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The Archvest Advantage Q4 2016 Newsletter

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Dow 20,000 and Beyond

Happy New Year to you all and good riddance 2016! What a tumultuous year it was for the markets. Who would have thought the US markets would have finished the year with double-digit returns. If you recall, on January 8th the Dow fell more than 1,000 points and it was the worst-ever five-day start to a year. What's amazing is by December, hats were being passed around the trading desks with the words "Dow 20,000" written on them. It seems Dow 20,000 is still allusive despite the post-election rally. The Dow ended the year up an amazing 13.4%, the S&P 500 up 12.0% and the international markets as measured by the MSCI EAFE finished the year up only 1.0%. Clearly, there has been a divergence between the assets classes.

This recent rally was one of the best post-election moves we have seen in decades. However, the lack of breadth gives us pause; just three sectors have been driving recent performance attributing to over half the Dow's 2016 return. These three sectors are: Healthcare, Financials, and Industrials. Healthcare stocks took off due to Trump's rhetoric of repealing the Affordable Care Act (Obamacare), which would make healthcare companies much more profitable again. Additionally, deregulation might be coming for financial companies as well due to the rollback of some of the DOL Fiduciary rules that are slated to start in April. Lastly, the Industrial sector got a boost from Trump's "Make America Great Again," campaign slogan. Specifically, Trump wants to spend $1 Trillion on our nation's infrastructure.

There is a great quote by the late Benjamin Graham who stated, "In the short-run, the market is a voting machine but in the long-run, it is a weighing machine." As of late, we see the market trading on speculation based off of statements made by the Trump campaign and other heads of state. Over time the US market becomes a weighing machine that throws out the fluff-talk and punishes those who trade in a speculative manner. This is also why the market has been in a tight range since the start of the year, coming just 45 points shy of Dow 20,000 back on January 11th. Since then, the Dow has been on a gradual decline, in anticipation of the inauguration and then most importantly, what President Trump will actually set his targets on over the next several months. The President really has just two years to get things done, at that time voters will have the ability yet again to reshuffle the deck in Congress, just like the mid-term elections in 2010 under Obama's Presidency.

One thing is for certain, no one has the ability to predict what the market will do, but what we can and will do is control the amount of risk that we take.

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Trump-O-Nomics

We'll be keeping close eye on the data as well as the headlines that follow. As we have seen from the Trump's tweets, there is a lot of false information and "alternative facts" out there. It's our job to sift through the information as it comes and make plans based our assessment of the facts. Speaking of potential changes, we are closely watching the discussion surrounding the tax code. The House GOP and Trump have provided their proposals, the two differ on what the tax rates should be, but both agree that rates should be lower.

Under both proposals, the top Federal tax rate would drop from 39.6% to 33% as well as appeal the 3.8% Medicare surtax. The plans differ on the treatment of capital gains and Qualified Dividends; Trump is proposing for 20% while the House GOP is proposing 16.5% (current top rate is 23.8%). Additionally, under the GOP plan, bond interest would be treated as investment income rather than ordinary income. These changes could have a significant impact on tax obligations for investors, which is why we will keep a close pulse on this.

Lastly, the proposed reforms will dramatically simplify the current tax brackets from seven down to three tiers. To counter balance the lower tax rates, we anticipate significant overhaul to how itemized deductions, standard deduction, and exemptions are treated. However, under the new proposed rates, single filers may expect to pay a bit more in taxes as the three levels scale up faster for those making more than $113,000 per year.

It's hard to believe, but it's been over 30 years since the last major tax reform to the individual tax code and just over 100 years since the 16th Amendment was adopted granting the Federal government the ability to levy taxes on income. The tax code has become more complicated over the years and created an entire new industry around tax preparation. We would welcome changes to simplify the tax code and will update your financial plan once the legislations are in place.

Housekeeping Items

Now that the election and holiday season are behind us, a new season has arrived… it's tax time. Like the man who sports the green bowtie from those cheeky H&R Block commercials, we like to think it's refund season as well. The 1099 forms from the custodians and will be distributed to you by late January to mid-February. Please inform your tax preparer that the 1099 information might be subject to revisions. We will also have access to the respective tax forms and can send it directly to your tax preparer with your authorization. Like always, we would like to review your returns prior to you filing as an "Archvest double-check."

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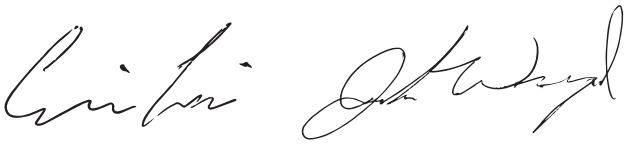
New Opportunities

With the New Year comes new opportunities. Our colleague and good friend, Kimberly Terry, will be taking a new advisor role at First Affirmative Financial Network, LLC. She is pursuing her passion in sustainable, responsible, impact investing. Kimberly had worked as Director of Operations, helping us establish our operating infrastructure. We are so proud of her and wish her much success in the new venture.

Thank you for all your support and confidence in us. As always, if you have any questions or concerns please give us a call. Be sure to follow us on Facebook, LinkedIn and Twitter as well as our RSS feed to stay up to date on what we're reading and thinking.



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