Winter 2018
1st Quarter

The Eagle's View

By Paul J. Tully, CFP®, RICP®

With 2017 "in the books," it is the time to reflect on what was a surprisingly, or some might say an amazingly, good year and plan for 2018 and beyond. It is hard to know where to start with the good news for last year and also difficult to find many potential storm clouds, though we will identify a few concerns.

Globally, stocks rose $9 trillion, according to the Wall Street Journal, with $3.9 trillion of that being in the S&P 500, and a quarter of that being 5 stocks: Apple, Amazon, Alphabet (Google), Facebook, and Microsoft. Each was up over 30%. The Dow Jones Industrial Average logged its 2nd largest return in a decade and 4th largest in the past 20 years. The Dow hit 71 record highs in 2017.

For the first time in 30 years, the S&P 500 grew every month and there was only a mild 3% decline during 2017 - the least volatile year since 1995. A normal intra-year decline is 14%, so you can see things were very calm last year, with all of the volatility being on the plus side. The last 10% correction ended in February 2016. Having said that, a correction (defined as a 10% decline in process) is a normal and at times welcome occurrence in the investment markets and tends to cool down an overheated, "irrationally exuberant" mindset and perhaps chase out some of the speculators.

We expect to see corrections - no idea how soon, how frequent, or how deep - during the next few years. It does not alarm us nor will it cause us to panic and deviate from long term plans.

> ***I actually wrote the previous 2 sentences toward the end of January before the 10% correction occurred. It was the fastest decline of 10% from a market top in 80 years and certainly got everyone's attention. I decided not to change anything else in the letter as a result of a decline, so while things may have changed a bit in the very short term, our outlook remains the same.***

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The NASDAQ, dominated by tech stocks, also set all-time records and finished the year up almost 30%. Even though the stock indexes tend to be weighted heavily in favor of a few very large companies, it was a very good year across almost all sectors of the US (except telecommunications and energy) and for the first time in a number of years, across the world.

According to Raymond James, the S&P 500 has now risen for 18 of the last 20 quarters, a remarkable streak of growth in value. As I finish this letter at the end of January, I read that 87% of the years since 1950 (9 of 68), whatever the S&P 500 did for the month (up or down) it did for the year. That is not a projection, but it is an interesting fact. In some of the years where the year did not follow the month, there were significant military events, including Vietnam, Iraq and September 11, 2001.

At the end of 2018 we will see an unusual phenomenon, when the 10-year total return of the stock market will go from 82.1% at the end of 2017 to 198.3% at the end of November 2018, even if stocks for the first 11 months of this year produce a zero return. Neat trick! What is causing this is that at the end of November? The disaster of October and November of 2008 are no longer part of the 10-year calculation, which will cause the 10-year average annual return to move from 6.2% to 11.5% according to Standard and Poor's.

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We have had several questions about digital currencies, mostly Bitcoin. There are people on both sides of the issue as to whether it's a legitimate investment class or a bubble. Given its extreme volatility and the fact that it is something that almost no one we speak with can truly describe, we would avoid it. One person recently described it to me as a "bubble in search of a pin," another, referencing the old tulip bulb bubble of several hundred years ago, called it "a 21st century digital tulip." There are some major companies that are accepting Bitcoin for payment, including Microsoft, Expedia, Subway, Tesla, Etsy and others. Although there are a lot of different opinions, we will go with that of renowned investor Warren Buffett, who merely says that he expects this fad will ultimately end badly.

The "blockchain" technology that supports Bitcoin and other digital currencies is something that has more widespread use in tomorrow's economy and there will be major companies taking advantage of that, with many already adopting plans for its use.

Prior to making an investment decision, please consult with your financial advisor about your individual situation. The prominent underlying risk of using bitcoin as a medium of exchange is that it is not authorized or regulated by any central bank. Bitcoin issuers are not registered with the SEC, and the bitcoin marketplace is currently unregulated. Bitcoin and other cryptocurrencies are a very speculative investment and involves a high degree of risk. Investors must have the financial ability, sophistication/experience and willingness to bear the risks of an investment, and a potential total loss of their investment. Securities that have been classified as Bitcoin-related cannot be purchased or deposited in Raymond James client accounts.

The Economy

The world economy is firing on all cylinders, with the US, Europe, and China experiencing robust economic growth for the first time in a decade. The US just completed the 101st month of expansion - an unusually long time. The longest US expansion was 120 months, beginning in March 1991 and ending March 2001. Although there is a consensus that our economy will grow this year, Raymond James feels it will be a modest growth, with 2018 producing real GDP growth of a little over 3%. They also see rising inflation and at least 2 interest rate increases. Already the 10-year US Treasury, the primary benchmark for interest rates, is at its highest level since 2014 and the lesser followed 2-year rate is at its highest rate in 10 years. Clearly something is beginning to happen and may spur people to buy houses and other long financed items for fear of rising rates.

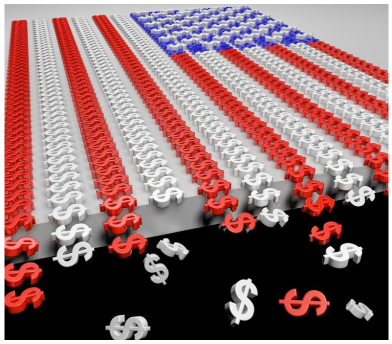
Monetary stimulus, started in the US in 2008, Japan in 2013, and Europe in 2015, has been more successful than critics believed possible and the US has started unwinding that process, providing the rest of the world with a template. This is good news for investors because while the US is now (slowly) raising interest rates, Europe and Asia will be keeping theirs near zero through the end of the decade.

Profits are rising generally around the globe with all 45 countries tracked by the Organization for Economic Cooperation and Development currently expanding - a very uncommon synchronization.

We do not see this calmness being repeated in 2018, nor does it seem that many of those experts we follow think that either. There is however a consensus that the upward trend in the US and around the globe has momentum to continue, though not without some bumps along the way. We are confident that even a 5% correction will bring the financial media to announce a recession, depression, or worse.

In doing our typical year-end/new year conference calls with asset managers and reading everyone's investment outlooks, we observe that while there is optimism for the US, there is more enthusiasm for both the developed and emerging foreign markets for 2018.

In the US, we had both the 2nd and 3rd quarters register GDP growth above 3% annualized and earnings were much better than expected at this time last year. The confluence of market supporting trends resulted in a confidence boost that included continuous job growth, which



has reached a record 85 consecutive months (resulting in the US unemployment rate dropping to 4.1%, the lowest since the 3.9% rate in December of 2000), low interest rates (the 10 –year US Treasury started the year at 2.44%, ended 2017 at 2.40%) and continued low inflation, though there are some concerns about that for the new year and beyond. Tie it all together with the perception that the political initiatives underway are favorable to the economy, and you have a very good year for investors, better than even the optimists believed likely a year ago.

Having read so much good news, we remain conservative in our outlook for the stock markets. Not negative, but we do feel that some of the future growth may have already occurred in 2017 rather than 2018. Others, including Raymond James own Chief Market Strategist Jeffrey Saut, believe the markets can continue to rise.

The US stock markets are at all-time highs and appear to be fairly valued absent continued growth in earnings. That's according to many and one person we follow closely, Dr. Jeremy Siegel, who has been very accurate in his market calls for many years has stated this very recently. Another noted investment executive, Joseph Davis, Vanguard's Chief Market Economist, expects the lowest returns on US stocks in a decade with 4-6% annual returns over the next 5 years. With Vanguard bringing in $1 billion per day, it's good to pay attention to them, and some of that new money is coming from us as we use Vanguard extensively in our investment models.

So what can go wrong?

Well, having read about 427 economic forecasts (ok, a bit of an exaggeration) since the beginning of the year, my take is that for 2018, not a lot is projected to go wrong according to many "experts" we follow.

Though the overall trend in the US and abroad is that economic growth will continue through 2018, there is a lot than can create volatility. Higher inflation and lower earnings are two examples. Others include geopolitics (North Korea, Russia, and terrorism) or US politics (Congressional mid-term elections are this year). Concerns include the Federal Reserve, led by new chair Jerome Powell, raising interest rates too quickly in order to slow potential inflation. In the past, every recession has been preceded by the Fed raising rates too quickly for economic conditions and almost every bear market (historically a temporary decline of 20% or more) was precipitated by a recession. Not a good combination of results if the Fed misfires, so while it is probable that we will see multiple interest rate increases in 2018, it is not certain.

By most historic measures, US stocks are on the high side of fair value at 18.5x expected earnings over the next 12 months, the highest multiple in 15 years. Investor and consumer sentiment, according to the Wall Street Journal, are also at 15-year highs and a survey from the University of Michigan had 65% of individual investors expecting stocks to rise over the 12 months beginning in October 2017, the highest percentage ever for that survey. Also, 2/3 of stock newsletters were bullish as of mid-December, the most in almost three decades. If they experience a pullback early in the year, that sentiment can change.

There are always potentially disruptive geopolitical issues that can create uncertainty and volatility. We have considerable potential for that in the US, with mid-term Congressional elections, the ongoing Mueller investigation, and the seeming daily issues with North Korea. While only the North Korea issue has the potential to impact our economy this year, any big political issues have the potential to roil the markets in the short term.

Other things that could impact the markets would be disappointing earnings, increases in unemployment, higher inflation, bad news from either the housing or auto industries (autos were off a little in 2017 after 7 straight years of growth), or a failure of Congress to deal with various spending issues.

Non-Financial Good News

In doing a lot of reading over the past month in preparation for writing this letter, I found a wealth of non-financial information that you simply don't get from the press. I understand that that bad news attracts more eyes than does good news, thus the media tends to pick up all of the problems and few of the solutions, but here are a few examples:

- The International Energy Agency announced that in the past 16 years, 1.2 billion people have gained access to electricity.

- Time Magazine reports that cancer deaths in the US have declined 25% since 1991, saving 2 million lives.

- According to Pew Research, violent crime in the US is down 50% since 1990.

- Bloomburg reports that snow leopards, green sea turtles, humpback whales, manatees and giant pandas have all been removed from the endangered species list in the last 2 years. In a 12 hour period, 1.5 million people in India set a new Guinness record (no idea what the old record was or who held it) by planting 67 million trees. In Pakistan, they planted 1 billion in 2 years. A number of countries, including Mexico, Chile, and Canada, have created areas to protect wildlife, including many that are endangered. In China, a woman made the largest donation in history ($2 billion) for wildlife preservation and several other countries, including Vietnam and Germany have banned animal "farming" for furs.

I realize this won't likely move the stock market up, but other than hearing good things about the economy and investment markets, most of what we hear is bad news. There are a few storm clouds on the horizon and though we do not make predictions, here are a few things to think about. Several of these issues, including inflation, deficit, and globalization have been tailwinds for a decade and are possibly going to be headwinds in the future.

Politics

The political environment was a mess last year (though they did manage to pass tax reform at the end of the year) and with mid-terms this year, we don't expect it to get much better and it may very well get worse. Not productive for our citizens (a great argument for term limits) but it is what it is and we just have to plow through it in the economy and investment world.

Tax Reform & Financial Planning

There were several significant events in 2017 that will shape our profession and your financial and investment planning for many years to come. The most significant is the new tax law, known as the Tax Cuts and Jobs Act of 2017. It is the first major overhaul of our tax code since 1986. Big changes.

A lot of what had been promised by legislators was not in the final bill that became law. The repeal of the alternative minimum tax, repeal of the "carried interest" tax system for hedge funds, a revenue neutral law, a simpler tax system (this new one is not simpler) - all were jettisoned along the way.

Nonetheless it is a significant step in the right direction as US corporations, which for the most part are owned by all of us who own stocks, mutual funds, IRA accounts, 401(k)s, etc., will become more competitive in global commerce and hopefully (by no means assured) they will invest some of the tax savings in new plants, equipment, worker training, and increased wages in the US. At the very least, the 35% many paid in federal taxes will now be 21% so at least the government will not remain a 1/3 “partner” in profits.

Most companies had enough liquid cash to do all of the above already, but I do think the new law will help support the equity markets by increasing after tax corporate earnings and it is very likely that some companies will continue to buy some of their own stock (which could boost stock prices) or pay higher dividends, thereby boosting income to shareholders.

We have already accumulated $20 trillion in national debt, with annual deficits (last year $666 billion) as far as the eye can see. The new tax law, according to most experts we see, will add to that total, though it may also force some states (NJ if we are lucky, though I suspect we won’t be) to tighten their belts. Sooner or later, but most likely later, the increasing debt load we are passing on to future generations will need to be addressed. No politician in either party will tackle this issue currently.

I have my fingers crossed that the new law enables some or all of the positive effects, but it was time to address this issue, regardless of the end result.

We have seen recent examples of many major companies using some of their anticipated extra earnings to reward employees. Walmart gave $1,000 bonuses to most employees and also raised their minimum starting wage from $9 to $11 per hour. Other companies, including American Airlines, AT&T, and Comcast also gave bonuses tied to the tax savings from the new law, and a number of banks, including Wells Fargo, US Bank and PNC Bank, increased their minimum wage to $15 per hour. In another direct result of the new law, Fiat Chrysler announced they were moving a production facility from Mexico to Michigan, creating 2,500 new jobs there.

There are both winners and losers on the personal side (most businesses were winners). Among the winners are an increased number of Americans who will be filing simpler tax returns as the standard deduction rises to $24,000 (married filing jointly, half that for singles), eliminating the need for many people to itemize deductions. Among the losers, fellow New Jerseyans, are those people like us who reside in states with both high property taxes and state income taxes because those taxes, previously fully deductible from your income for federal taxes, are now capped at a $10,000 annual deduction.

In addition, new mortgages will have a deductible interest cap based on a mortgage of $750,000 (down from $1 million) and home equity loan interest will no longer be deductible at all. The mortgage limit is probably a bigger issue in the central and northern parts of the state more than in our immediate area, but many suburban Philadelphia communities have houses with large mortgages. The home equity issue affects everyone.

In many parts of NJ, the $10,000 limit will not fully cover your property taxes (NJ already has a state limit of $10,000 even though it is the state largely responsible for the high taxes to begin with). How this will all play out remains to be seen in the coming months.

Everyone’s tax bracket got a bit of a break, but I think a lot of that may be offset by the limitation on the state tax deduction. Maybe they should have called the new tax law, ***“NJ, We Are Coming For You - Tax Reform of 2017!”*** Other states were hit as well, including 2 of the 4 largest, California and New York. According to the US Census Bureau, almost 1/3 of the US population lives in 4 states, the 2 above plus Texas and Florida. Neither of the latter 2 have an income tax.

There are 7 tax brackets (so much for simplification!), ranging from 10% to 37%, and a host of changes in exemptions, deductions, plus college 529 plans are now usable for private high school.

One issue that seems to be getting largely ignored by many people is that while the corporate tax breaks are permanent, the personal ones are temporary, expiring after 2025. Many members of Congress argue that the laws will work so well, a future Congress will make the changes permanent. Somehow, probably with a lot of practice, they say this with a straight face! Congress cannot agree on anything (both parties routinely boycott any support for an idea or appointment from the other party), so getting a future Congress that could quite easily be a majority of Democrats to extend something the Republicans swear is good will be interesting to see. I'm not holding my breath on this one.

Other items impacted include deductibility of things like tax preparation and investment management fees, employee business expenses, investment interest, and personal theft and casualty losses, all now eliminated entirely. Alimony is no longer deductible, which will make a major difference in accounting for divorce planning. Impacted but not eliminated are things like charitable contributions, medical expenses, gambling losses, and most moving expenses.

Retirement/Lifetime Income Planning

It is acknowledged that retirement planning is an income problem, exacerbated by healthcare costs and a reasonably high likelihood that if you live long enough, you will need some form of long term care.

Funding this, especially at times like these where there is a very low rate of return for risk-free investments, is a challenge. It is natural for people, especially as they get older and are no longer receiving an income from wages, to want to less risk on what funds they have accumulated. On the other hand, riskless investments generally do not grow with inflation and therefore put people at the risk of not being able to generate enough income to keep up with inflation.

Therefore it is important, assuming you believe that things you buy today will cost more in the future, to make sure that your assets and your income have the potential to rise with inflation.

We are continuing to see a trend of people working, not necessarily full time, beyond what people think is a normal retirement age. Currently 19% of people over age 65 are still working, the highest percentage since the 1960s. That is expected to grow to 32% in over the next 5 years. There are numerous reasons, longevity being one - the impact that living much longer than one might have expected and needing to fund your lifestyle. We also see many people who simply still enjoy what they do, are good if not great at it at this stage of their careers and enjoy both the mental, emotional, and financial rewards. Of course health plays into this as does a certain fear of what one might do if they suddenly stopped doing what they have been doing for the past 40 years. In our experience, those with active outside interests (hobbies, volunteer work, visiting out of the area children and grandchildren) are more likely to succeed with a "full stop" retirement, but we see an increasing number who keep putting this transition off into the future.

We have spoken to clients and have occasionally mentioned in our communication about the growing issue of long term care. Currently, there are 43 million unpaid caregivers in the US, 80% of whom are a friend or family member of the person receiving the care. This is a potentially devastating situation (emotionally and financially) and with the aging of the baby boomers and no cure on the immediate horizon for illnesses like Alzheimer's, it is going to get worse before it gets better.

News at EWS

While finishing up this letter, Paul learned that he (really ***we***) were named to the 2nd annual ***Forbes America's Top Advisor*** list for 2018. It's a nice honor, usually given in one name, but we at EWS know that it is a true team effort and over the years, as our team's roles and responsibilities have grown, Paul's importance is actually a little less (though we don't tell him that, yet). Obviously, we owe any recognition that we get to the trust and loyalty of our clients, without whom we would not qualify for consideration for these types of national awards. Paul was one of two people affiliated with Raymond James in NJ to be named. There were a total of 500 advisors named throughout the US.

This is a time of year when we meet representatives from a variety of investment firms as well as travel to conferences on the economy, investment markets, and financial planning strategies. In the first half of 2018, one or more of our team will be traveling to conferences in Miami, New Orleans, St Petersburg and finally, Washington DC. Our travel costs alone should help boost the economy! It is important that we invest our time in these meetings and conferences so that we can get a full range of expert opinions on the issues that we and our clients will face in the future.

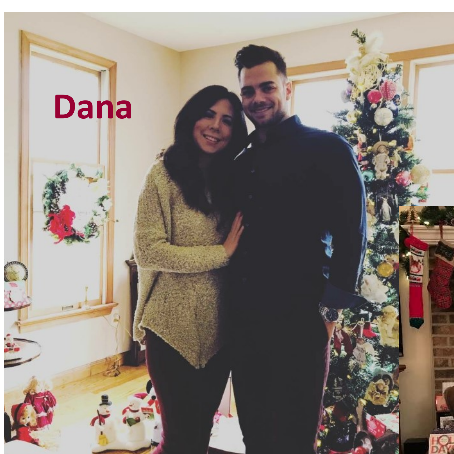
As many of you know, we are very engaged with a number of charities and civic organizations. We give our time, but also make financial contributions to many. If any of those who receive this letter have groups they are involved with (generally we shy away from political or religious groups, though sometimes they can be involved with a separate charity we support), please let us know. In 2017 we were involved with United Way Women's Leadership Council, Boys and Girls Club, Rowan University (Alumni, Foundation, and College of Business), Gloucester County Animal Shelter, Race for Autism, American Cancer Society, Special Olympics, Nazareth Hospital, COPD Foundation, Tide Water Adaptive, South Jersey Food Bank, and the Stars and Stripes Booster Club. We believe strongly that our personal involvement and financial support helps make our community better and are committed to this in the future.

Below and on the next page are some pictures from our EWS Christmas Party as well as some Christmastime pictures with our families!

Melissa and family

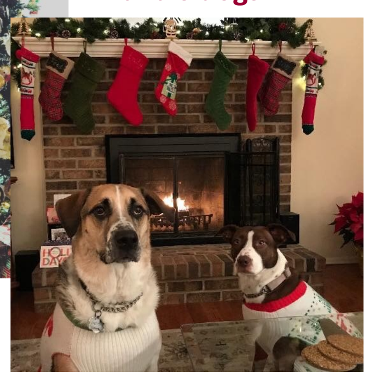
Melissa's cat, Peanut

Maureen and family



Dana

Dana's dogs



Paul's grandchildren,
Graycen & McKenna

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Each of our financial advisors – **Paul Tully, Steffanie Lerch, Chris Tully, and Jessica Ortega** – holds the CERTIFIED FINANCIAL PLANNER™ certification and Paul, Chris and Steffanie hold the Retirement Income Certified Professional® certification. The CFP® credential is awarded to a select number of financial professionals who satisfy the CFP® Board of Standard's rigorous educational and examination requirements, and who agree to adhere to its high level of ethical and professional standards. In order to receive the RICP® designation, one must meet experience requirements and ethic standards, successfully complete three courses which include rigorous tests to pass, and agree to comply with The American College Code of Ethics and Procedures.

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