Market Update

December 12, 2017

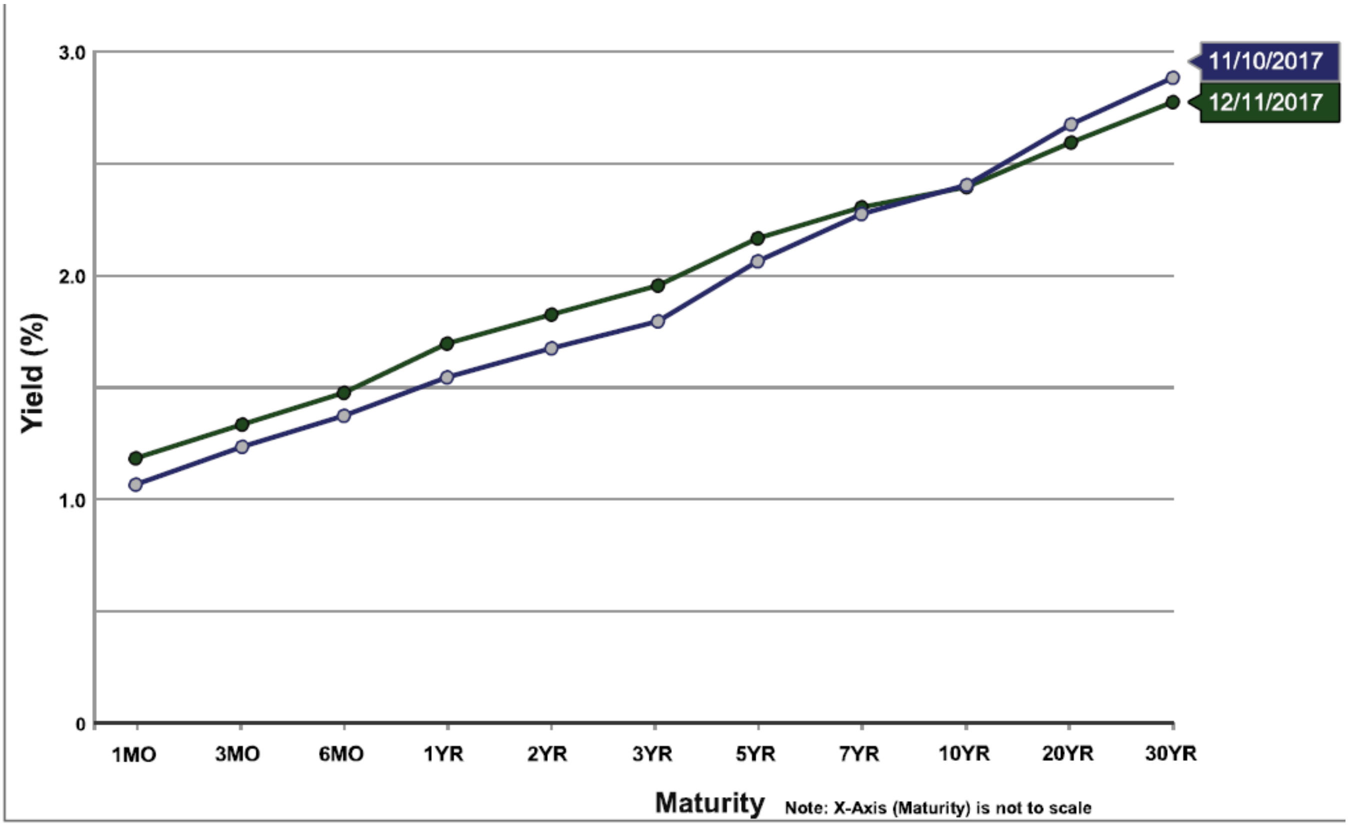
Tax Plan, Bitcoin and the Economy

While many on Wall Street and Main Street seem focused on what is going to happen with the new tax plan and the incredible rise of Bitcoin, the economy has continued to show signs of strength. The Federal Reserve will meet this week. There is an expectation, that they will raise short term interest rates 25 basis points (there are 100 basis point in 1%) to get the fed funds rate to the 1.25% to 1.50% range. Last weeks jobs report certainly will help the Federal Reserve in making this decision. The U.S. labor markets added 228,000 jobs in November, according to the report. The unemployment rate is 4.1%., while the average hourly earnings rate ticked up a modest 0.2% for a year over year wage gain of 2.5%. The equities markets are continuing there march upwards as the S&P 500 (blue line below) indicates, since last November's election. The price of both GLD (proxy for gold price), red line below, and TLT (proxy for long term bond prices), orange line below, both moved down since last month with gold showing the steepest decline.

Information in the chart above was taken from sources we believe to be reliable; however; we do not guarantee its accuracy or completeness.

The treasury yield curve flattened over the past month, but remains positively sloped. This indicates long term rates are still higher than short-term interest rates. The Federal Reserve has a mandate of maximizing employment, stabilizing prices and moderating long-term interest rates. The first two are sometimes referred to as the "Federal Reserve's Dual Mandate." One of the reasons we are seeing a flattening of the curve is the economy is still adding jobs and the unemployment rate is poised to potentially go below 4%. This signals to the

Federal Reserve that the economy can handle higher short-term rates. However, as inflation remains below historical averages, at a current 1.8% for October and 2.0% for the first half of 2017, longer-term bond yields have not risen as quickly. See Treasury yield curve chart below.



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https://www.treasury.gov/resource-center/data-chart-center/interest-rates/Pages/Historic-Yield-Data-Visualization.aspx

The Bitcoin phenomenon has taken many on Wall Street and Main Street by storm. Just this week futures' contracts have started to trade on the cryptocurrency. Bitcoin is a type of cryptocurrency created as a means of exchange for value and stored electronically in what is called a "Blockchain." According to experts, the blockchain has not been hacked and cannot be, making cryptocurrency hard to steal. While I admit I have a lot to learn about these new financial instruments, people have seen several thousand percentage points in returns in a short period of time. Many fear that there is a bubble forming, while others are trying to figure out how to get in and participate. Currently, Bitcoin is not truly being considered a form of currency. Recent trading of futures contracts suggests it is more like a commodity, at this point. If this potential bubble were to burst, the concern is how much of a contagion affect might it have as people who need to cover their losses look to sell other assets to make good on their obligations. Fortunately, at this time the cryptocurrency world is in the billions not the trillions like other financial markets, which may make a bubble bursting a controllable event in the overall financial market landscape.

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We will look to provide more of an outlook for 2018 at the beginning of next year. There could be a new tax plan in place, which will be helpful to know about for our analysis. Preliminarily, our outlook is one of a little more caution for next year, however we do feel there is more opportunity for growth. Overall, we still prefer domestic equities over international equites. International markets, especially developed international markets, continue to look attractive. Most all our portfolios hold a percentage of their assets in international investments which should benefit from improved economic indications globally. We are currently neutral on fixed income and interest rates, but believe that the future may bring a high rate environment.

If you have questions or would like to discuss this further with regard to your personal portfolio please contact me at 310-433-5378.

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