



December

December 5, 2017

By the numbers: The holiday season

At the end of every year, Americans tend to kick up their spending when they buy presents, decorations, and other items for the holiday season. Let's examine a few figures to learn how holiday spending impacts the average consumer's wallet.



\$478

The expected amount that consumers will spend on gifts for family members



\$218

The amount that shoppers plan to spend on food, decorations, flowers, and greeting cards



59 percent

The relative proportion of consumers who will primarily shop online for holiday goods



\$682 billion

The approximate total of all holiday-related expenses in the US this year



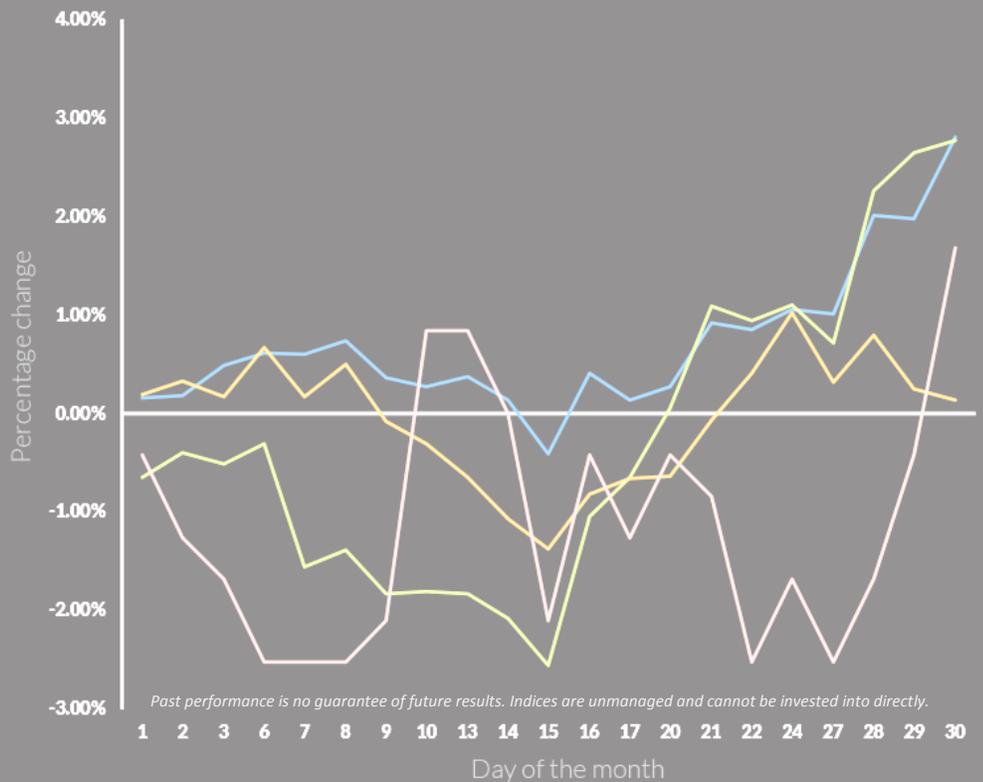
\$967.13

The amount that consumers expect to spend this holiday season

The market at a glance

November

■ U.S. Large Cap (S&P 500)	2,647.58 (2.81%) ▲
■ U.S. Mid/Small (Russell 2000)	1,544.14 (2.77%) ▲
■ International Large (NYSE International 100)	5,692.71 (0.13%) ▲
■ U.S. Treasuries (U.S. 10-year Treasury yield rate)	2.42 (1.68%) ▲



The market in action

- According to a release by the Institute for Policy Studies, roughly 20 percent of American households have a net worth of zero or lower. Among the contributing factors are student loans, credit card debt, and low wage growth.
- The unemployment rate in the US has reached its lowest level since 2000, as reported by the Bureau of Labor Statistics. This comes with a near record-high 6.09 million job openings; however, wage growth in October was only 2.4 percent.
- Amazon has begun harnessing augmented reality (AR) technology in its online shopping experience. Using an app, shoppers can see how items will look in their homes before buying. The feature, called AR View, is already available on newer iOS devices and is coming soon to Android.
- New home sales in the US have reached their highest mark in 10 years, according to the Commerce Department. New home sales have increased by nearly 19 percent over the past year.
- Continuing the trend from recent years, health care costs in retirement continue to rise. A healthy couple retiring in 2017 can now expect to spend \$275,000 on health care in retirement, an increase of roughly 6 percent since 2016.
- Cyber Monday is slated to be the single largest online shopping day in the history of the United States. According to Adobe Analytics, an estimated \$6.6 billion was spent on the Monday following Thanksgiving this year.
- According to the Wall Street Journal, retail juggernaut Hasbro is looking to buy one of its chief competitors, Mattel. Though no merger appears imminent at the moment, the potential of a new retail powerhouse is worth watching.
- Microsoft founder Bill Gates has pledged \$100 million to fund Alzheimer's research. Alzheimer's is the most common form of dementia, and the number of individuals affected by dementia is expected to increase by 162 percent by the year 2050.

Putting 2017 to rest

Year-end financial checklist

As we near the end of the year, it is time to look back at what has happened and determine how it will affect your financial future. Check off these important items so you can start the new year's finances with peace of mind.

INCOME TAX

- Review your tax withholdings.**
Have you had a major life change (e.g., employment change, marriage/divorce, a new child) that affects your income tax? Check to make sure your tax withholdings have been properly adjusted. Having low withholdings can lead to tax penalties, while having too high of withholdings prevents you from accessing your money until your tax return is filed.
- Estimate your adjusted gross income (AGI).**
Determine your AGI with the help of your tax advisor. Your AGI will help determine your tax bracket, which you will need for investment and retirement planning.
- Estimate your Alternative Minimum Tax (AMT).**
Determine whether you will be subject to the AMT and if there are ways to mitigate your AMT liability.

FAMILY FUNDING

- Check your flexible savings account (FSA)**
The government only permits a \$500 annual rollover in an FSA; any excess funds disappear if unused by the end of the year. If you have extra money in your FSA, you may want to schedule necessary medical or dental procedures before the end of the year.
- Check your health savings account (HSA)**
HSA funds do not disappear at the end of each year like with an FSA; however, many with few medical needs discover money accumulating in their HSAs much faster than they are using it. Consider reducing your contributions to your HSA if your account has reached a comfortable amount and you know of better uses for your money.
- Consider contributions to a 529 plan to fund your children's/grandchildren's education**
529 plans allow you to contribute to a tax-free account that may be used to pay for qualifying secondary education expenses. (Investors should consider investment objectives, risks, charges, and expenses associated with 529 plans before using them. Information about 529 plans is available in their issuers' official statements.)

INVESTMENTS

- Consider tax-loss harvesting to lower taxes on capital gains**
By selling positions that are down this year, you can use the losses to reduce up to \$3,000 of taxable income. If your total losses surpass \$3,000, you can roll over excess losses to offset gains in another year. If you have losses from a previous year, calculate how they affect your gains or losses from this year.
- Check to make sure you did not make (or plan on making) any "wash sales"**
A wash sale is the sale of an asset followed by a repurchase of a similar asset within 30 days. The IRS does

not allow capital losses on wash sales. If you have already made a wash sale, do not plan on the capital losses being available for tax use this year.

Check to see when you last rebalanced your portfolio

Although you do not need to update your investments every year, many people go far too long without making necessary adjustments as they age.

RETIREMENT ACCOUNTS

If you are retired, make sure you have taken all required minimum distributions (RMDs)

RMDs may be one of the most important items to review when going over your finances at the end of the year. Standard IRAs require these distributions be taken annually after the year you turn 70 ½; standard 401(k)s require them annually after you retire or turn 70 ½ (whichever is earlier). Failure to take an RMD will trigger a 50 percent excise tax on the value of the RMD.

Max contributions to an IRA and employer retirement plan for the year

Both IRAs and 401(k)s have annual contribution limits. If you find you have excess savings and have not reached your annual limit, it may be a good idea to make additional contributions. Similarly, you may also consider making greater monthly contributions to your accounts next year, spreading out the cost of contribution. The deadline for IRA contributions is usually April 15 of the following year, though this may vary; 401(k) deadlines may be restricted to the calendar year, depending on your employer.

Consider converting a traditional IRA to a Roth IRA

Did you have a good tax year? It may be an opportune time to convert a portion (or all) of your traditional IRA to a Roth IRA and pay your taxes at a lower rate. It is important to understand, however, that Roth accounts have contribution limits placed on them, so keeping a traditional IRA might be beneficial. Before making any changes, consider seeking the help of a professional accountant who can help you with the conversion and calculate your new tax liability.

GIVING

Donate to charity as a way to reduce taxes

You can lower taxable income by 50 or 30 percent with a gift to a public charity or by 30 or 20 percent with a gift to a private foundation. If your gift exceeds these limits, you can roll over the excess deduction for up to five years.

Reduce your estate through gifts

You are permitted to give up to \$14,000 (\$28,000 for married couples) a year per recipient as an untaxed gift. Gifts above this value will consume part of your lifetime gift/estate tax exemption amount (\$5,490,000 in 2017). If a gift directly funds education tuition or pays for qualified medical expenses, it will go untaxed no matter what the value.

"If you are bearish or bullish long enough, you will eventually be right"
 - Unknown

Dear Clients & Friends,

Looking back on our Thanksgiving holiday – and a day off for us at Marathon as well – we need to review some of the economic reasons to be thankful for...

- The unemployment rate declined to 4.1% in October from a cycle peak of 10.0% in October 2009.
- The number of new unemployment claims for unemployment insurance benefits is close to the lowest level in 40 years.
- There were 6.09 million job openings in September- just under the record high of 6.14 million in July 2017.
- Household debt has fallen to under 10% down from 13.2% in 2007- the overall debt service ratio is near the low for the last 35 years- quite the opposite from the housing bubble.
- New home sales are at the highest rate since October 2007.¹

Regarding equities, 2017 may be the only year that the global stock market has posted a gain every single month in the 30 year history of the MSCI World Index.² Every one of the world's 45 largest economies traded by the OECD (Organization for Economic Cooperation and Development) are growing this year and are forecasted to continue growing in 2018.³ The broadest economic growth in a decade is lifting earnings per share which has been driving the stock market, and therefore share prices should be less vulnerable to risks from politics, central bank actions, or geopolitical conflict.⁴

As of yesterday, December 4, 6 new highs of major indices were established – the Dow Jones Industrials (DJIA) at 24,534; the Dow Jones Transportation Average at 10,504; the Standard & Poors 500 (S&P 500) at 2,665; the S&P Mid Cap 400 at 1,916; the Global Dow at 3,030 and the Russell 2000 at 1,559.⁵

Ending November, the S&P 500 has risen on a total-return basis for 13 straight months – rising 2.2% for November.⁶ Over the 13 month period the benchmark index rose 26.3% on a total-return basis (growth & dividends).⁷ It appears that the "Trump bump" of earlier 2017 and fall 2016 has morphed into the "tax cut rally" of recent weeks. What will be the next catalyst?

A few key statistics as of month-end:

Index	YTD (ending Nov 30) ⁸		
DJIA	22.8%	S&P BSE Sensex (India)	24.5%
Total Stock Market	17.9%	Nikkei Stock Avg (Japan)	18.9%
NASDAQ Composite	27.7%	DAX (Germany)	13.4%
S&P 500	18.3%	Shanghai Comp (China)	6.9%
S&P Mid Cap 400	14.4%	S&P TSX Comp (Canada)	5.1%
Russell 2000	13.8%	FTSE 100 (U.K.)	2.6%
Hang Seng (Hong Kong)	32.6% ⁹	Tel Aviv (Israel)	-1.1%

¹ www.calculatedriskblog.com 5 Economic Reason to be Thankful 11/23/17

² charlesschwab.com 5 Reasons Investors Should Give Thanks

³ [ibid](#)

⁴ [ibid](#)

⁵ www.marketwatch.com/overview 12/5/17

⁶ www.marketwatch.com The S&P 500 has put another chapter in its historic March 12/3/17

⁷ [ibid](#)

⁸ [Wall Street Journal](#) Major U.S. Stock-Market Indexes P.B6 12/1/17

⁹ [Wall Street Journal](#) International Stock Indexes P.B6 12/1/17

Regarding commodities and interest rates there was little change for November. Note the following table:

Commodity	Price	YTD ¹⁰
Crude Oil	57.40/bl	6.85%
Natural Gas	3.025/MMBtu	-18.77%
Gold	-1,273.20	10.71%

Bond	Current Yield	1 year ago ¹¹
U.S. T note (2 yr.)	1.7%	1.11%
U.S. T bond (10 yr.)	2.42%	2.38%
Germany sovereign (2 yr.)	-0.68%	-0.72%
Germany sovereign (10 yr.)	0.37%	0.27%
U.K. sovereign (2 yr.)	0.51%	0.12%
U.K. sovereign (10 yr.)	1.33%	1.28%

Looking Ahead

In the eight-and-a-half years since the lows of the global financial crisis, the S&P 500 has climbed more than 250%, making the current "bull" market the second strongest – and the second longest – since 1926.¹² Valuations are high as we have outlined in previous letters. Going forward as careful as we have been in the past, we demand of ourselves to be more insightful of current events here and overseas that may affect our clients' accounts.

One key report we review and analyze is provided by an organization called the Conference Board. The Conference Board is a global, independent business membership and research association which is a not-for-profit 501(c) entity. The Leading Economic Index for the U.S. is released the third week of each month. This index has ten components:¹³

- Average weekly hours, manufacturing
- Building permits, new private housing
- Stock prices, 500 common stocks
- Manufacturer's new orders, consumer goods and materials
- Average weekly initial claims for unemployment insurance
- Average consumer expectations for business conditions
- Manufacturing, non-defense capital goods excluding aircraft orders
- ISM Index of New Orders
- Leading Credit Index
- Interest rate spread, 10-year T Bond less federal funds

As of November 20 the Leading Economic Index for the U.S. increased 1.2% in October to 130.4, following a 0.1% increase in September, and a 0.4% increase in August.¹⁴

The most popular lagging indicator, which we quote often, is the Gross Domestic Product (GDP). The second estimate of the third quarter GDP released November 29 showed the economy growing at an annual rate of 3.3%.¹⁵ In the second quarter, real GDP increased 3.1%.¹⁶ In our analysis we emphasize leading over lagging indicators.

Somehow we feel there are still more positive records to be made in 2017 before this "bull" is over! We wish you a wonderful holiday season and a successful conclusion to 2017.

Yours,



George Gumbiner



Five Star Wealth Manager since 2009, without exception
A+ rating with BBB Accredited Business 2002

¹⁰ Wall Street Journal Commodities P.B6 12/1/17

¹¹ Wall Street Journal Global Government Bonds P.B7 12/1/17

¹² Vanguard.com Global macro matters 11/2017

¹³ www.conference-board.org Global Business Cycle Indications 12/3/17

¹⁴ ibid

¹⁵ www.bea.gov Gross Domestic Product 12/3/17

¹⁶ ibid

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