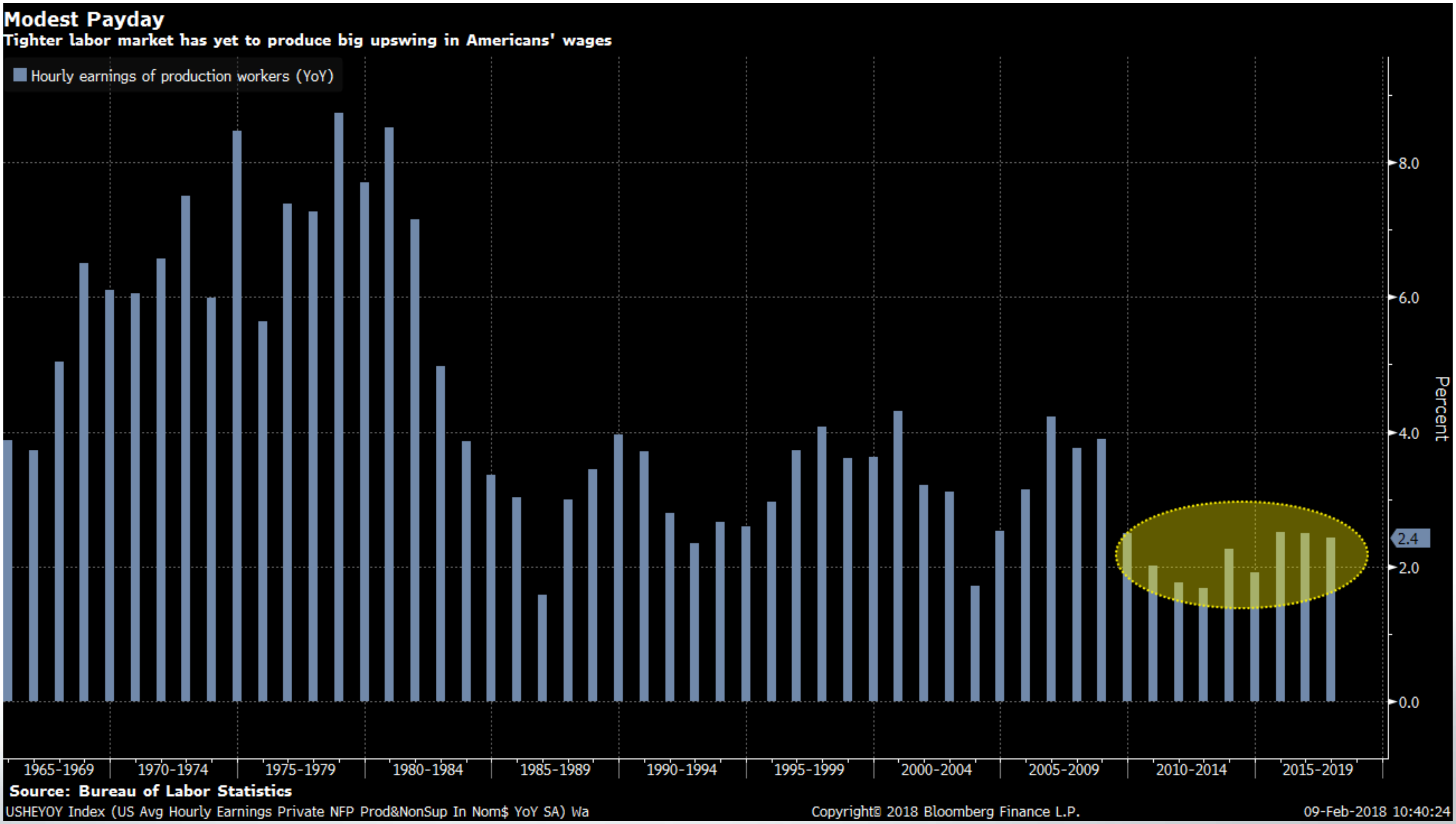
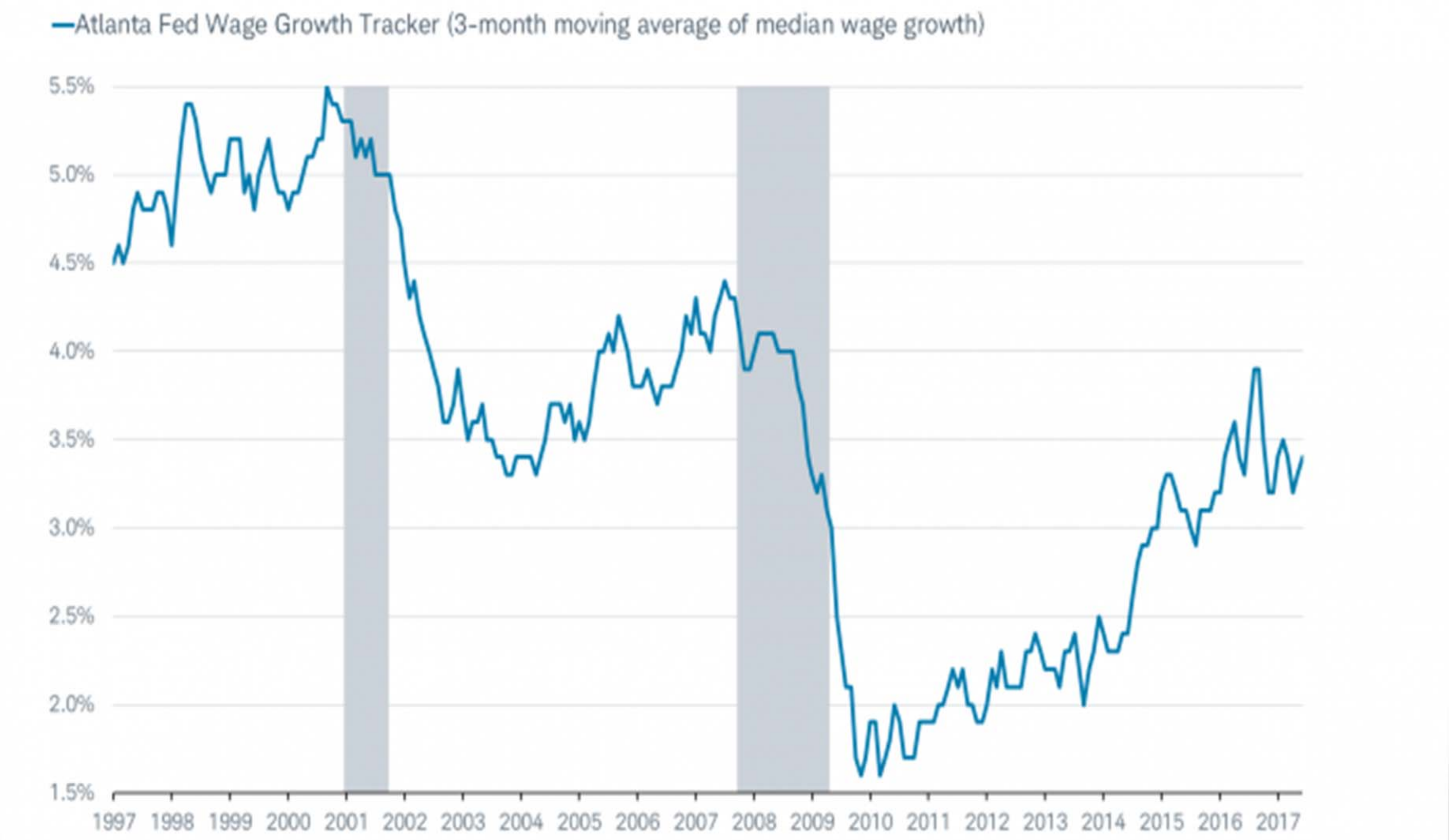
Wage Growth is (was?) the Missing Piece…



A Different Wage Growth Story



Source: Federal Reserve Bank of Atlanta calculations, as of August 31, 2017. Gray-shaded areas represent periods of recession.

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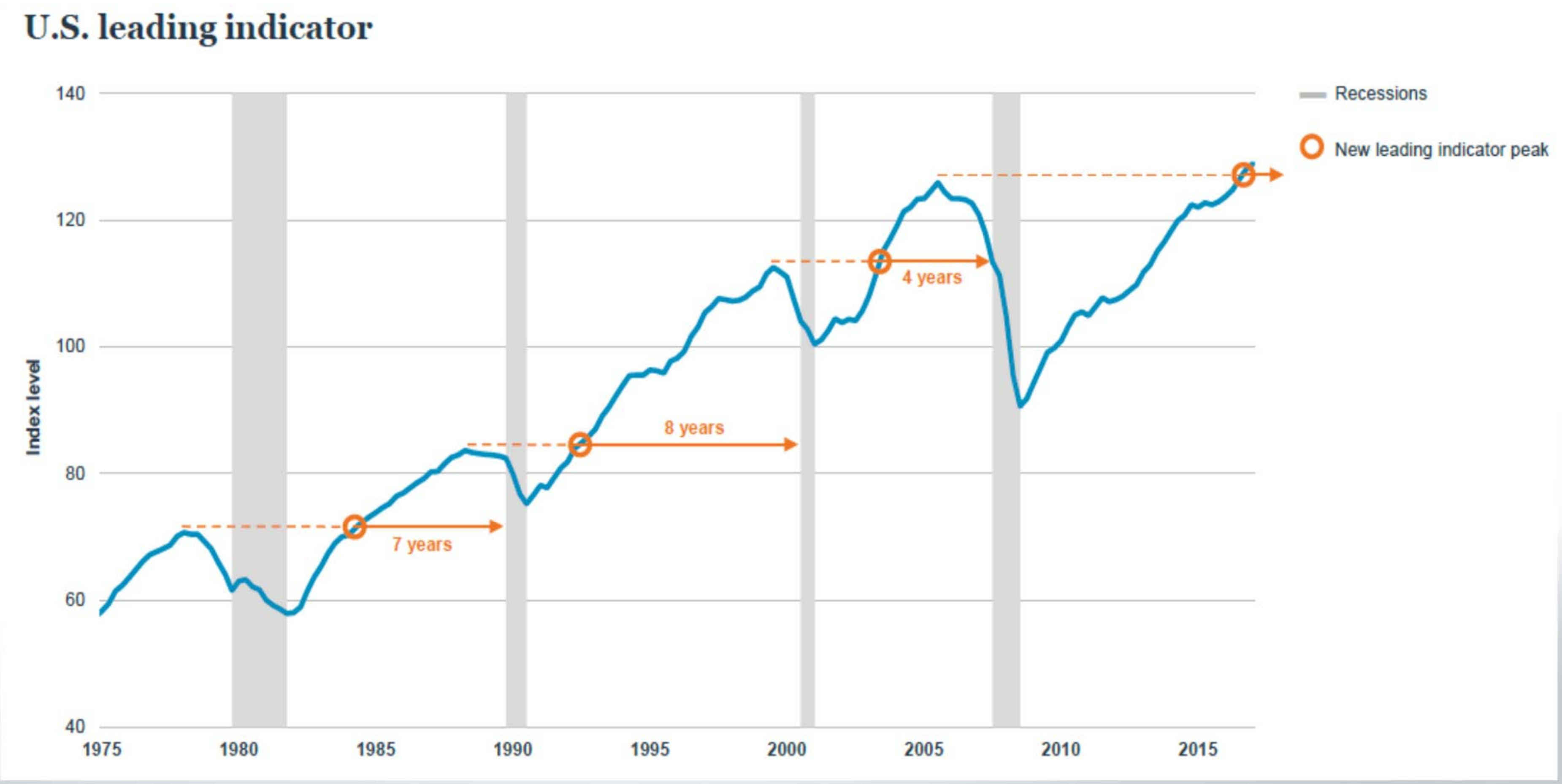
Recessions start on average 6 years after new leading indicator peak



- Source: Evercore ISI

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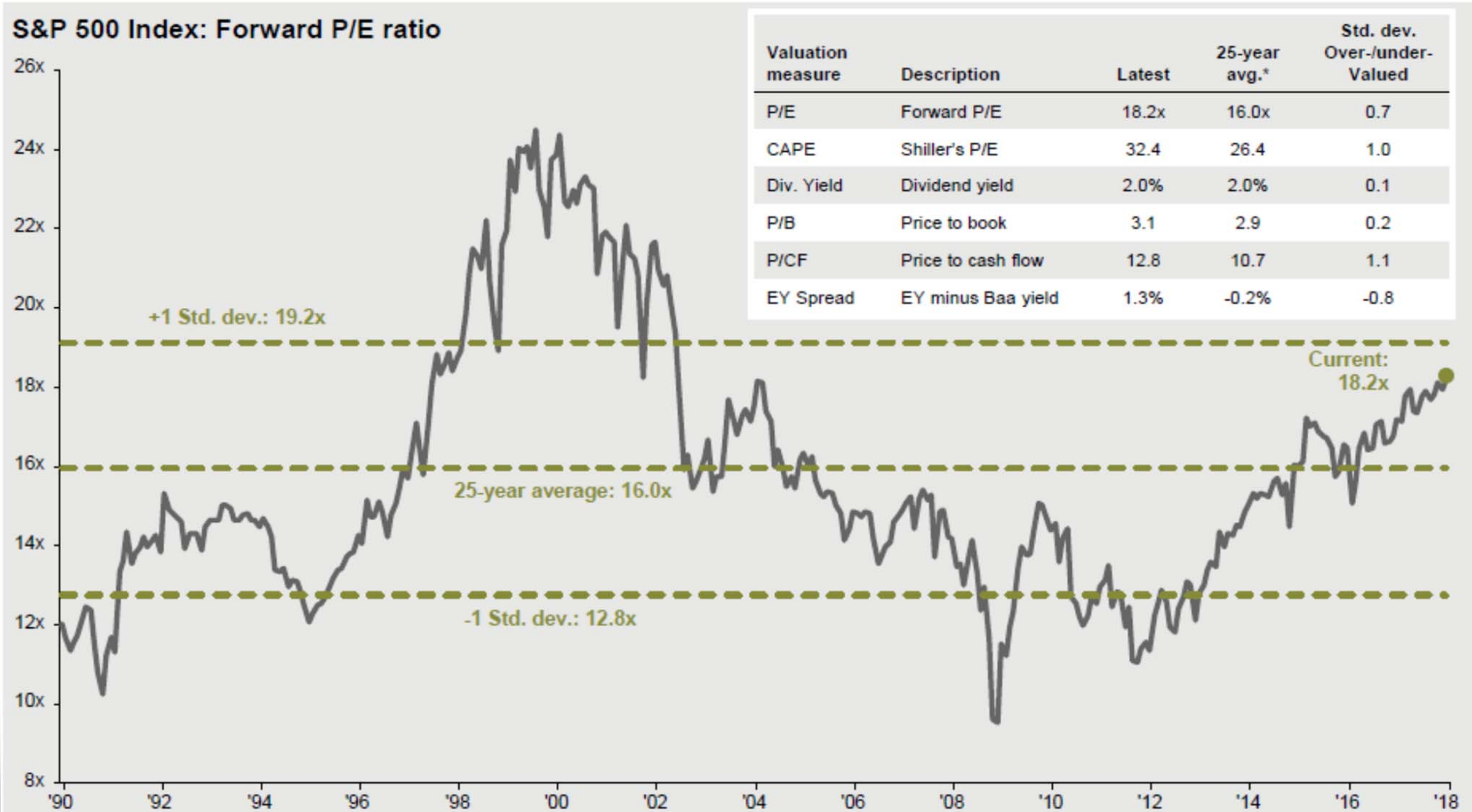
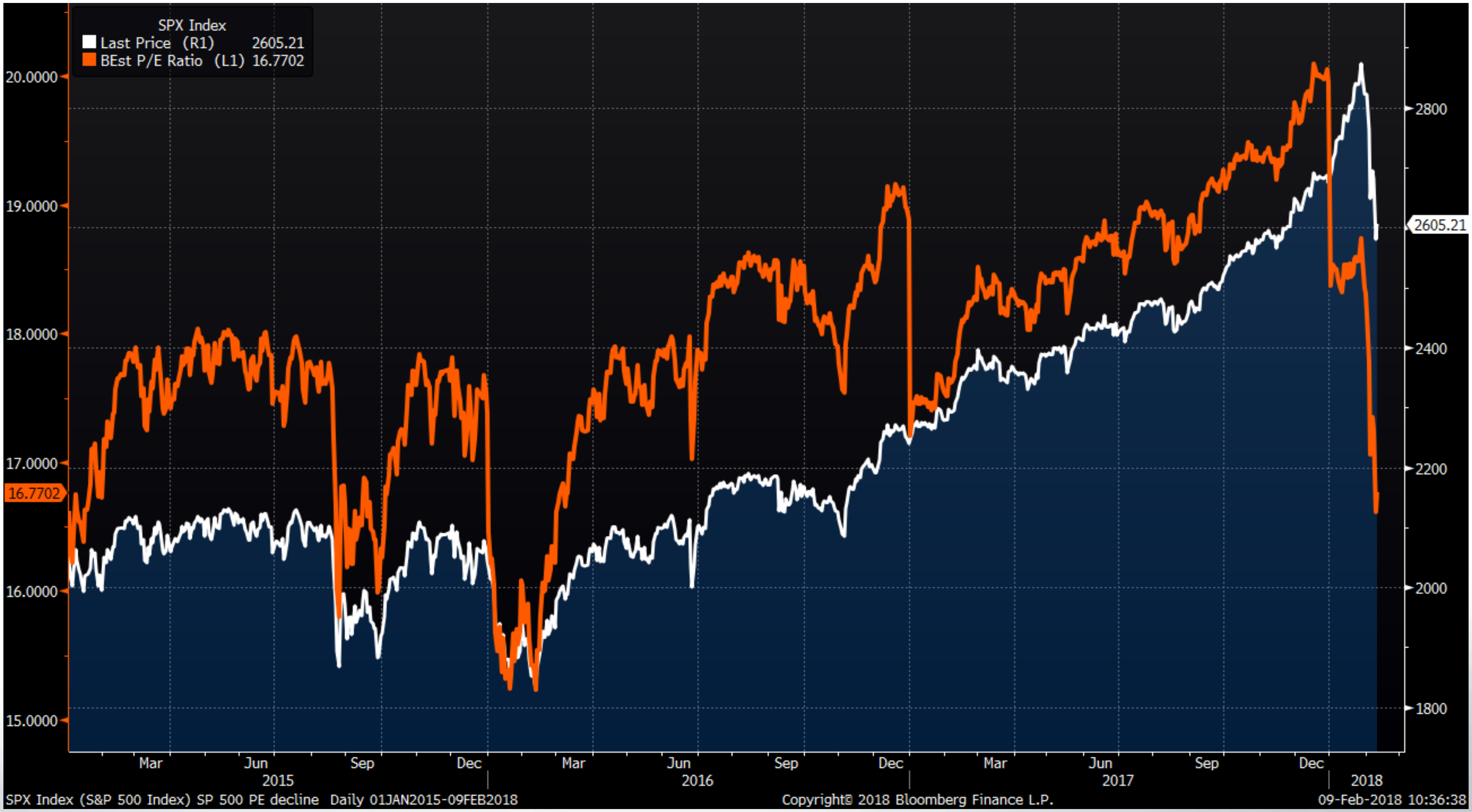
Valuations Still Well Off Historical Highs



Valuation measure	Description	Latest	25-year avg.*	Std. dev. Over-/under-Valued
P/E	Forward P/E	18.2x	16.0x	0.7
CAPE	Shiller's P/E	32.4	26.4	1.0
Div. Yield	Dividend yield	2.0%	2.0%	0.1
P/B	Price to book	3.1	2.9	0.2
P/CF	Price to cash flow	12.8	10.7	1.1
EY Spread	EY minus Baa yield	1.3%	-0.2%	-0.8

Source: FactSet, FRB, Thomson Reuters, Robert Shiller, Standard & Poor's, J.P. Morgan Asset Management.

And Became Cheaper Due to Recent Volatility



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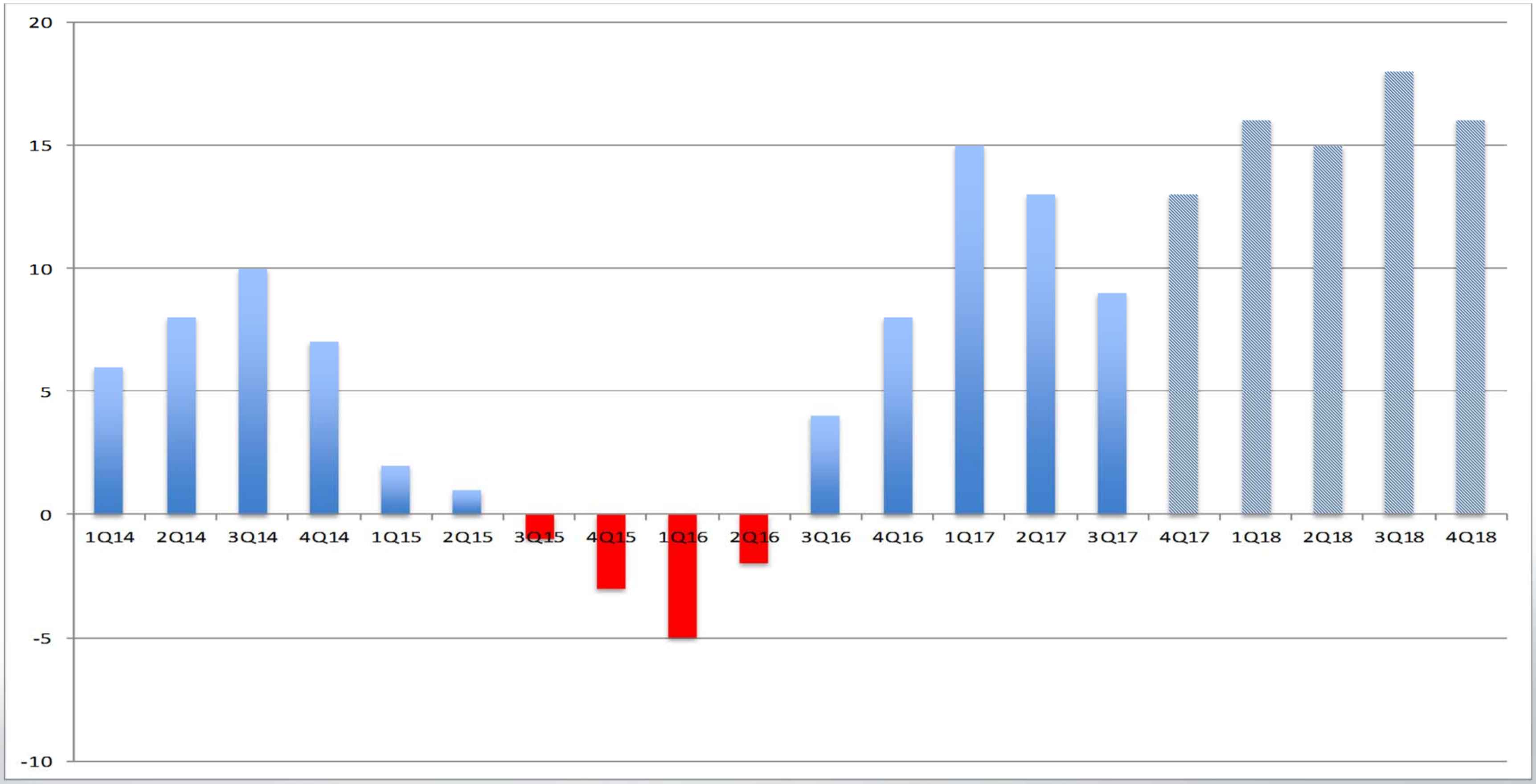
Economic Expansion Drives Earnings

S&P 500 Operating Earnings (y/y % change)



- Source: Charles Schwab, Thomas Reuters

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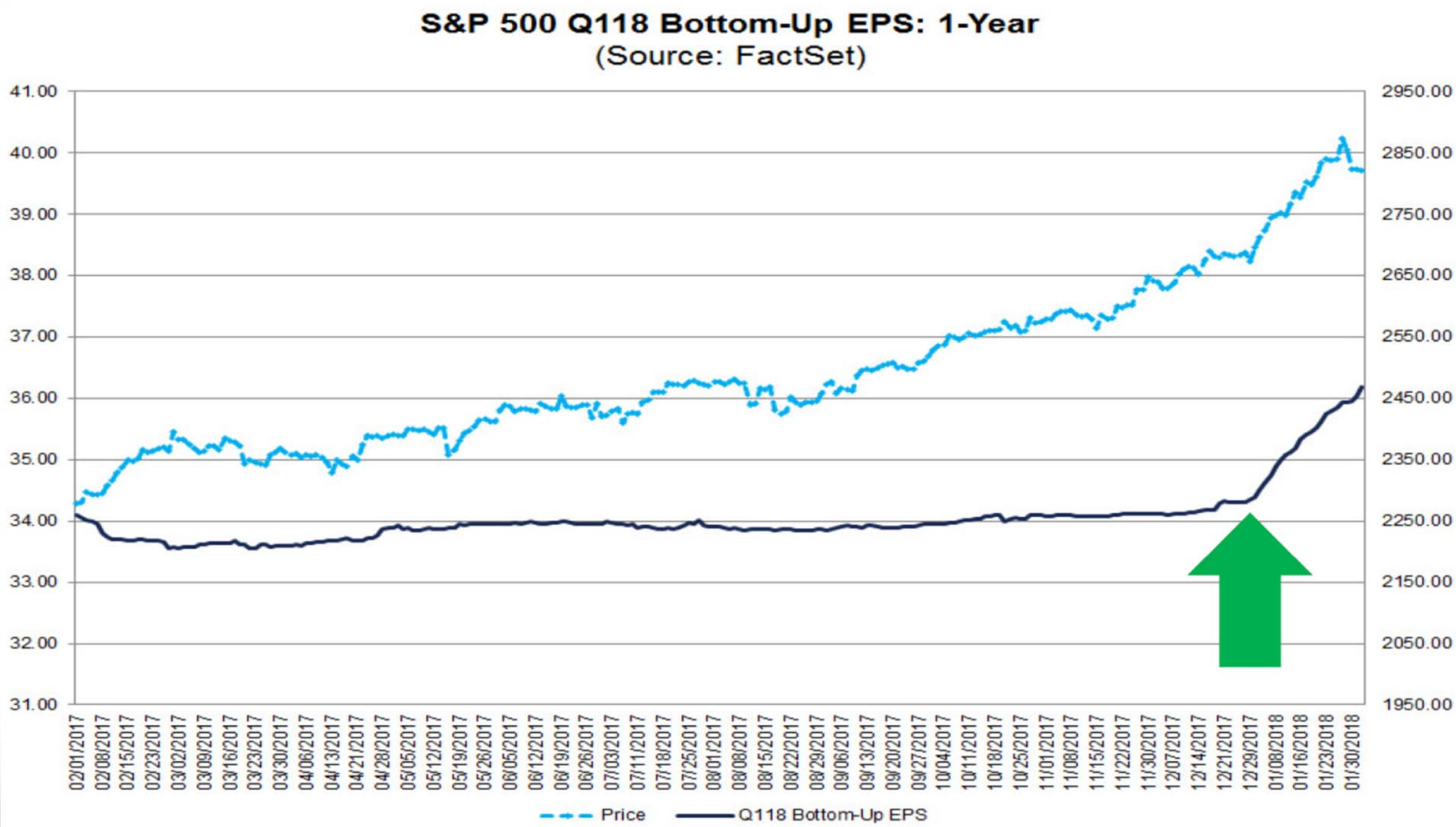
Impact of Lower Corporate Tax Rates



- Source: FactSet

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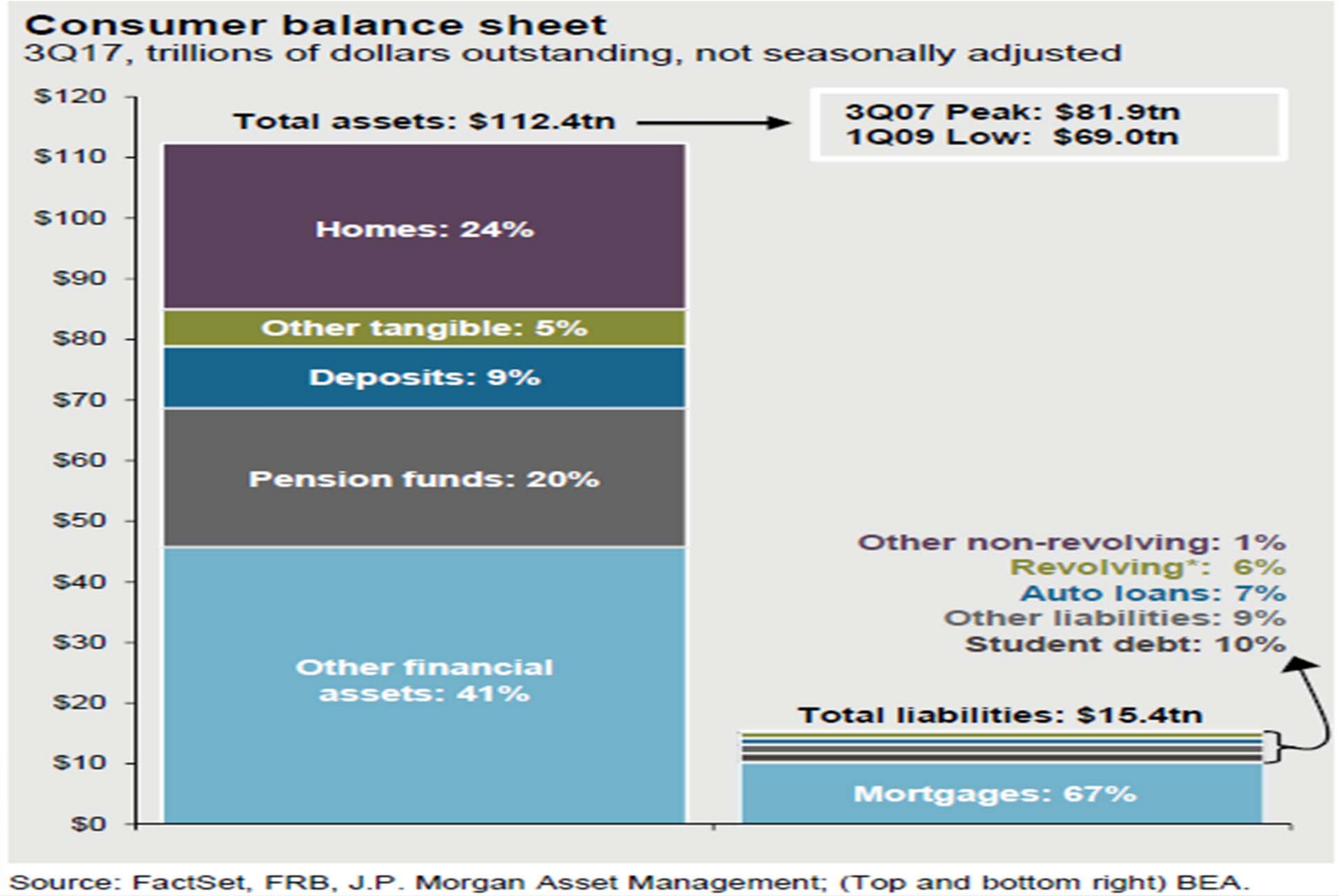
U.S. Consumer Not Over-Leveraged



- Source: FactSet, J.P. Morgan Asset Management, Federal Reserve System, BEA

Reasons for optimism

1. Risk of recession (both U.S. & Global Economies) is low

2. Increased consumption supported by wage growth and strong household balance sheets will drive economic growth

3. U.S. Equity Market (S&P 500) is fairly valued driven by earnings expansion

4. Lower corporate tax rates has begun to impact earnings and may result in double-digit growth rates in first half 2018

Do Bubbles Exist in Today's Market?

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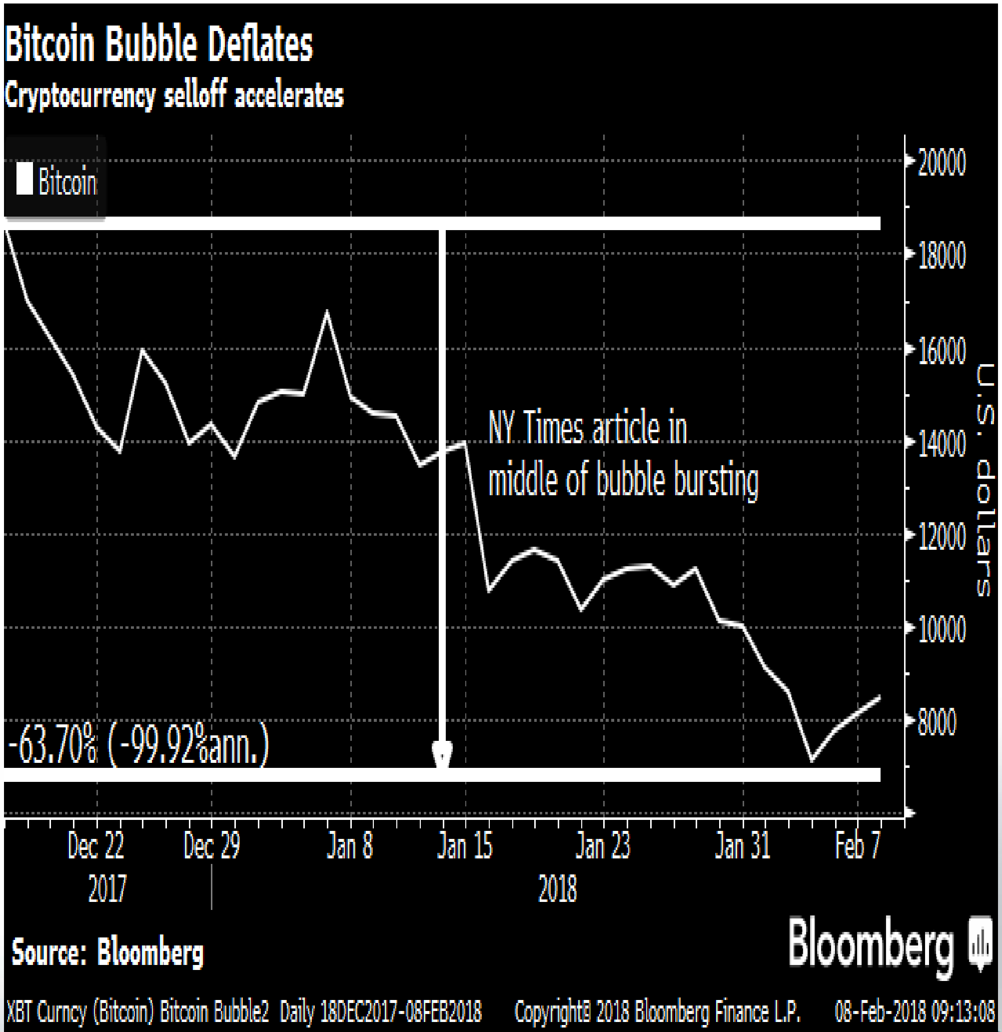
The Bitcoin Bubble…

Everyone Is Getting Hilariously Rich and You're Not

Leer en español

By NELLIE BOWLES JAN. 13, 2018

The Bitcoin Bubble

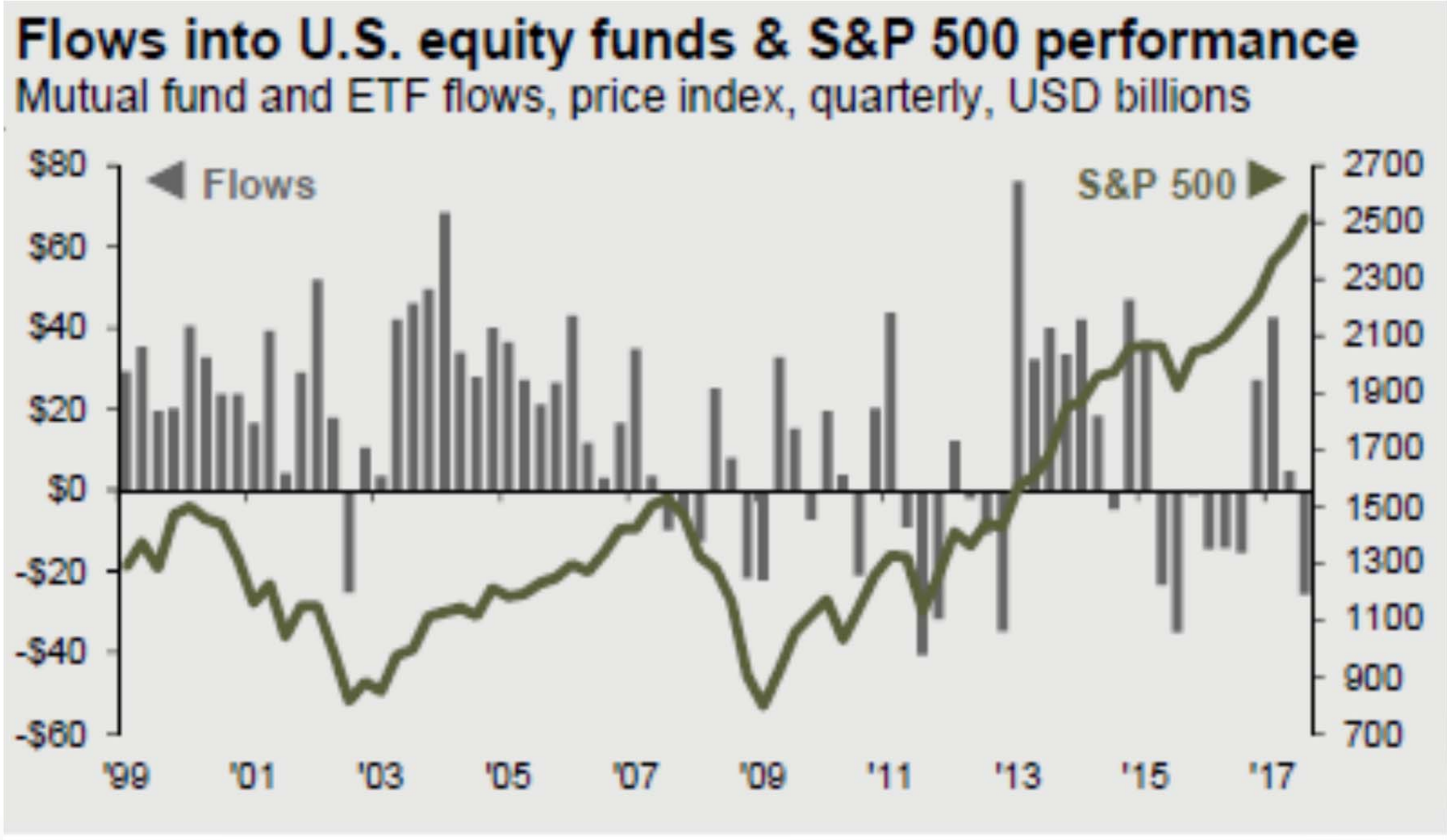


Bull Markets

“Bull markets are born on pessimism, grow on skepticism, **mature on optimism**, and die on euphoria”

- *Sir John Templeton*

This bull market remains unloved



- Source: Strategic Insight Simfund, JPM

If Volatility Continues Should we be Concerned?

- Let’s look at S&P 500 returns since the past 3 market peaks prior to a bear market
  - 1987 – 9.6% annualized return since peak
  - March, 2000 – 5.7% annualized return since peak
  - September 2008 – 7.5% annualized return since peak
- Conclusion - Volatility shouldn’t prevent investing in stocks for a long-term investor

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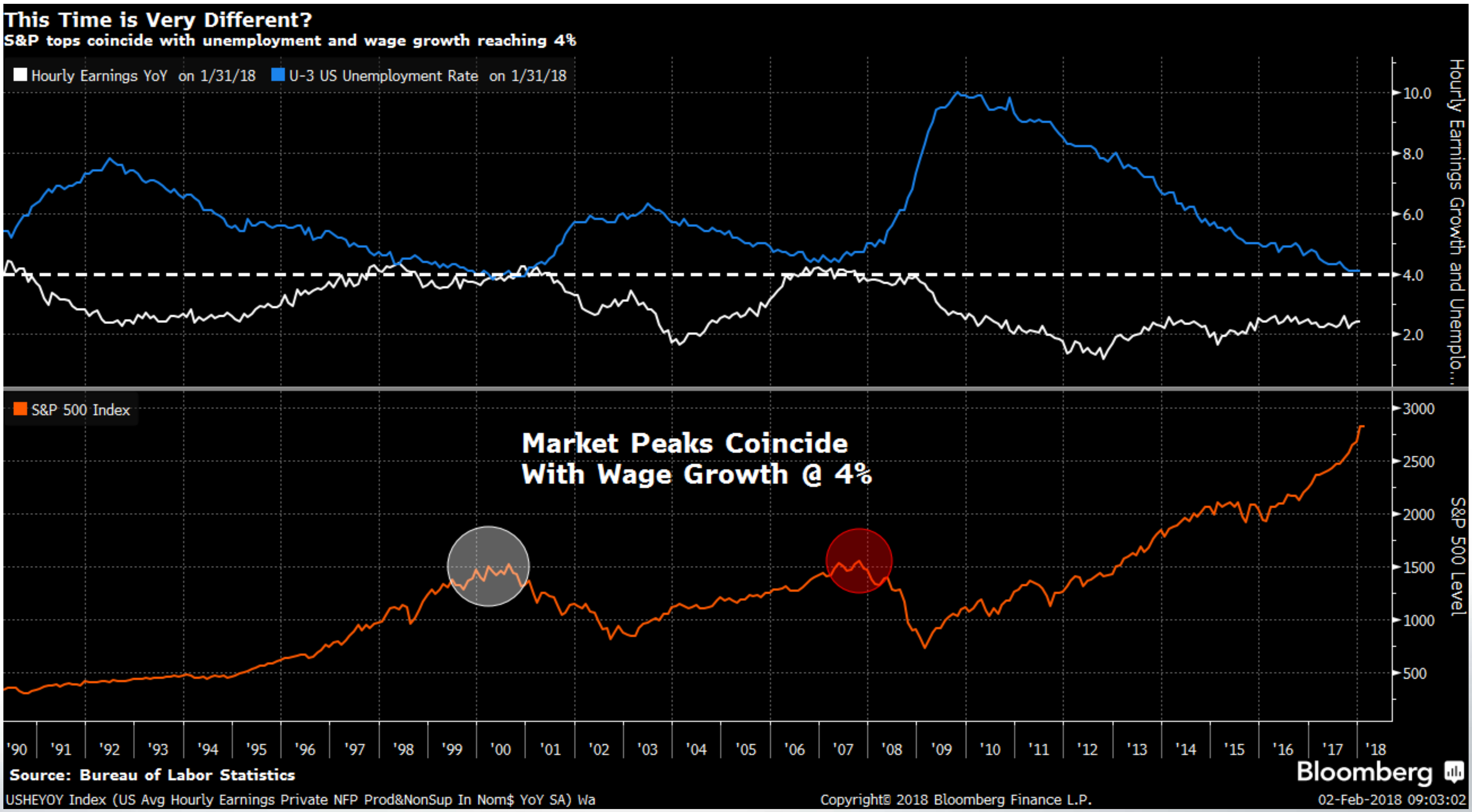
Higher Wages as a Tipping Point?



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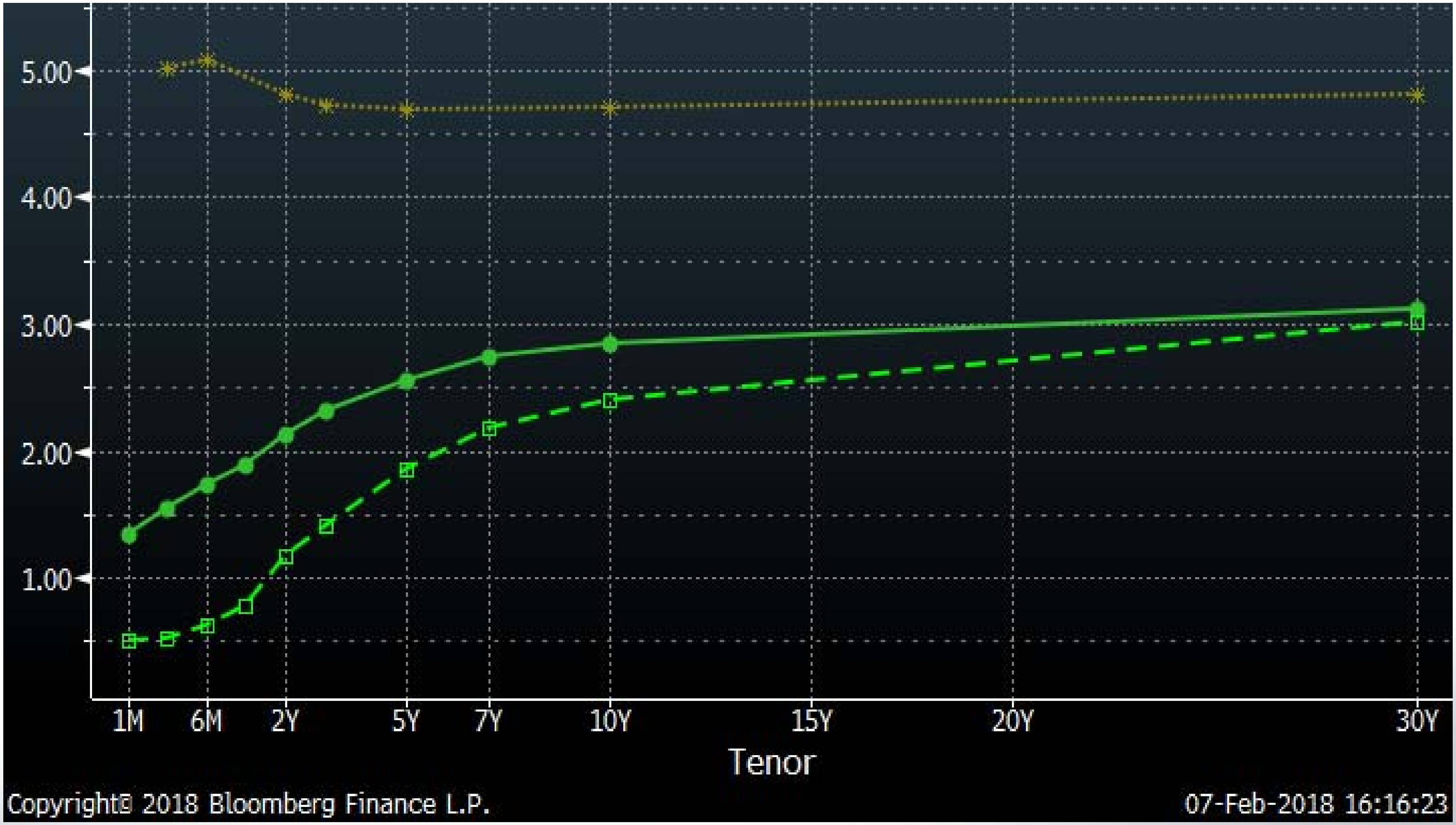
What is a Yield Curve?



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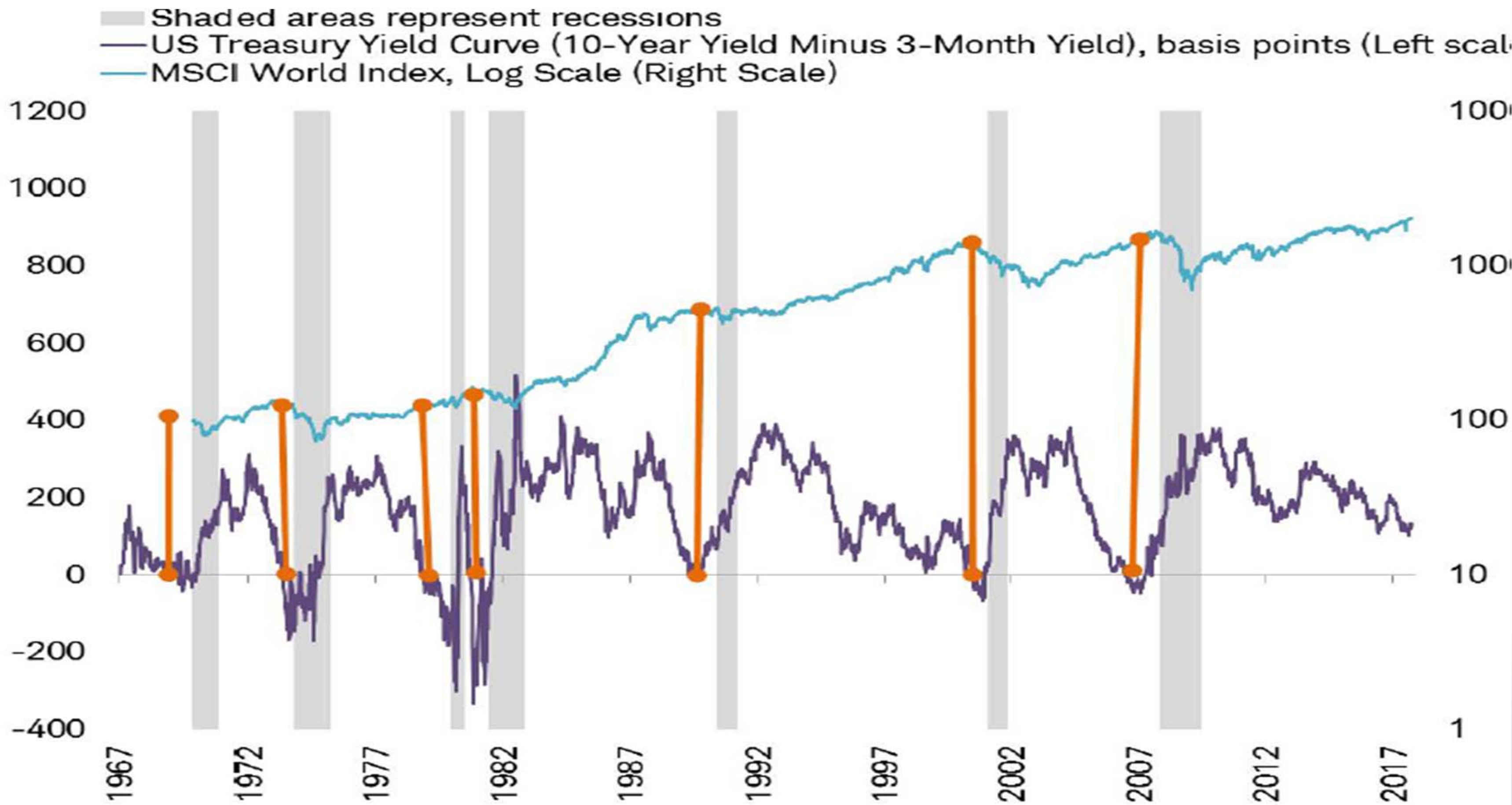
Yield Curve as a Recession Indicator



Past performance is no guarantee of future results.
Source: Charles Schwab, Factset data as of 10/30/2017. Orange bars indicate when yield curve began to invert.

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Geopolitical Risks to Monitor

Events	Key sources of geopolitical risk in 2018
Election	Italy, Brazil, Mexico
Negotiation	Brexit (UK & Eurozone), NAFTA (U.S., Mexico, Canada)
Conflict	North Korea, Saudi-Iran, Afghanistan, South China Sea
Crisis	Venezuela, Yemen
Provocation	Russia, China, United States

- Source: Charles Schwab

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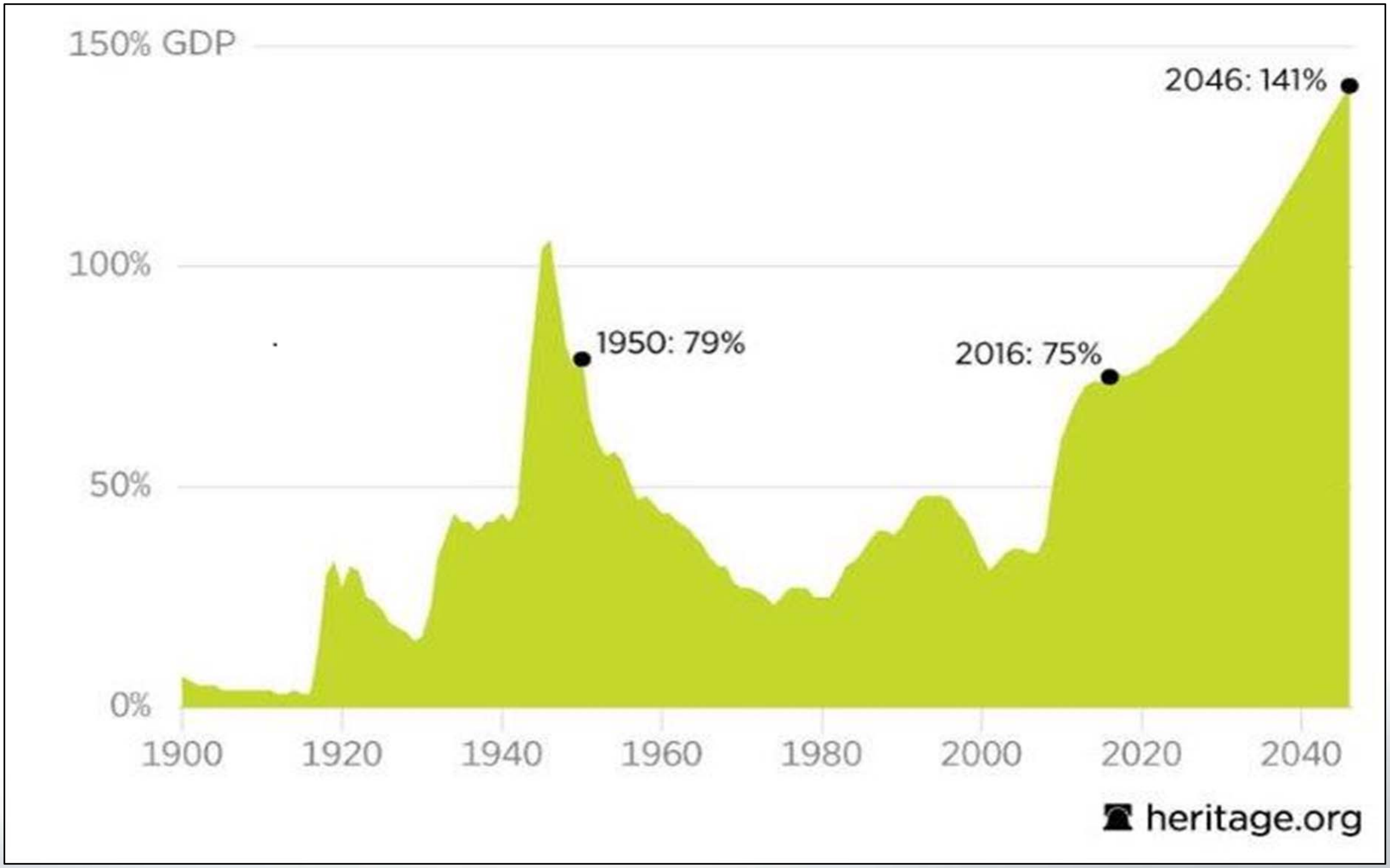
Major Risk We Are Monitoring

1. Inflation increases above expectations, causing Fed to tighten more than expected

2. Greater Uncertainty from Washington –Trade Wars & Burgeoning Budget Deficit

3. Global Geo-political instability

U.S. National Debt



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2018 Outlook: International Markets

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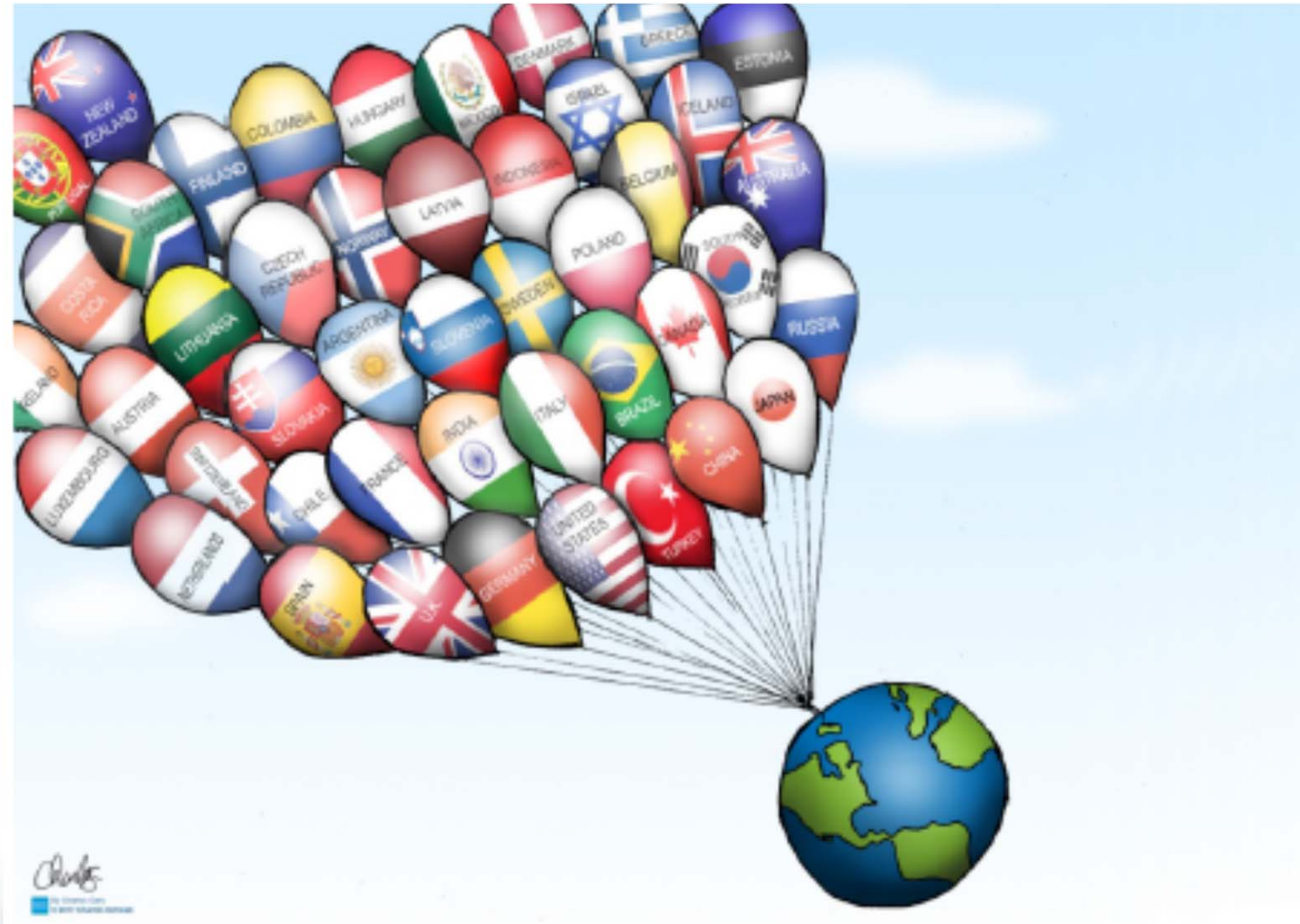
Every Major Country Lifting Global Economy



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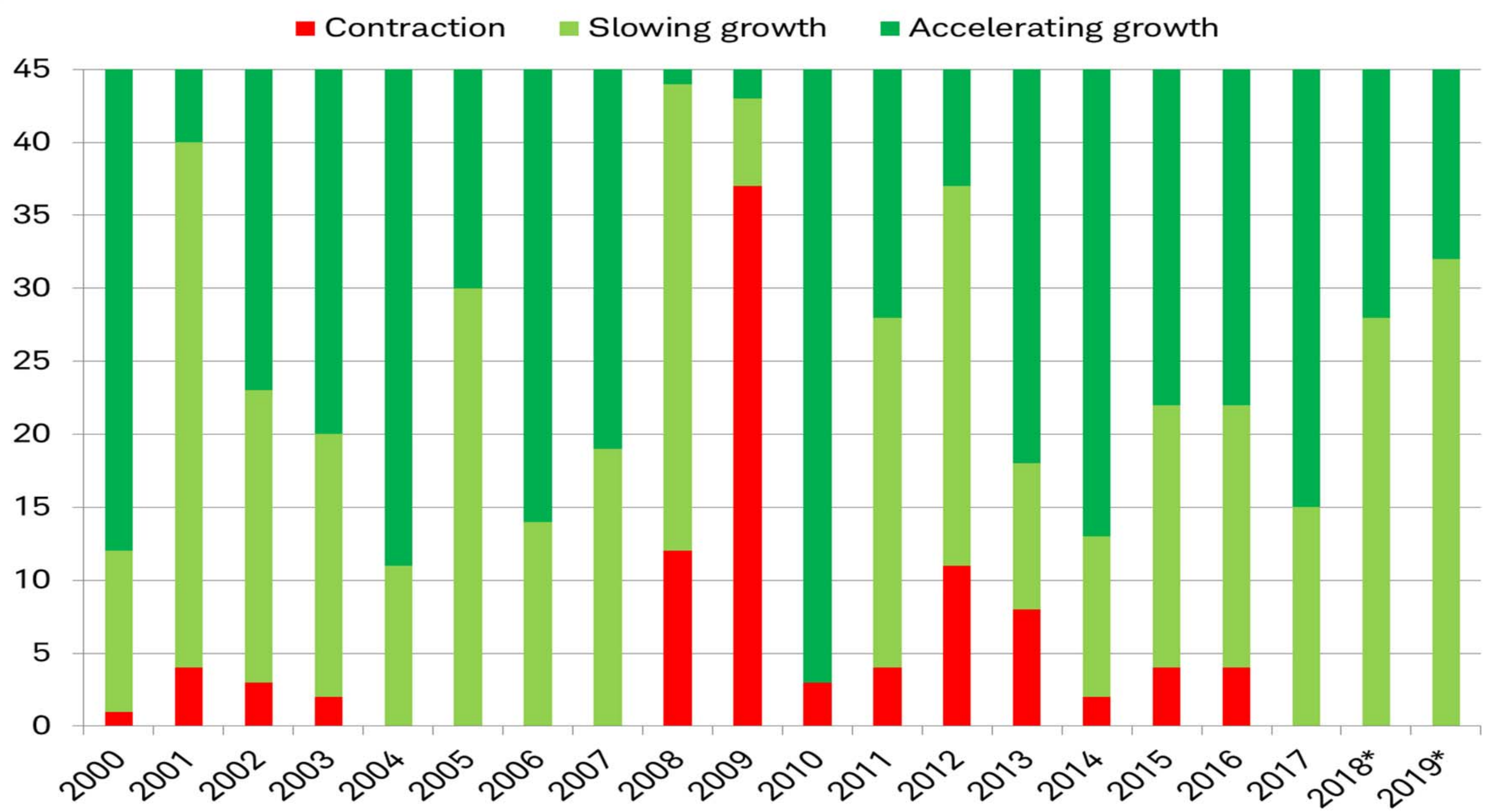
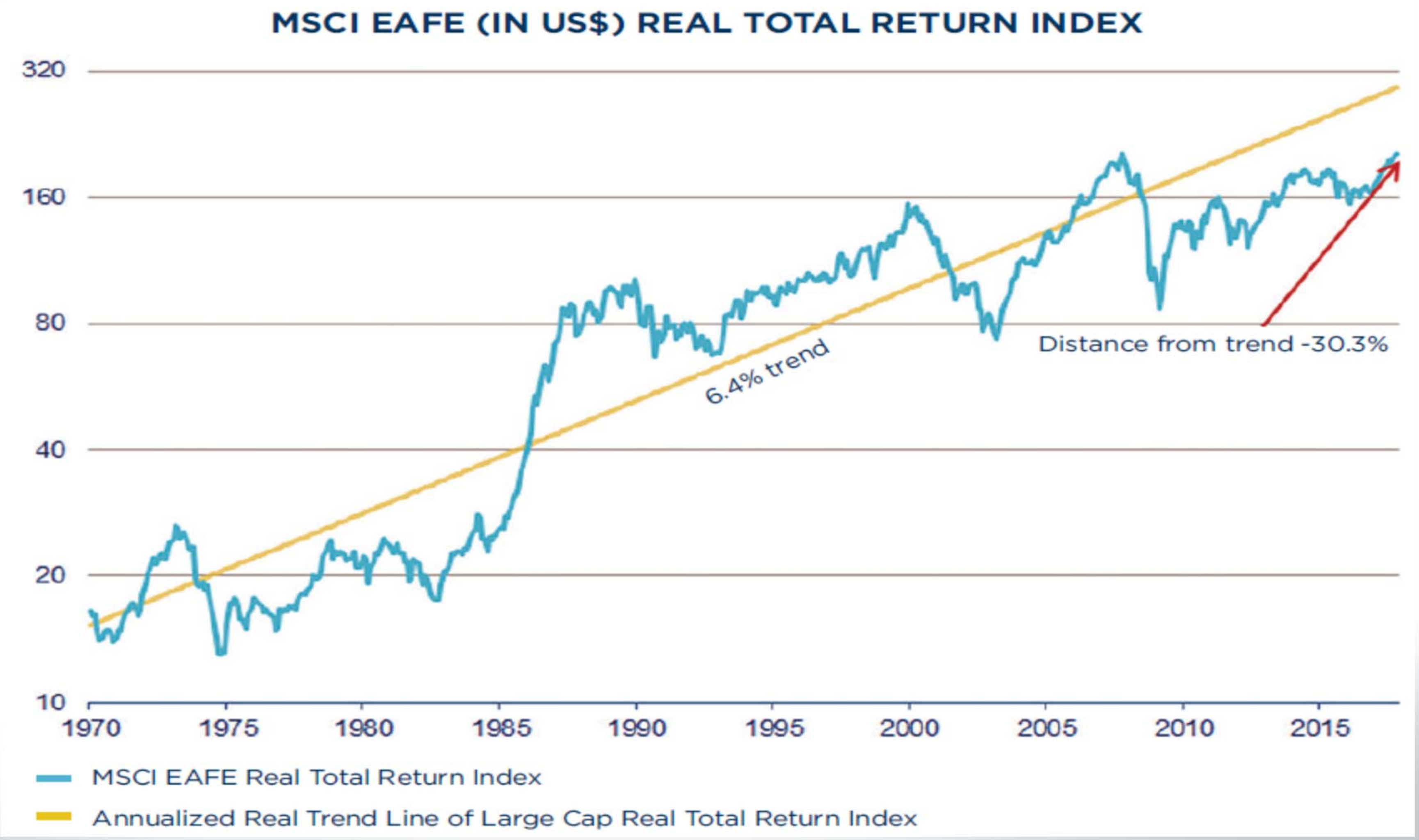
Strong Global Growth

Number of major economies tracked by the OECD with:



- Source: Charles Schwab, Oganization for Economic Cooperation & Development (OECD) & Bloomberg

International Equity Valuations



- Source: RiverFront Investment Group

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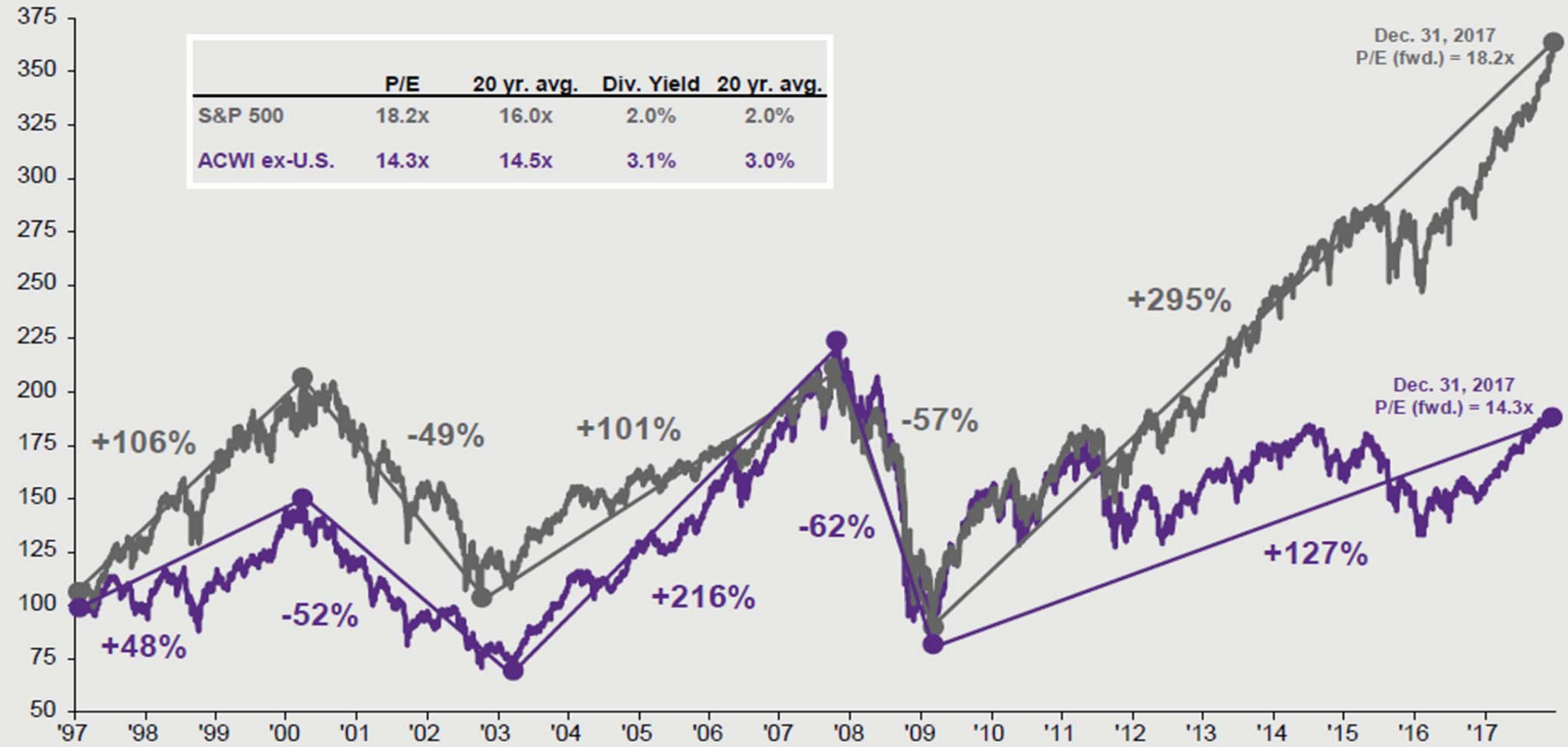
Potential Earnings Expansion Abroad

MSCI All Country World ex-U.S. and S&P 500 Index

Dec. 1996 = 100, U.S. dollar, price return



	P/E	20 yr. avg.	Div. Yield	20 yr. avg.
S&P 500	18.2x	16.0x	2.0%	2.0%
ACWI ex-U.S.	14.3x	14.5x	3.1%	3.0%

Source: MSCI, Standard & Poor's, FactSet, J.P. Morgan Asset Management.
Forward price to earnings ratio is a bottom-up calculation based on the most recent index price, divided by consensus estimates for earnings in the next twelve months (NTM), and is provided by FactSet Market Aggregates. Returns are cumulative and based on price movement only, and do not include the reinvestment of dividends. Dividend yield is calculated as consensus estimates of dividends for the next twelve months, divided by most recent price, as provided by FactSet Market Aggregates. Past performance is not a reliable indicator of current and future results.
Guide to the Markets – U.S. Data are as of December 31, 2017.

J.P.Morgan

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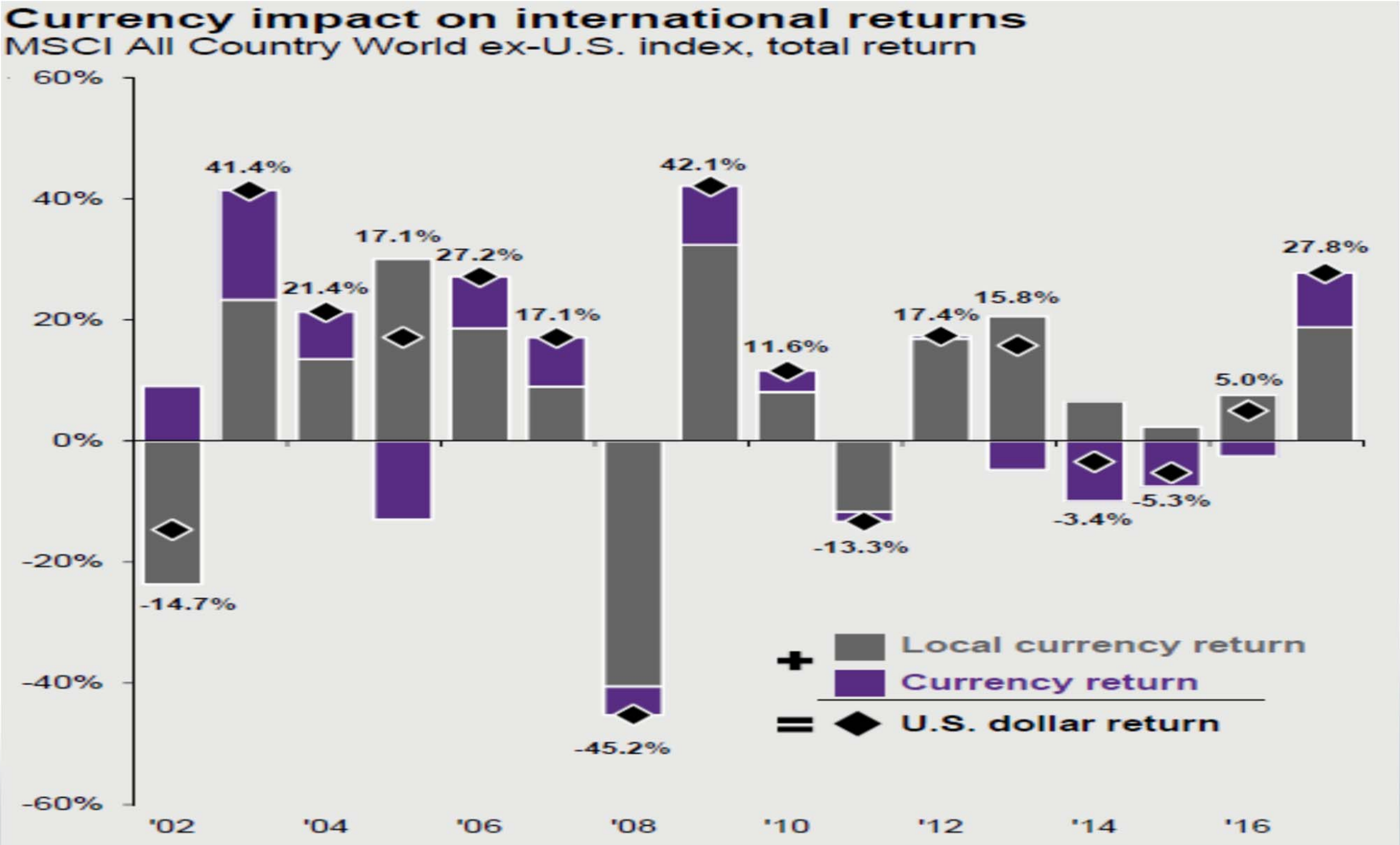
Long-term Trends Between U.S. and International Stocks

2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
	IG Bonds 10%															
REITs 14%	REITs 4%	EmgMkt 53%	REITs 32%	EmgMkt 35%	REITs 35%			EmgMkt 79%			REITs 20%					
IG Bonds 8%	EmgMkt -6%	SmCap 47%	EmgMkt 26%	DevIntl 14%	EmgMkt 33%	EmgMkt 40%		DevIntl 32%	REITs 28%		EmgMkt 19%					
SmCap 2%	DevIntl -16%	DevIntl 39%	DevIntl 21%	REITs 12%	DevIntl 27%	DevIntl 12%	IG Bonds 5%	REITs 28%	SmCap 27%	REITs 8%	DevIntl 18%			REITs 3%	SmCap 21%	EmgMkt 38%
EmgMkt -2%	SmCap -20%	REITs 37%	SmCap 18%	SmCap 5%	SmCap 18%	IG Bonds 7%	SmCap -34%	SmCap 27%	EmgMkt 19%	IG Bonds 8%	SmCap 16%	SmCap 39%	REITs 28%	IG Bonds 1%	EmgMkt 12%	DevIntl 26%
S&P 500 -12%	**S&P 500 -22%**	**S&P 500 29%**	**S&P 500 11%**	**S&P 500 5%**	**S&P 500 16%**	**S&P 500 5%**	**S&P 500 -37%**	**S&P 500 26%**	**S&P 500 15%**	**S&P 500 2%**	**S&P 500 16%**	**S&P 500 32%**	**S&P 500 14%**	**S&P 500 1%**	**S&P 500 12%**	**S&P 500 22%**
DevIntl -21%		IG Bonds 4%	IG Bonds 4%	IG Bonds 2%	IG Bonds 4%	SmCap -2%	REITs -38%	IG Bonds 6%	DevIntl 8%	SmCap -4%	IG Bonds 4%	DevIntl 23%	IG Bonds 6%	DevIntl 0%	REITs 9%	SmCap 15%
						REITs -16%	DevIntl -43%		IG Bonds 7%	DevIntl -12%		REITs 3%	SmCap 5%	SmCap -4%	IG Bonds 3%	REITs 9%
							EmgMkt -53%			EmgMkt -18%		IG Bonds -2%	EmgMkt -2%	EmgMkt -15%	DevIntl 2%	IG Bonds 4%
												EmgMkt -2%	DevIntl -4%			

Impact of Currencies on Foreign Equities – U.S. Dollar Index



- Source: JPM, MSCI

2018 Outlook: Fixed Income & Interest Rates

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Bond Bears Waking Up?

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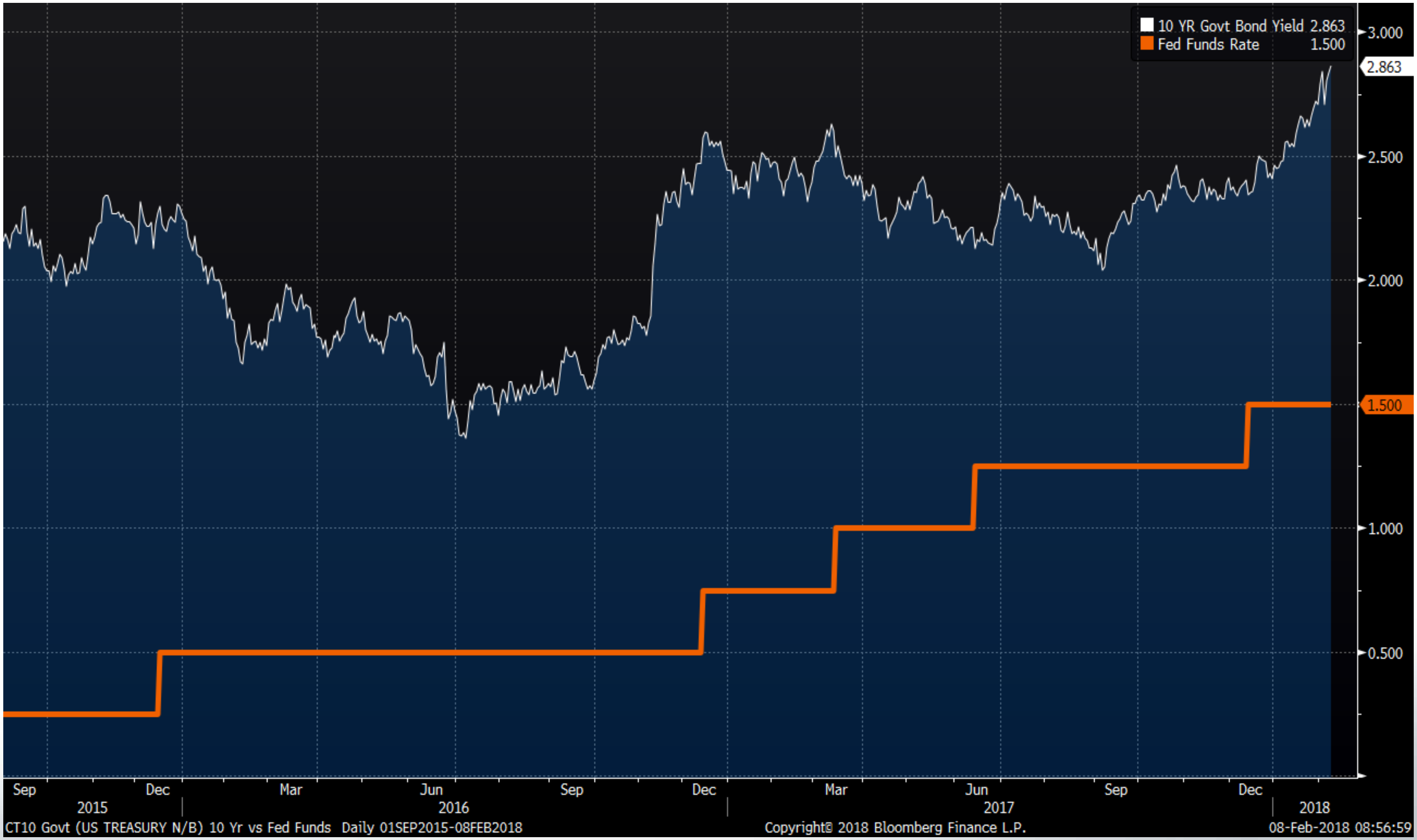
Converging Short & Long Term Yields



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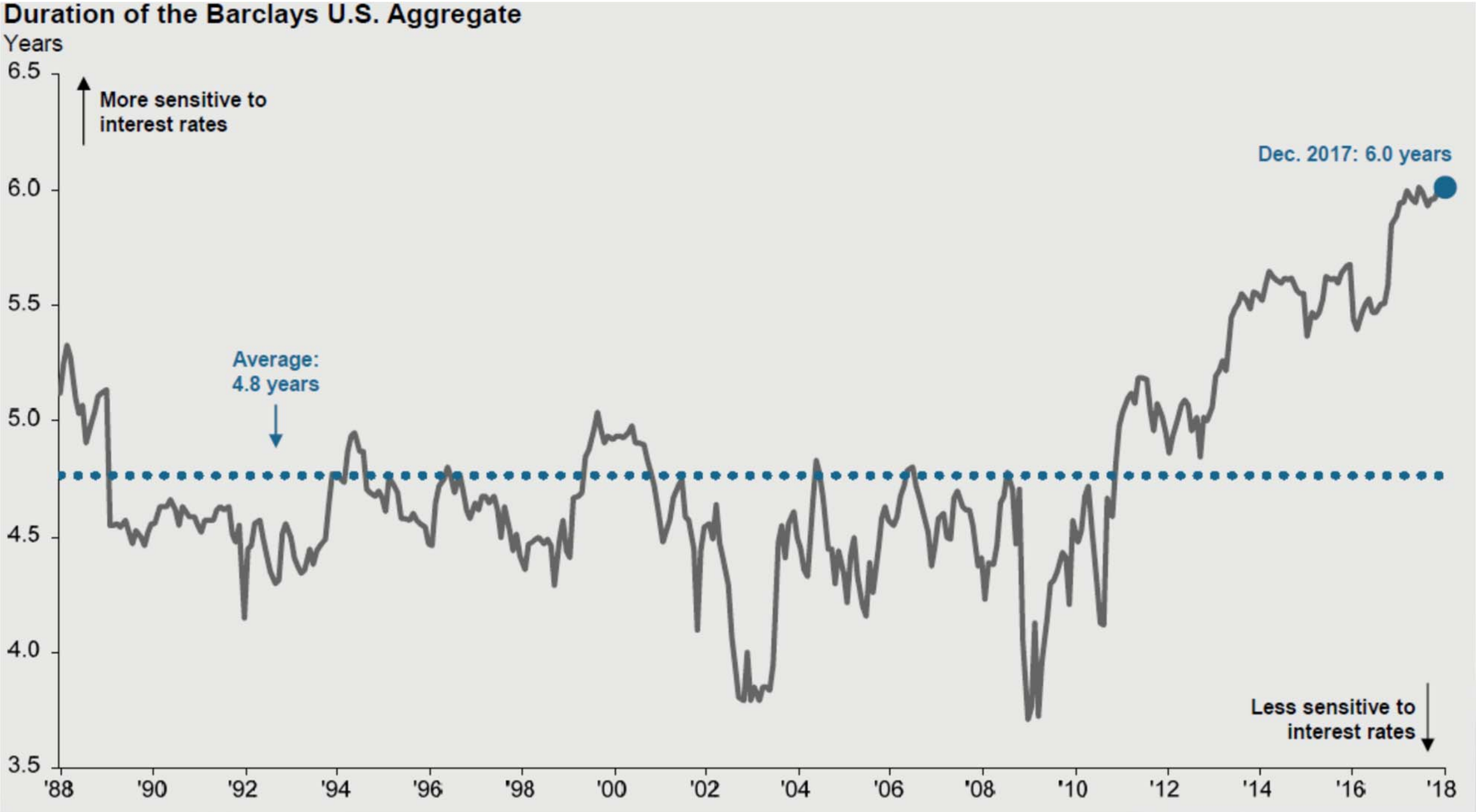
Why Active Management Matters



- Source: JPM, FactSet

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Bonds Underperform Stocks 6 Years in a Row –
First time in nearly 100 years

	S&P 500 Index (%)	Bloomberg Barclays U.S. Aggregate Bond Index (%)
2012	16.0	4.2
2013	32.4	-2.0
2014	13.7	6.0
2015	1.4	0.5
2016	12.0	2.6
2017	21.8	3.5
6-year return	**16.2**	**2.5**

- Source: Nuveen, Morningstar

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Bonds still provide diversification during times of market stress

Asset Class	Return from 1/26-2/8/18
Investment Grade Bonds	-1.36%
Large Cap Stocks	-10.10%
Small Cap Stocks	-8.87%
Developed International Stocks	-9.24%
Emerging Market Stocks	-12.27%

- Source: Bloomberg

Fixed Income Positioning

Underweight versus equities & shortened duration:

- Reduced sensitivity to interest rate risk given outlook for higher rates
- Increased Exposure to Active Management
- International bond exposure

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Portfolio Perspective

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Summary of Our Outlook

- Potential volatility (both upside and downside) throughout the year driven by uncertainty over U.S. fiscal & monetary policies – *rebalance into strength, buy on weakness and don't panic*

- Strong labor market and rising wages will support economic growth but may raise inflation expectations – *Remain overweight stocks relative to bonds*

- Equities are fairly valued but have the potential to move higher via earnings expansion helped by lower corporate tax rates and global economic expansion – *Increase exposure to international equities*

- Continue to be cautiously optimistic

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Action Items to Consider

1. If you have cash needs in the next 24 months, this is a good time to have us free it up from your portfolio

2. If you are within 2 years of retirement, this is a good time to consider reducing your risk tolerance or have us allocate two years worth of retirement cash distributions in our conservative fund

3. This is still a good time to invest cash for the long-term

4. With the new tax laws, this is a good time to meet with your accountant to review your withholdings, itemized deductions and charitable giving

5. We would recommend having your estate planning documents reviewed every 5 years

Tax Bill Impact

- **The Good**
  - Shifting of income to lower tax brackets
  - Child Tax Credit moving from $1,000 to $2,000 & substantially higher income phase-outs

- **The Bad**
  - AMT changed, but not eliminated
  - Elimination of Miscellaneous Itemized Deductions
    - You may need to consider this if you were deducting advisory fees from taxable accounts
  - Capping of State & Local Income/Property taxes at $10,000

- **The Unknown**
  - Higher Standard Deduction – potentially good / potentially bad
    - If you now qualify for Standard Deduction – may want to consider donor advised fund
  - Elimination of personal exemptions (along w/ higher deduction)
- **Conclusion:** Good for U.S. taxpayers, potentially bad for NY'ers

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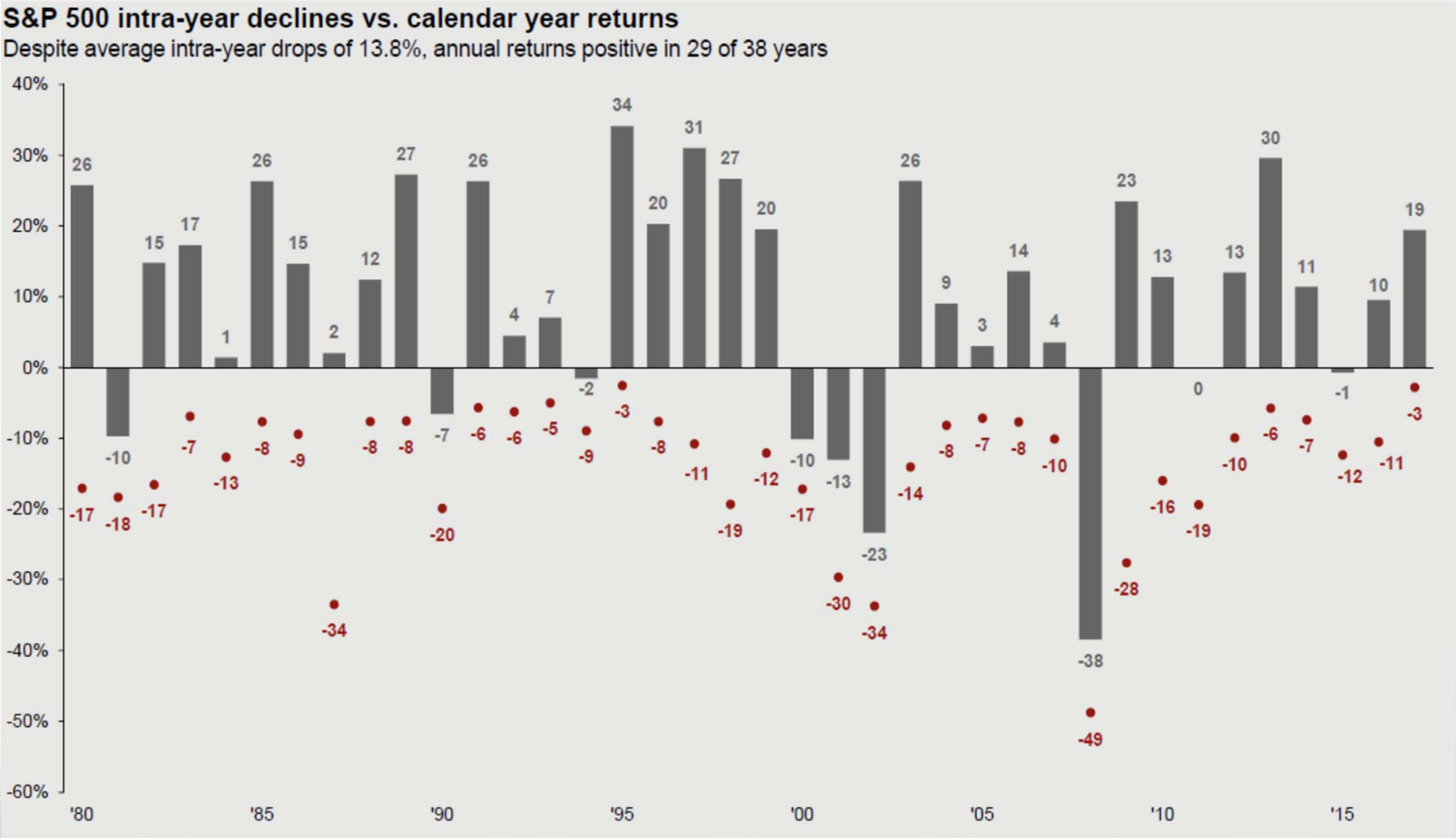
2017 was an abnormality



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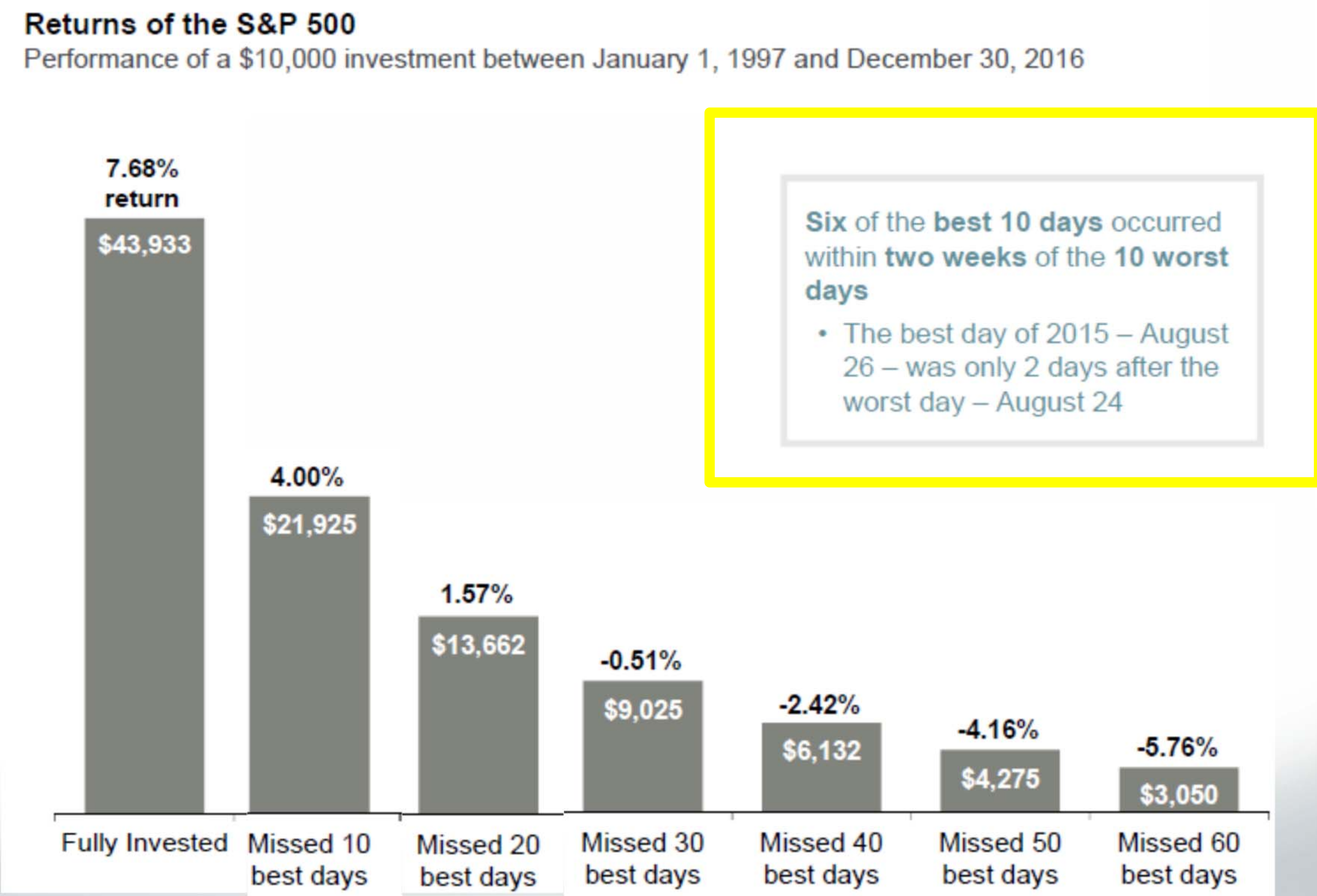
Market Timing – A Losing Proposition



Source: J.P. Morgan

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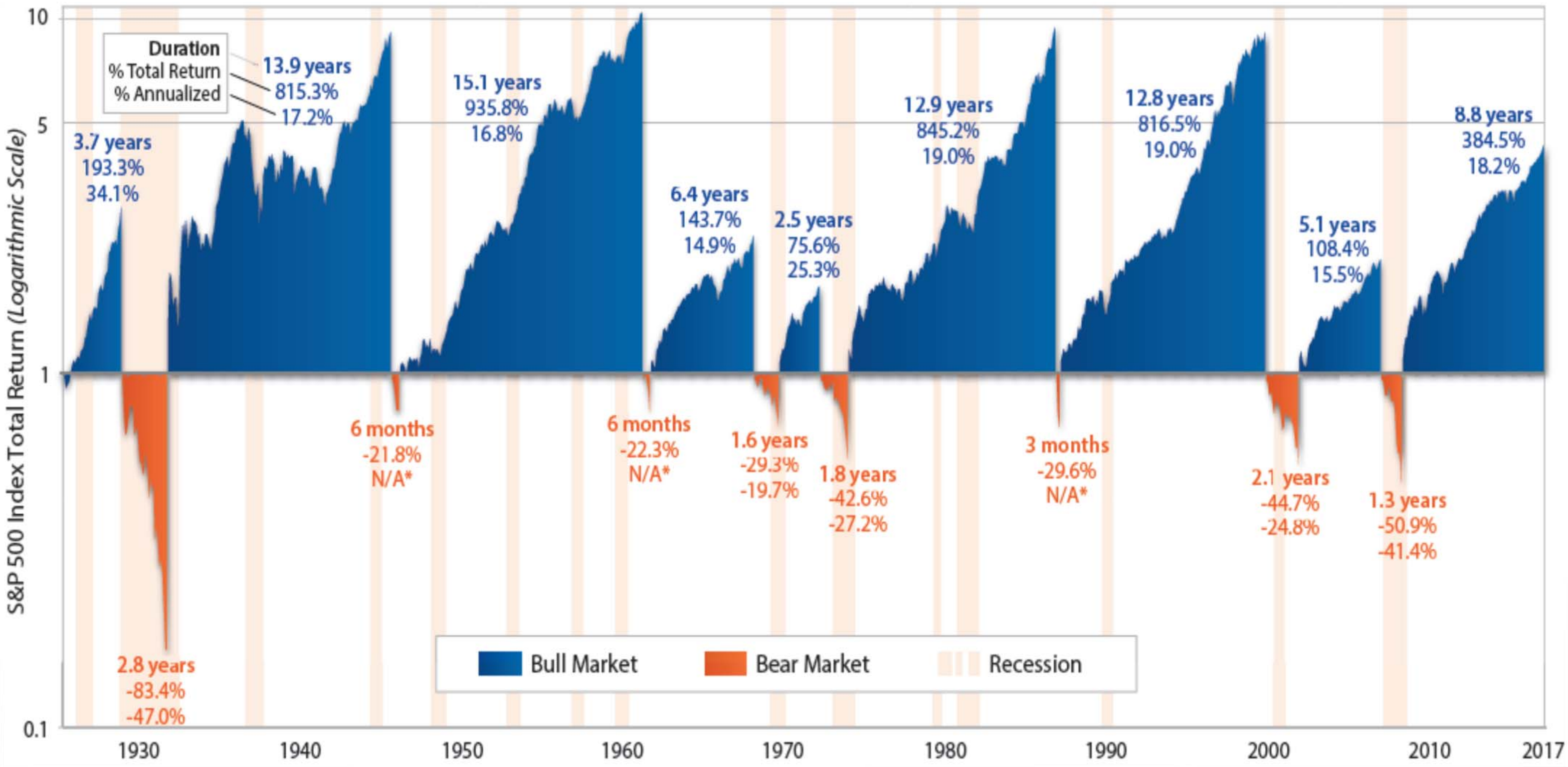
Markets will decline, but are only temporary



Source:First Trust Advisors, L.P., Morningstar

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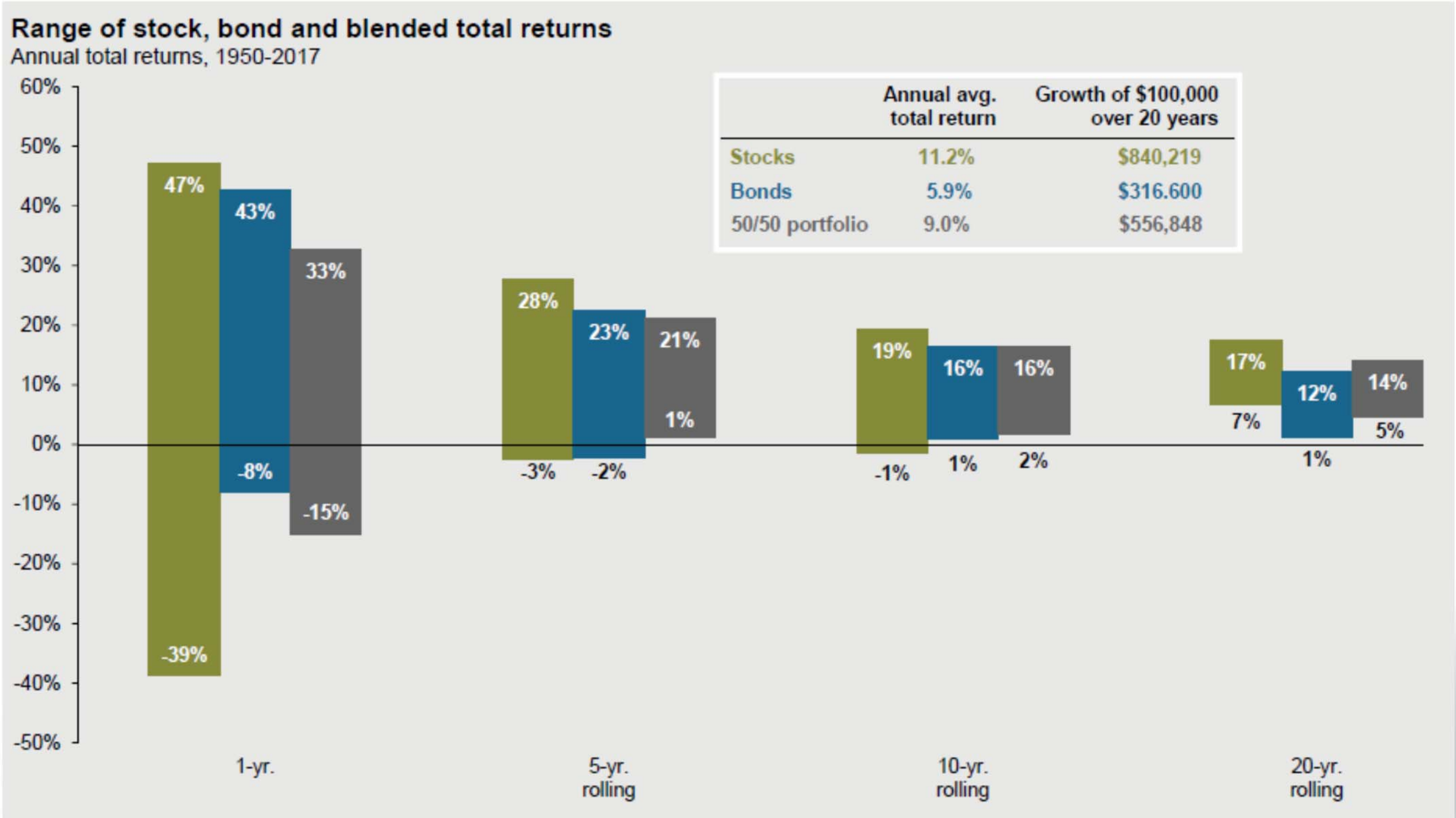
Stocks Are Less Risky Over Long Term



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Q & A

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