

Newsletter – January 2018

MARKET TRENDS 12/31/2017

<u>US Stock Markets</u>	<u>Q4</u>	<u>2017</u>
S&P 500 Index	6.6%	21.83%
S&P MidCap 400 Index	6.3%	16.2%
Russell 2000 Index	3.3%	14.7%

<u>Int'l Stock Markets</u>		
EAFE Index	4.2%	25.0%
Emerging Mkts Index	7.4%	37.3%

<u>Fixed Income</u>		
Barclays Intermediate Gov't/Credit Bond Index	-0.2%	2.1%
Barclays Capital Muni Bond 3 Year Index	-0.8%	1.6%

<u>Commodities</u>		
SPDR Gold Shares (NAV)	0.9%	11.4%
Goldman Sachs Commodities	9.9%	5.8%

<u>Real Estate</u>		
Dow Jones US REIT Index	2.6%	9.8%

<u>Yields</u>	<u>12/31/2017</u>	<u>12/31/2016</u>
6 Mo. US T-Bill	1.5%	0.6%
10 Yr UST	2.4%	2.5%

Sources: Total Returns from WSJ Market Data Group, Standard & Poor's, Barclays

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Life Advice You Did Not Request

In keeping with the turn of the year and renewed resolve, we would like to begin 2018 by encouraging all of our clients to make their health a top priority starting now. It may be unusual for this advice to be coming from your financial people, but time and again we see how important a basic fitness regimen and sensible diet can be for our clients.

Whether you are a 32 year-old trying to squeeze in some cardio and a healthy lunch between career and family demands, or a 75 year old trying to stay safe and independent by keeping limber with some stretches, yoga, or walking 9 holes of golf, it all helps. As a society, we are living longer than ever, and though nothing is guaranteed, it's worth acting accordingly, with expectations for longevity. In short, prepare your body for the long haul.

Why not try to get the most quality out of life that you can in the short and long term? In addition to feeling good, you may also experience a great savings financially by avoiding chronic diseases, obesity, and unplanned early retirement due to illness, not to mention minimizing prescription, medical and healthcare costs over decades. For those still in the workforce, check with your human resources department to see if your medical insurance plan qualifies as a high deductible plan allowing you to open a health savings account ("HSA"). An HSA has many benefits that we would be happy to discuss with you. Health is often an overlooked investment that each of us can make daily to benefit ourselves, our loved ones, and society as a whole.

The Meat in This Quarter's Sandwich

The big news at the end of 2017 was the polarized passage of President Trump's tax bill. Every Senate Republican voted for the bill, while every Democrat voted against it. In time we will better understand all of the implications of the new law. It is important to realize that final regulations are in process and still being finalized, so as a firm we counsel patience before making significant changes to your tax strategy, to the titling of how you hold assets, or to the entity/structure of your business.

In the meantime, we will be attending tax seminars and reading all we can to determine the topics that will likely be most impactful to our clients. We recommend that clients begin 2018 with a process and team-oriented approach to determine potential shifts in their tax strategy.

Identifying Opportunity. Navigating Risk.

“Health is an often overlooked investment that each of us can make daily.”

“Begin 2018 with a process and team-oriented approach to determine potential shifts in tax strategy.”

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“Limits the deduction for total state and local, sales, and real estate taxes to \$10,000.”

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At this year's tax filing, tell your CPA that your investment advisors recommend a call or meeting together in the spring or summer if possible to discuss ways to make the best of the new tax bill. We recommend the same type of discourse between you, your estate attorney, and Shorepoint. If we work together and start early in 2018, we should be able to make sensible decisions that benefit you and your family presently but with an eye to the future as well.

As a reminder, we are investment people and **NOT** tax professionals! However, we are fiduciaries and try to push and support the process of inquiry for our clients' benefit. Below is a short list of the pros and cons of the tax bill that we see as potential points of discussion for our clients with their tax experts:

Pros

- Lowers tax bracket rates overall and widens each bracket
- Adjusts payroll withholding tables which increases employees' take home pay
- Increases the standard deductions- essentially doubled
- Increases the alternative minimum tax (“AMT”) exemption amounts
- Expands the use of 529 college savings plans to include elementary or secondary school tuition, up to \$10,000 per year
- Retains the deduction for medical expenses and temporarily expands the deduction by reducing the threshold to 7.5% of income
- Creates a 20% income tax deduction for some pass-through income from businesses other than personal service companies
- Increases the taxable threshold for estates above \$11.2 million (Massachusetts still taxes estates greater than \$1 million)
- Increases the gift tax threshold to \$11.2 million (Massachusetts has no gift tax)

Cons

- Limits the deduction for total state and local, sales, and real estate taxes to \$10,000
- Eliminates the deduction for personal exemptions
- Eliminates the deduction for home equity loan interest (margin loan interest still deductible)
- Allows qualified mortgage interest deduction on loans up to \$750,000 from current \$1 million; existing mortgages are unaffected
- Eliminates the deduction for miscellaneous itemized expenses, including unreimbursed employee expenses, tax preparation and investment management fees, home-office expenses, etc.

Looking Forward

Currently, domestic equity markets are at record highs with minimal volatility. International equities outperformed domestic ones and growth significantly outperformed value stocks. **It has now been two years since we have had a 5% correction or more.** We usually have a 5-10% correction every 12 months, so we are overdue for one but we would use that as a buying opportunity. As for valuation, it is true that the S&P 500 Index is trading above its 25 year average on a price/earnings basis but it is **not at extreme valuations.** Also, lower 2018 corporate tax rates make stocks less expensive and will boost earnings especially for more domestically focused companies. As for bonds, high quality bonds continue to look expensive even as retail investors plow billions into bond mutual funds. We are monitoring market conditions and are somewhat concerned by the increase in bullish investor sentiment on Wall Street. **However, the key characteristics of significant market corrections are recessions, commodity spikes, and aggressive Fed tightening or extreme valuations (see chart).**

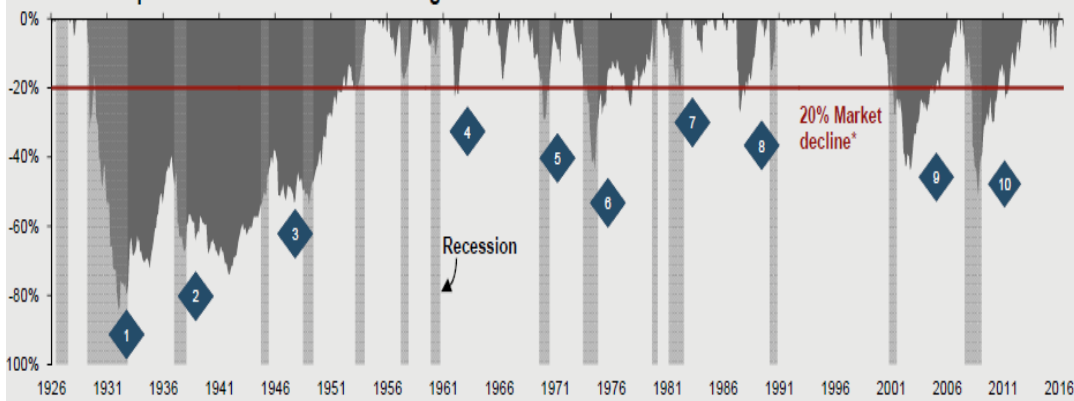
“Eliminates the deduction for home equity loan interest (margin loan interest still deductible).”

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“...we are overdue for a correction but...use that as a buying opportunity.”

“The key characteristics of significant market corrections are recessions, commodity spikes, and aggressive Fed tightening or extreme valuations.”

S&P 500 composite declines from all-time highs



Characteristics of bull and bear markets

Market Corrections	Bear markets			Macro environment				Bull markets		
	Market peak	Bear return*	Duration (months)*	Recession	Commodity spike	Aggressive Fed	Extreme valuations	Bull begin date	Bull return	Duration (months)
1 Crash of 1929 - Excessive leverage, irrational exuberance	Sep 1929	-86%	32	◆			◆	Jul 1926	152%	37
2 1937 Fed Tightening - Premature policy tightening	Mar 1937	-60%	61	◆		◆		Mar 1935	129%	23
3 Post WWII Crash - Post-war demobilization, recession fears	May 1946	-30%	36	◆			◆	Apr 1942	158%	49
4 Flash Crash of 1962 - Flash crash, Cuban Missile Crisis	Dec 1961	-28%	6				◆	Oct 1960	39%	13
5 Tech Crash of 1970 - Economic overheating, civil unrest	Nov 1968	-36%	17	◆	◆	◆		Oct 1962	103%	73
6 Stagflation - OPEC oil embargo	Jan 1973	-48%	20	◆	◆			May 1970	74%	31
7 Volcker Tightening - Whip Inflation Now	Nov 1980	-27%	20	◆	◆	◆		Mar 1978	62%	32
8 1987 Crash - Program trading, overheating markets	Aug 1987	-34%	3				◆	Aug 1982	229%	60
9 Tech Bubble - Extreme valuations, .com boom/bust	Mar 2000	-49%	30	◆			◆	Oct 1990	417%	113
10 Global Financial Crisis - Leverage/housing, Lehman collapse	Oct 2007	-57%	17	◆	◆	◆		Oct 2002	101%	60
Current Cycle								Mar 2009	295%	105
Averages	-	-45%	24					-	160%	54

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

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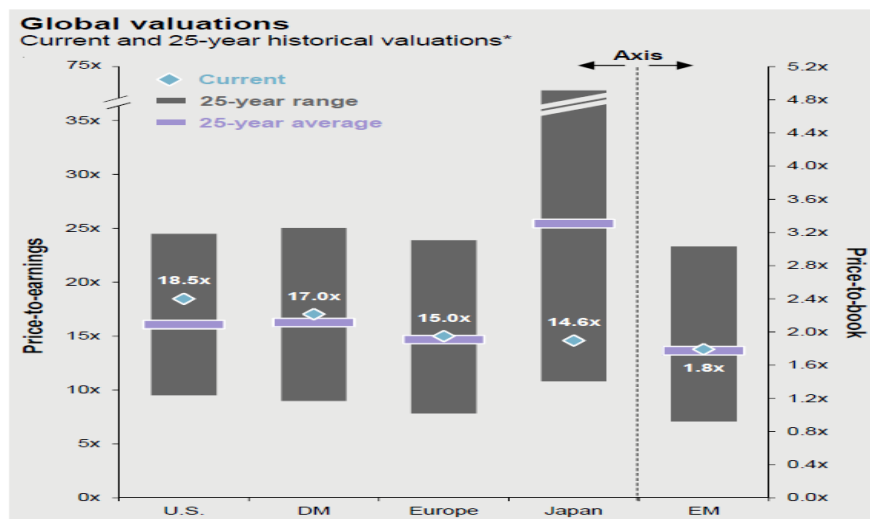
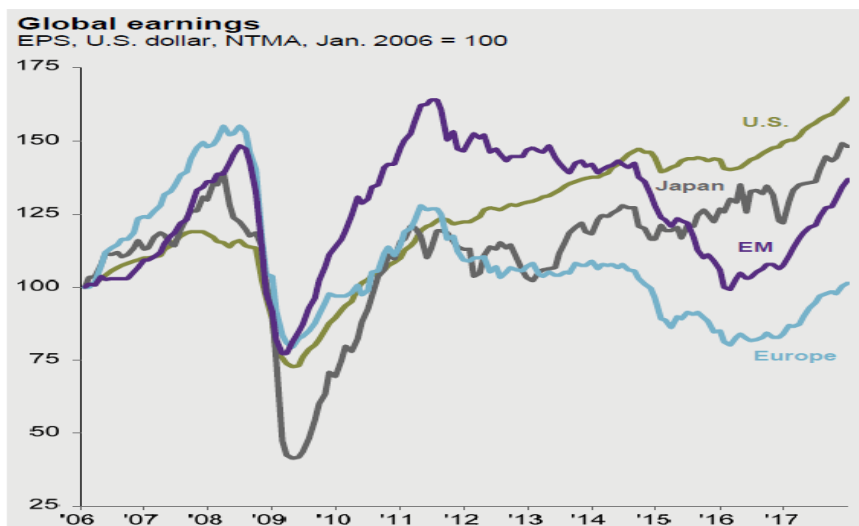
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“...high quality bonds continue to look expensive...”

“... lower 2018 corporate tax rates make stocks less expensive and will boost earnings...”

Shorepoint's core philosophy is to manage diversified portfolios of quality, reasonably-valued assets based on your investment objectives and risk tolerance. This has and will prove to be a successful investment strategy over the long-term. That being said, we will continue to rebalance portfolios, in most cases, reducing or shifting equities as prudent. We believe that it makes sense to take profits on outsized positions that have grown during this bull market run and to fund more attractive, cheaper-looking opportunities. At this moment, there is positive, synchronized global earnings growth, with valuation modestly high in the U.S. while foreign markets are trading around their 25 year averages.



Source: FactSet, MSCI, Thomson Reuters, Standard & Poor's, J.P. Morgan Asset Mgt

Overall, **Shorepoint expects to stay the course, seeking to take advantage of opportunities as they arise** and generating attractive long-term returns to assist our clients in reaching their financial goals. As always, we are available to discuss your concerns and answer your questions.

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