



## **2017 Year-End Financial & Investment General Commentary**

This is the General Commentary for 2017 & 4<sup>th</sup> quarter and covers information of general interest on the Firm, Financial Planning, Financial Services, Market Results, Economic & Market Conditions, Economic & Market Outlooks and Portfolio Investment Management. The last page provides a list of indexes returns for each of the market's major categories. You can access this and other timely articles on a variety of subjects through our website at [www.stjohnfinancial.com](http://www.stjohnfinancial.com).

As in the past, our sources of information are diverse and vary from period to period. For this period, sources referred to include the Wall Street Journal, Investment News, Morningstar, Fidelity Investments, Personal Capital, Bob Veres, and others.

### **INFORMATION OF GENERAL INTEREST**

Whether you are a financial service or portfolio management only client, please call if you need a referral to a 3<sup>rd</sup> party financial service specialist. We are now in tax season and if you need a CPA to prepare your taxes, please call us for a referral.

We want to report to you that the results of our engagement with AMS Affordable Medical Solution have proved to be very positive. They were able to materially reduce the costs of client's Medicare Part D and other Medicare coverages.

During 2017 we have made a number of improvements in our technology, computers and software programs to better serve and be responsive to the needs of our clients. We have also rebuilt and launched our new website.

We have also changed our portfolio design and selected weighting for each sub-advisor. Our Portfolio Management Department will be spending a considerable part of 2018 changing over our client's portfolios – one by one. We will be in contact with you to review and execute any new investment documents that will be needed.

### **FINANCIAL SERVICES**

We are working through the changes necessary for tax reviews under the recent reform passed by Congress and signed by the President. It will be important to review if your withholding allowances (the amount you have withheld for state and federal income taxes) are configured to account for the recent changes to the tax code. We will be reaching out to our full-service clients beginning in February to provide us payroll statements so we can work with you to make any necessary adjustments.

### **FINANCIAL PLANNING IDEAS, FACTS OR OBSERVATIONS FROM OUR RESEARCH**

#### **Update on Health Care Reform**

It looks like lawmakers have done all they're going to do in the way of health care reform until after the 2018 midterm elections. President Donald Trump and GOP leaders came out of their Camp David retreat earlier this month with a scaled down agenda for safety net programs and health law. For what it's worth, polls show that the vast majority of both Republicans and Democrats oppose funding reductions for Social Security and Medicare. In December lawmakers passed the Tax Cuts and Jobs Act which, among other things, struck down the individual mandate requiring every American to have health insurance.

### **Social Security Benefits to Increase in 2018**

When the Social Security Administration announces the annual cost-of-living adjustment (COLA), there's *usually* an increase in the Social Security and Supplemental Security Income (SSI) benefit amount people receive each month. Federal benefit rates increase when the cost of living rises, as measured by the Department of Labor's Consumer Price Index (CPI-W).

The CPI-W rises when prices increase, making your cost of living go up. This means prices for goods and services, on average, are a little more expensive. The COLA helps to offset these costs. **As a result, more than 66 million Americans will see a 2.0 percent increase in their Social Security and SSI benefits in 2018.**

Other changes that will happen in January 2018 are based on the increase in the national average wage index. For example, the maximum amount of earnings subject to Social Security payroll tax will increase to \$128,700. **The earnings limit for workers younger than "full" retirement age will increase to \$17,040 and the limit for people turning "full" retirement age in 2018 will increase to \$45,360.** You can find more information about the 2018 COLA [here](#).

### **New Medicare Surcharges**

Since 2007, the Medicare Modernization Act of 2003 has required high-income Medicare enrollees to pay an "Income-Related Monthly Adjustment Amount" (IRMAA) surcharge on their Medicare Part B premiums, which lifts the Medicare Part B premium from covering "just" 25% of costs up to as high as 80% of results, increasing Medicare Part B premiums by as much as 219% in 2017. And since 2011, a similar IRMAA surcharge has applied to Part D premiums, applying a flat dollar surcharge of as much as \$914/year in 2017.

Beginning in 2018, though, the IRMAA surcharges on Medicare premiums will apply even more quickly, as changes under the Medicare Access and CHIP Reauthorization Act of 2015 will reduce the top Modified-AGI threshold from \$214,000/year down to "just" \$160,000 (for individuals, or \$320,000 for married couples). And individuals with MAGI as low as \$133,500 (or married couples at MAGI of \$267,000/year) will be forced into a higher IRMAA tier, resulting in a nearly \$1,000/year increase in IRMAA surcharges.

### **Tax Law Changes**

The new bill maintains seven different tax rates: 10%, 12%, 22%, 24%, 32%, 35% and 37%. Most people will see their bracket go down by one to four percentage points, with the higher reductions going to people with higher income. And the tax brackets, going forward, will be indexed to inflation, meaning that the "real" income brackets will remain approximately the same from year to year. Please see Attachment TAX BRACKETS for details.

Other provisions: the **standard deduction** is basically doubled, to \$12,000 (single) or \$24,000 (joint), \$18,000 (head of household), and in an interesting provision, persons who are over 65, blind or disabled can add \$1,300 to their standard deduction. **This will probably result in most taxpayers taking a standard deduction.**

The bill calls for **no personal exemptions** beginning in 2018. And the Pease limitation, a gradual phaseout of itemized deductions as taxpayers reached higher income brackets, has been eliminated.

While the personal exemption is going away, which could disproportionately affect larger families, offsetting that change will be the expanded **Child Tax Credit**, which is available for qualified children under age 17 subject to income limitations. Specifically, the bill doubles the credit from \$1,000 to \$2,000, and also increases the amount of the credit that is refundable to \$1,400. If your children are 17 or older or you take care of elderly relatives, you can claim a nonrefundable \$500 credit, subject to the same income limitations.

Despite the hopes of many taxpayers, the dreaded **alternative minimum tax (AMT)**, remains in the bill. The individual exemption amount is \$70,300; for joint filers it's \$109,400. But for the first time, the AMT exemption amounts will be indexed to inflation.

Interestingly, the new tax bill retains the old **capital gains tax** brackets—based on the prior brackets. The 0% capital gains rate will be in place for individuals with \$38,600 or less in income (\$77,200 for joint filers), and the 15% rate will apply to individuals earning between \$38,600 and \$452,400 (between \$77,400 and \$479,000 for joint filers). Above those amounts, capital gains and qualified dividends will be taxed at a 20% rate.

In addition, the rules governing **Roth conversion recharacterizations** will be repealed. Under the old law, if a person converted from a traditional IRA to a Roth IRA, and the account lost value over the next year and a half, they could simply undo (recharacterize) the transaction, no harm no foul. Under the new rules, recharacterization would no longer be allowed.

For many taxpayers who **itemize deductions**, their **taxable income** number will be higher under the new tax plan, because many itemized deductions have been reduced or eliminated. Among them: there will be a \$10,000 limit on how much any individual can deduct for state and local income tax, property tax and sales tax payments combined.

The **mortgage deduction** will be limited to \$750,000 of principal (down from a current \$1 million limit); any mortgage payments on amounts above that limit will not be deductible. Mortgage debt incurred before December 15, 2017 is grandfathered under the \$1,000,000 cap.

The **charitable contribution deduction** limit will rise from 50% of a person's adjusted gross income to 60% under the new bill.

While you may have read that interest on home equity lines of credit (HELOC) is no longer deductible, this is only if the loans are cash out or for purposes other than home purchase or improvement. It's important to note that deductibility is not based on whether the loan is a home equity loan or home equity line of credit, but must be on your primary residence. Instead, the determination is based on how the proceeds are used.

- If the money is used to consolidate debt, pay for college or used for any other personal spending not associated with home acquisition or substantial improvement, the interest is not deductible; without grandfathering.

- Interest on a HELOC up to the total \$750,000 cap that is used to build an addition or substantially improve the home is deductible for taxpayers that itemize.

### **Deductions that are disappearing**

While many deductions are remaining under the new tax law, there are several that didn't survive, in addition to those already mentioned elsewhere. Gone for the 2018 tax year are the deductions for the following:

- Casualty and theft losses (except those attributable to a federally declared disaster)
- Unreimbursed employee expenses
- Tax preparation expenses
- Other miscellaneous deductions previously subject to the 2% AGI cap (including fees for professional services)
- Moving expenses
- Employer-subsidized parking and transportation reimbursement

What about **estate taxes**? The bill doubles the estate tax exemption - currently \$5.6 million (projected 2018) to \$11.2 million; \$22.4 million for couples. Meanwhile, Congress maintained the step-up in basis, which means that people who inherit low-basis stock will see the embedded capital gains go away upon receipt.

Public “C” Corporations saw their highest marginal tax rate drop from 35% to 21%, the largest one-time rate cut in U.S. history for the nation’s largest companies.

And pass-through entities like partnerships, S corporations, limited liability companies and sole proprietorships will receive a 20% deduction on taxes for “qualified business income,” which explicitly does NOT include wages or investment income.

As things stand today, all of these provisions are due to “sunset” after the year 2025, at which point the entire tax regime will revert to what we have now. The notable exception is the change to the Chained CPI as a means to calculate inflation. In simple terms, this means that the income thresholds for each marginal tax bracket will rise more slowly than they previously would, which will presumably make a greater portion of each worker's income subject to higher marginal tax rates over time.

### **A different way to calculate inflation**

Perhaps one of the most significant, but least talked-about, provisions in the new tax bill is the switch in the way inflation is calculated.

Under the previous tax law, inflation is measured by the consumer price index for all urban consumers, also known as the CPI-U, which essentially tracks the cost of goods and services that affect the typical household. The new law adopts a metric called the Chained CPI. It sounds complicated, but essentially the key difference is that the Chained CPI assumes that if a particular good or service gets too expensive, consumers will trade down to a cheaper alternative. The effect is that the Chained CPI grows slower than the traditionally used CPI-U. This means that tax bracket thresholds will rise slower, as will other IRS inflation-sensitive numbers, such as eligibility limits for certain deductions and credits.

The combination of the temporary nature of the tax cuts and the permanent switch to the Chained CPI is expected to have the eventual effect of higher taxes, as compared to current tax law.

### **ECONOMIC & MARKET OUTLOOK**

The year 2017 was defined by a near-perfect backdrop of steady global growth, low inflation, and accommodative monetary policies, which helped fuel a broad-based rally in asset prices. Overall, most investors will have enjoyed a remarkably smooth and rewarding 2017. This shouldn't really have surprised anyone: strong returns for risk assets in the final years of a bull market are the norm, not the exception. The key question is can the good times keep on rolling next year? Going into 2018, there are no signs of the equity markets pulling back, but that doesn't mean they won't.

For now, it appears the trend will continue. As we see jobs being added to the economy and an unemployment rate at 4.1%, a 17-year low, ample liquidity and a business-friendly reduction in regulation business confidence are running high. Changes in the tax codes should create more capacity for corporate expenditures and increased take-home pay for employees further feeding the economy. While some aspects of the tax code may have short term negative effects, like paying taxes on repatriated money, it will be a benefit over time.

The reduction in the corporate tax rate to 21% will boost after tax earnings for US companies in 2018, but has already contributed to the strong returns for US equities in 2017. It is a different result for individuals, however, as a result of the tax bill, surveys show that 95% of working Americans will see an increase in their paychecks. Interestingly, other surveys have shown that most Americans believe their taxes will be going up or staying the same. This disconnect may create a short-term uncertainty, but should rectify itself over time. Increased earnings could lead to increased consumer consumption. This is what happened in 2003 when tax cuts hit consumer's paychecks which created a boost for the economy.

So where is the downside in all this? If consumers save the increases in pay or use it to pay down debt, this may be beneficial for the worker, but does nothing to boost the economy. Further concerns include geo-political confrontations, natural disasters, political scandals or crisis by major companies. These events would have to be greater than those the market overcame in 2017. The biggest headlines of 2017 were possible Russian election tampering, North Korean missiles being fired into space and over other countries, hurricane after hurricane devastating the east and fires in the west, a special counsel investigating the President, the whole political scene in Washington and a major shooting in Las Vegas.

The government still could be its own worst enemy when it comes to interest rates. So far interest rate increases by the FED have not created a significant drag on the economy or produced heavy inflation. This is a delicate balance though and this could change if not managed properly. In the US, the Federal Reserve (the Fed) raised rates again in December, for the third time in 2017. Trump also announced that Jerome Powell will lead the Fed when Yellen steps down in February. Powell is unlikely to materially alter the likely path of Fed rate increases, but the new Fed members to be appointed in 2018 could potentially shift the path and will warrant close attention.

Internationally, last year we watched the European economy coming out of a recession. For the first time in a long while, the global economies are moving up in tandem. The level of growth seen around the world was significantly higher than the 2017 estimates and enough to surprise most economists.

Volatility is still a strong possibility as the international equity markets are still a bit skittish having recently come out of weak economic growth. While growth is expected, the numbers are not lining up as strongly as we have seen domestically.

Several countries may constrain the upside growth going forward, especially China. Although China's economy has rebounded, its economic trajectory is limited. With the US economy still in expansion and the Eurozone on a cyclical upswing, the rest of the world appears to be falling in step including emerging markets.

## **MARKET PERFORMANCE**

### Equity Market

Growth and emerging-market stocks continued as strong performing categories in the fourth quarter, fueled by the information technology sector. For the year, all major equity categories and sectors ended with double-digit gains, except for energy and telecom stocks.

Turning to fundamentals, after several years of profit recession, international corporate earnings accelerated for several quarters and surpassed the rate of US corporate profit growth in 2017. Earnings revisions also stabilized for the first time in years, although lofty forward-earnings-growth expectations may provide a tougher hurdle to clear in the year ahead, particularly in emerging markets.

US equities had a great year, remarkable not only for their strong returns, but also for their consistency and lack of volatility. US equities delivered positive returns in every single month of 2017, the first time this has happened since 1958, and only one negative month in the past 21 months.

Within the US market, large cap growth continued to dominate the market for the quarter as well as the year. In general, the growth side of the market outperformed the value side among all capitalization levels for both the quarter and the year. Domestically, large cap stocks outperformed both mid cap and small cap stocks and small caps.

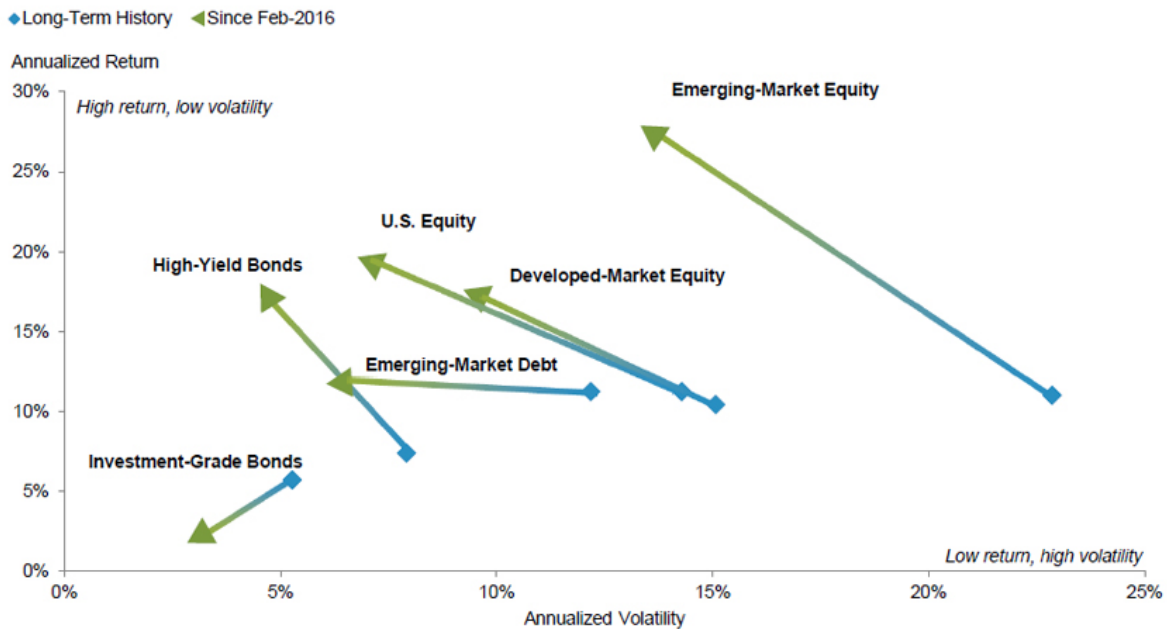
On average, US equities experience an intra-year drawdown of about 14%. In 2017, the maximum drawdown for the market was less than 3%. Over 2017, tech stocks rose by close to 40%, but the market rally was relatively broad based, with consumer discretionary, materials, industrials, healthcare and financials all returning about 20%.

For the quarter, though, the top overall performing area of the market was emerging market stocks followed by large domestic stocks. For the year, the best area of the market was also emerging markets, but with international equity following them and then large domestic stocks.

Non-US stocks outperformed the US stock market for the first calendar year in the past 5, bolstered by a weaker dollar and a strengthened economic backdrop. Global assets experienced remarkably low levels of volatility. Since most of the equity markets hit a bottom in early 2016, riskier assets have registered gains far above their long-term historical averages, even as their price fluctuations were far below average. In the United States, stock-price moves were particularly tranquil during 2017.

### Risk Concerns

One thing we began to notice last quarter is not only the historically higher returns of the overall equity market but the lower risk versus historical risk. Here is a chart Fidelity published showing the movement off the historical average over the last 2 years through the third quarter. This is good for investors, but may be giving an unrealistic sense of security.



Looking at the S&P 500, all of 2017 gave us no months of negative returns, no days with more than a 2% loss, no days with the VIX above its historical average and a year where the VIX did hit its all-time low. (The VIX is the CBOE Volatility Index, known by its ticker symbol VIX. A popular measure of the stock market's expectation of volatility)

### Fixed Income

Fixed income had modest returns in the fourth quarter, but all bond categories and sectors posted positive returns for the year. Credit spreads tightened amid the “risk-on” tone, boosting emerging-market and high-yield bonds returns. Steady longer-term interest rates kept high-quality bonds in the black, and all major asset categories posted positive returns.

Among fixed income categories, bond yields were mixed during the fourth quarter, with some categories rising slightly and 30-year Treasury rates falling. However, yields for all categories remain well below their historical averages. Credit spreads narrowed slightly during the quarter, making all credit sectors more expensive relative to their own histories.

Much like the equity market, with interest rates rising, it is a matter of time before the returns begin to slide along the whole yield curve (short term to long term), but the question is also when. For now, long term bonds are a good place to be with shorter term bonds beginning to feel the impact.

Still, in comparison to equities, being in this “safer” asset class, bonds were a drag on most portfolios that were broadly diversified.

## **PORTFOLIO INVESTMENT MANAGEMENT**

Historically, the mid-cycle phase tends to favor riskier asset classes, while late cycles have the most mixed performance of any business-cycle phase. The late cycle has often featured more limited overall upside and less confidence in equity performance, though stocks have typically outperformed bonds. Inflation-resistant assets, such as commodities, energy stocks, short-duration bonds, and TIPS have historically performed relatively well here.

From an asset allocation standpoint, the current environment continues to warrant an overweight to risk assets. However, given the maturing U.S. business cycle, the likelihood of less reliable relative asset performance patterns, and increased volatility as a result of the risks in the global monetary policy, smaller cyclical portfolio tilts may be warranted. The possibility of higher volatility underscores the importance of diversification.

Diversification has remained the key as no one area of the market has remained steadily at the top over the last decade.

| 2005                 | 2006                 | 2007                | 2008                  | 2009                 | 2010                 | 2011                 | 2012                 | 2013                 | 2014                 | 2015                | 2016                | 2017                 | 4Q2017              |
|----------------------|----------------------|---------------------|-----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|---------------------|---------------------|----------------------|---------------------|
| MSCI EM<br>35.8%     | REITS<br>34.4%       | MSCI EM<br>33.6%    | Global Agg<br>4.8%    | MSCI EM<br>62.8%     | REITS<br>27.6%       | REITS<br>7.3%        | REITS<br>20.1%       | Small cap<br>35.8%   | REITS<br>27.1%       | Growth<br>6.5%      | Value<br>15.1%      | MSCI EM<br>31.0%     | Growth<br>6.3%      |
| Small cap<br>23.3%   | MSCI EM<br>28.8%     | Cmdty<br>16.2%      | Cmdty<br>-35.6%       | Small cap<br>40.8%   | Small cap<br>24.4%   | Global Agg<br>5.6%   | Small cap<br>18.4%   | Value<br>29.7%       | Growth<br>11.5%      | Small cap<br>2.8%   | Small cap<br>14.5%  | Growth<br>24.5%      | MSCI EM<br>5.7%     |
| Cmdty<br>21.4%       | Value<br>21.2%       | Growth<br>10.5%     | REITS<br>-37.3%       | Growth<br>29.4%      | Cmdty<br>16.8%       | Value<br>-4.9%       | MSCI EM<br>17.4%     | DM Equities<br>29.6% | DM Equities<br>10.4% | DM Equities<br>2.6% | Cmdty<br>11.8%      | Small cap<br>19.1%   | DM Equities<br>5.4% |
| Value<br>16.7%       | DM Equities<br>16.1% | Global Agg<br>9.5%  | Value<br>-37.7%       | REITS<br>27.4%       | MSCI EM<br>14.4%     | DM Equities<br>-5.0% | Growth<br>16.5%      | Growth<br>29.5%      | Value<br>9.2%        | REITS<br>2.3%       | MSCI EM<br>10.1%    | DM Equities<br>19.1% | Small cap<br>5.1%   |
| DM Equities<br>16.3% | Small cap<br>13.6%   | DM Equities<br>5.2% | DM Equities<br>-38.3% | DM Equities<br>26.5% | Growth<br>12.7%      | Growth<br>-5.1%      | DM Equities<br>16.4% | MSCI EM<br>3.8%      | Small cap<br>6.7%    | Value<br>-1.2%      | DM Equities<br>9.6% | Value<br>14.1%       | Cmdty<br>4.7%       |
| Growth<br>16.0%      | Growth<br>11.2%      | Value<br>-0.0%      | Growth<br>-39.0%      | Value<br>23.6%       | DM Equities<br>10.6% | Small cap<br>-8.7%   | Value<br>16.3%       | REITS<br>3.2%        | MSCI EM<br>5.6%      | Global Agg<br>-3.2% | REITS<br>9.3%       | REITS<br>9.3%        | Value<br>4.5%       |
| REITS<br>8.3%        | Global Agg<br>6.6%   | Small cap<br>-3.8%  | Small cap<br>-40.4%   | Cmdty<br>18.9%       | Value<br>8.4%        | MSCI EM<br>-12.5%    | Global Agg<br>4.3%   | Global Agg<br>-2.6%  | Global Agg<br>0.6%   | MSCI EM<br>-5.4%    | Growth<br>4.4%      | Global Agg<br>7.4%   | REITS<br>2.4%       |
| Global Agg<br>-4.5%  | Cmdty<br>2.1%        | REITS<br>-17.8%     | MSCI EM<br>-45.7%     | Global Agg<br>6.9%   | Global Agg<br>5.5%   | Cmdty<br>-13.3%      | Cmdty<br>-1.1%       | Cmdty<br>-9.5%       | Cmdty<br>-17.0%      | Cmdty<br>-24.7%     | Global Agg<br>2.1%  | Cmdty<br>1.7%        | Global Agg<br>1.1%  |

Source: Barclays, Bloomberg, FactSet, FTSE, MSCI, J.P. Morgan Asset Management. REITs: FTSE NAREIT All REITs; Cmdty: Bloomberg UBS Commodity Index; Global Agg: Barclays Global Aggregate; Growth: MSCI World Growth; Value: MSCI World Value; Small cap: MSCI World Small Cap. All indices are total return in local currency. Data as of 31 December 2017.





## Portfolio and Allocations

As growth-oriented equities being the driving part of the market, we have some concerns that this will be either the first place we see corrections or it will begin to lag behind value-oriented stocks. Our intent is to move the portfolios to more dividend driven stocks. This will not only be a better place for return opportunities should the market continue to be positive, but will be more averse, but not immune, to a correction.

The trends for this market appear to be to move away from the more expensive managed funds to the less expensive ETF and Index funds. This is concerning for investors as the top 5 stocks in most large cap index funds include the 5 largest technology stocks with among the highest valuations. Beware of heavy investments in large cap index-based funds as you will be rising and falling with Amazon, Apple, Facebook, Google and Microsoft.

Positions in international stocks will still be important. This segment has been lagging the U.S. market over the past few years, but is still a good diversifier as currency also plays into returns. Because our portfolios have maintained a position in international stocks and emerging market stocks, we were rewarded finally for our perseverance.

Fixed income still remains a concern as this is more an asset preservation segment, but is now substantially underperforming equities. As interest rates increase, we expect total returns for bonds will only go lower in the short term.

From a risk standpoint, with equities significantly outperforming bonds, higher risk allocations also outperformed more conservative portfolios. Those in conservative portfolios must remember asset preservation is a higher importance than growth.

## **CONCLUSION**

### **Looking ahead**

While easy global monetary conditions created opportunity for economic liquidity and likely helped dampen equity price fluctuations, the economic fundamentals such as GDP growth and inflation also pushed the steady market rises and falling volatility. In 2018, we expect some flattening of this picture-perfect backdrop that could raise volatility from extremely subdued levels.

The U.S. has remained on a very gradual progression through its business cycle. Odds of recession are relatively low given today's tight labor market and broad-based expansion. We will be watching these key indicators that historically have marked the transition from the mid to late cycle phase.

Typically, during a late-cycle phase, corporate profit growth decelerates and inventories build relative to new orders. So far, low inflation and robust global growth have supported a pickup in company profits and new orders in manufacturing.

Wage growth usually accelerates during the late-cycle phase and starts to crimp profit margins and slow the pace of hiring. This cycle, wages have risen and profit margins have declined off peak levels, but the process has been gradual, allowing margins to remain high and job gains strong. Historically, rising



wages lead to broader inflationary pressures, causing the Federal Reserve to tighten monetary policy, which in the late cycle tends to lead to a flattening yield curve and tighter credit conditions.

Although wages have risen moderately in 2017, inflation has remained low. The Fed has hiked rates and the yield curve has become flatter, but it still remains relatively steep and credit conditions remain supportive. It will be interesting to see as companies raise wages based on corporate tax savings and the repatriation of profits held offshore during 2018, what effect it will have on the rate of inflation, increased taxes and corporate profits. We expect that these events will hurt company profits in the short term, but will be positive in the long-term as these funds are re-deployed.

Financial markets will enter 2018 with positive momentum and a solid global corporate and economic environment. Nevertheless, as the US economic cycle matures further from mid to late cycle, the greater the downside risks for asset returns on an intermediate-term basis. Unfortunately, it is difficult to predict when that will happen. Getting out of the market too early in fear of potential losses may force one to miss the possible upside movement. Our strategy continues to be diversification, but with a rotation out of the more growth oriented equity market into a more value/dividend oriented market.

*St John & Associates*



Below are the returns for mutual fund categories making up our clients' portfolios and the major stock market averages. Morningstar sourced these mutual fund returns. Returns beyond one year are annualized.

|                       | 4 <sup>th</sup> Qtr.<br>2017 | 1 Year<br>Average | 5 Year<br>Average | 10 Year<br>Average |
|-----------------------|------------------------------|-------------------|-------------------|--------------------|
| Large-Cap Growth      | 6.44                         | 27.67             | 15.29             | 8.31               |
| Large-Cap Value       | 5.99                         | 15.94             | 13.33             | 6.92               |
| Mid-Cap Growth        | 6.02                         | 23.91             | 13.73             | 7.67               |
| Mid-Cap Value         | 5.35                         | 13.22             | 13.25             | 8.06               |
| Small-Cap Growth      | 4.70                         | 21.50             | 13.96             | 8.42               |
| Small-Cap Value       | 3.50                         | 8.54              | 12.23             | 8.22               |
| DJIA                  | 10.96                        | 18.11             | 16.37             | 9.28               |
| S&P 500               | 6.64                         | 21.83             | 15.79             | 8.50               |
| S&P Mid-Cap 400       | 6.25                         | 16.24             | 15.01             | 9.97               |
| Russell 2000          | 3.34                         | 14.65             | 14.12             | 8.71               |
| Russell 3000          | 6.34                         | 21.13             | 15.58             | 8.60               |
|                       |                              |                   |                   |                    |
| Health                | 0.43                         | 24.31             | 17.28             | 11.87              |
| Commodities           | 5.67                         | 3.66              | -8.27             | -8.04              |
| Real Estate           | 2.09                         | 6.22              | 8.68              | 6.76               |
| Technology            | 5.82                         | 35.35             | 19.49             | 10.33              |
|                       |                              |                   |                   |                    |
| Emerging Markets      | 6.27                         | 34.17             | 4.09              | 1.63               |
| Intl Large Growth     | 4.33                         | 30.87             | 8.51              | 2.75               |
| Intl Large Value      | 3.42                         | 22.08             | 6.49              | 1.36               |
| Intl Small/Mid Growth | 6.09                         | 36.19             | 11.33             | 5.27               |
| Intl Small/Mid Value  | 4.49                         | 27.52             | 9.40              | 3.06               |
| MSCI EAFE             | 4.23                         | 25.03             | 7.90              | 1.94               |
| MSCI Emerging Mkt     | 7.44                         | 37.28             | 4.35              | 1.68               |
| MSCI World NR USD     | 5.51                         | 22.40             | 11.64             | 5.03               |
|                       |                              |                   |                   |                    |
| Inflation Protected   | 1.14                         | 2.72              | -0.18             | 2.99               |
| Intermediate Term     | 0.29                         | 3.71              | 2.05              | 4.06               |
| Short Term Bonds      | -0.04                        | 1.73              | 1.15              | 2.31               |
| Multi Sector Bonds    | 0.65                         | 6.07              | 3.26              | 5.27               |
| Barclays Agg Bond     | 0.39                         | 3.54              | 2.10              | 4.01               |
| High Yield Bonds      | 0.46                         | 6.47              | 4.63              | 6.43               |
| High Yield Muni       | 1.10                         | 7.38              | 3.87              | 4.34               |
| World Bonds           | 0.64                         | 6.87              | 0.91              | 3.47               |
|                       |                              |                   |                   |                    |
| Fidelity Cash Reserve | 0.20                         | 0.56              | 0.14              | 0.42               |



## TAX BRACKETS

### Individual Taxpayers

Income \$0-\$9,525 - 10% of taxable income

\$9,526-\$38,700 - \$952.50 + 12% of the amount over \$9,526

\$38,701-\$82,500 - \$4,453 + 22% of the amount over \$38,700

\$82,501-\$157,500 - \$14,089.50 + 24% of the amount over \$82,500

\$157,501-\$200,000 - \$32,089.50 + 32% of the amount over \$157,500

\$200,001-\$500,000 - 45,689.50 + 35% of the amount over \$200,000

\$500,001+ - \$150,689.50 + 37% of the amount over \$500,000

### Joint Return Taxpayers

Income \$0-\$19,050 - 10% of taxable income

\$19,051-\$77,400 - \$1,905 + 12% of the amount over \$19,050

\$77,401-\$165,000 - \$8,907 + 22% of the amount over \$77,400

\$165,001-\$315,000 - \$28,179 + 24% of the amount over \$165,000

\$315,001-\$400,000 - \$64,179 + 32% of the amount over \$315,000

\$400,001-\$600,000 - \$91,379 + 35% of the amount over \$400,000

\$600,000+ - \$161,379 + 37% of the amount over \$600,000

### Taxes for trusts and estates were also changed to:

\$0-\$2,550 - 10% of taxable income

\$2,551-\$9,150 - \$255 + 24% of the amount over \$2,550

\$9,151-\$12,500 - \$1,839 + 35% of the amount over \$9,150

\$12,501+ - \$3,011.50 + 37% of the amount over \$12,500

Notice that in the lower brackets the joint return (mostly for married couples) were double the individual bracket thresholds, eliminating the so-called "marriage penalty." However, in the higher brackets, the 35% rate extends to individuals up to \$500,000, but married couples with \$600,000 in income fall into that bracket. In the top bracket, the marriage penalty is more significant; individuals fall into it at \$500,000, while couples are paying at a 37% rate at \$600,000 of adjusted gross income.