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INVESTMENT PLANNING AND MANAGEMENT GROUP OF
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ENCLOSED IS MY CURRENT NEWSLETTER, **"THE BIG PICTURE 2018".** In it is discussed our current outlook for the markets, and the big surprise that occurred on November 9th, **2016** at 2:31AM. We look at some of the past 12 months' repercussions from that surprise, what we might expect going forward from a year later, life in general, and more specifically, our given time on this planet, and how we use it.

THE OPTIMISTIC SIDE IS GIVEN SLIGHTLY MORE SPACE. Our firm's chief investment strategist, Jeff Saut, thinks that we're just now starting in the second phase of a long bull market and looking at least seven more good years. I've always liked Jeff. We started in this business together at about the same time, in the same city, same building, but with different investment firms. We watched as those two long ago brokerage houses got *surprised* in the early 70's. That doors were shuttered, and their names got taken over by competitors. We hung out at the same place across the street after work where snacks were served for surprisee survivors. So when Jeff speaks, Martin is all ears. But Martin remembers well that there can be these big surprises, and I discuss my biggest surprise expectations in this letter.

"OVER 32,000 DAYS" is also a topic this year. That's what our average neighbor's life expectancy is. MIT has completed a study of the *four stages* of our lives. It makes for very interesting pondering. **EACH** stage can give us a very important **TO DO LIST**. And, we need to keep our "house in order", unless we want those whom we care about the most to say, "what was he thinking, how could he have forgotten or not realized, or thought about that or anticipated even…?". We (they) may need future flexibility, and most certainly a plan with *professional* follow through & execution. Although they may be flattered when we ask them, our friends and relatives don't really want to do this professional job, *especially when it comes time to actually have to do it.* It's probably not on their "bucket list of preferred things" in life.

HAVING A PLAN & STRATEGY IN PLACE to help meet those surprises & expectations is key as we approach the age of having to draw upon our retirement funds, or accumulated "nest egg". At this point, we may not always have the time benefit of "waiting the recovery out". Such can take years, up to a (lost) decade or more. Having a balanced or *blended* asset allocation with "air bags" ready to deploy, is vital. And by putting a defensive strategy in place, a plan for assistance with our living needs should such be called for, perhaps a professional trusteeship to benefit those we care for the most, as well as providing funding for those needs, "Will we have enough?" is often a key question in mind. Our IPMG team is here to help get those important answers and plans in place. Most all of these services are included in our management fee. As Ron Miller, my partner of 45 years, reminds me from our scouting days (he was the youngest Eagle Scout in the county at age 13, I was closer at age 16), our motto still remains…"**BE PREPARED**".

WE LOOK FORWARD TO THE NEW YEAR & our continued work with families from most all states. We're getting lots of exciting first hand weather reports. Each year seems to get more **WOW**. We're expecting a probable smooth flight for 2018, but we suggest keeping your seat belt fastened as we do here on deck, just in case we hit turbulence. We know not when, where or why for sure, but we **DO** expect it. Your **IPMG** crew stands ready to respond. Plans are in place. False alarms are part of our expeditions. So now we depart, we are on our way, this is #2018…

From your Management deck, this is your co-manager, Martin Truax, Managing Director/Investments.
Please feel free to ring us at any time.

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THE BIG PICTURE

2018

OPTIMISTICALLY. That is how my cover letter concluded last year for "The Big Picture 2017". The equity market did well, especially for the technology (**FANG**) stocks. Those largest tech giants such as **F**acebook, **A**pple, **A**mazon, **N**etflix, & **G**oogle, led the way as money poured into the weighted indexes.

THE OVER-WEIGHTED TOP 50 CAPITALIZED STOCKS of the 500 S&P got much of the flow, and that had the benefit of "feeding on itself". The Russell 1000 GROWTH stocks were up 22%, while the Russell 1000 VALUE stocks were up only 7% (a/o Thanksgiving 2017). That is a rare occurrence. Typically the two Russell indices are within 95% of each other (source, Nuveen). The wide differences also occurred in the late 1990's as the technology (hare) growth stocks shot by the (tortoise) value stocks in a similar way. But that all changed in March of 2000, as the hare went over the cliff (in an over 80% decline).

SO VALUE is still rather *relative* Value. Income stocks are still priced to give reasonable income in the 4-7% range. Retiring investors ready to reap the rewards of a life time of working and saving still have a chance to make ends meet from "bird in the hand" cash flow. We hold steady to all of the contents and views of last year's newsletter, with the exception that the S&P index now yields closer to 1.8% vs 2.2% as the market price for these dividends has increased. In other words, $1 million savings only produces $18,000 of pretax income (last year it was $22,000). I say "give me the higher dividend paying value stocks for retirement." I'll load up while they still pay these amounts. Historically, value (the tortoise) eventually catches up.

THE BIG GAME CHANGING SURPRISE

FROM "FAITH IN ACTION", Nov 2017, the following is a "partial list" of what has transpired since the "overnight surprise" of November 9th, 2016 at 2:31AM:

- More unnecessary regulation & bureaucratic red tape" has been slashed by executive order than by any American President in history. Toward making America energy independent, the Keystone & Dakota Access pipelines were quickly approved.
- "Trillions saved" by withdrawing from the so called Paris Accord.
- Over a million jobs created, stock market up over 30%, GDP growth approaching 3% for an almost 50% improvement over the prior 8 years up to the 2016 election.
- Consumer confidence at a 17 year high and food stamp use at 7 year low.
- Border crossings down 73% and illegal aliens leaving America on their own.
- War has been declared on ultra-violent MS-13 gang members.
- The ending of Obamacare mandate that requires purchase of health insurance, even if opposed to by religious beliefs.
- Preventing the discrimination against expressions of faith, affirming first amendment protections for religious freedom and the prevention of prosecution for expressing faith.
- American generals have been allowed to decide how to destroy ISIS & every stronghold has been wiped out. The ISIS leader is dead and its leadership hierarchy decimated. ISIS is in retreat. It's been renamed "radical Islamic terrorism".
- Government paid transgender health care needs have been reversed & military spending increased the most in 10 years.
- Constitutionalists are being appointed to the judicial bench.
- States have been given the option to deny planned parenthood access to Medicaid and funding to international like-minded organizations has been ordered cut off.
- The largest tax cut has been proposed since Reagan, with simplification of the filing process.
- Common core education curricula is on its way out.
- Federal support is being offered for the crack- down of violent crimes in most cities.

WHETHER WE CHOOSE TO AGREE OR DISAGREE with all or part of that list, is our right. With corporate tax reduction in the plans, for each 1% drop from the maximum rate of 35%, we could add $1.30 to the S&P earnings as it becomes law. Add a special allowance for transferring home untaxed offshore corporate profits, and money could be available for infrastructure, mergers & acquisitions, higher dividend payouts, and corporate stock repurchases. All of these would add to our optimism for higher equity prices.

JEFF SAUT (Raymond James much publicized market strategist) believes we have at least 7 more years left in this bull market…maybe even 10 or more. The last bull market, 1981-2000, lasted 18 years. It had two interruptions…1987 and 1994. The third and most speculative stage began in 1995 (remember the irrational exuberance) and ended in mid January 2000.

JEFF SAYS SECULAR MARKETS HAVE THREE LEGS. The first leg of this bull market started in October 2008 and ended in 2015. The second & current leg began in February 2016. This second stage is usually the longest and strongest and *driven by earnings growth*. The first leg was driven more by an accommodative federal reserve monetary policy.

WHEN THE SECOND LEG WILL END, nobody knows, but there typically is a third more speculative phase to follow which is the "blow off" leg. There ends a great bull market. Thank you, Jeff. Please keep up the good work and keep us informed of the progress. https://raymondjames.bluematrix.com/sellside/EmailDocViewer?encrypt=7733a110-f412-47a8-868b-e7d133d3c4e1&mime=pdf&co=RaymondJames&id=josh.newman@raymondjames.com&source=mail https://raymondjames.bluematrix.com/sellside/EmailDocViewer?encrypt=84289e22-c4b1-40ce-b9f8-585c84df9226&mime=pdf&co=RaymondJames&id=josh.newman@raymondjames.com&source=mail

EVEN WARREN BUFFETT HAS CALLED FOR "ONE MILLION ON THE DOW". (DJIA is now approximately 24,000), but we have to wait awhile…100 years, so Buffett projects. That's a reasonable 4% compounded (historically the DJIA has compounded closer to 10% for the last 100 years). So away we go…optimistically speaking.

LET'S JUST ASSUME

LET'S SAY JEFF GETS IT RIGHT. Pullbacks will be seen as opportunities to buy, then it's onward and upward for the equity markets. Maybe we'll experience a bit of "trickle down" optimism for households with after tax "savings", and/or a 401K. Those with equity should see their balance sheets improve. They'll feel like they can spend more. Perhaps they can even refinance "the increased equity" out of their homes and spend it on their home improvement, education, travel, or whatever. And the 69% who have less than $1000 in savings and are living check by check (whether it's a pay check or transfer deposit from the government), may feel that they can "move up" and find a better paying job. We are approaching full employment and *a scarcity of labor.* Not enough "hands" to go around to rebuild what has been damaged (storms & fire) or overused (infrastructure). The better employee perhaps gets offered health insurance or a 401K matching contribution to be enticed to stick around and not move. Could this all be because the stock market is going up and optimism prevails? What else shall we call it…"Stock Market Up, Feel Better"?

CHECKING THE CURRENT ADMINISTRATION'S BACKGROUND, we see that a lot of well heeled businessmen are in cabinet positions. Generals are on board, too. I am a firm believer that with the key positions regarding government finance & economic policy being filled by former Wall Street executives, there is an understanding of why (& how) the stock market goes UP, even if just by a little, most months. Such is the driver of optimism…*confidence first.* Earnings follow.

THEN ADD: STOCK REPURCHASES and company acquisitions, resulting in higher earnings per share when fewer shares are outstanding; a shrinking supply of stocks with improved investor confidence with investors' safe "risk off" money transferring into "risk on" assets; and thus less market "volatility" (a euphemism for losses on nightly "smart phone" financial balances). I don't think I'm letting the cat out of the bag, but maybe there is an invisible hand at work to minimize "volatility"? It's all actually legal of course through the President's Group on Financial Markets…the Exchange Stabilization Fund at work on a smart phone near you. And then figure in corporate tax reductions for an even bigger earnings boost. Not bad for supporting a continuation of "stage 2" toward a potential "stage 3" & 7 more years of a bull run. Welcome aboard. Hang on. Put your "smart phone" on airplane mode. Forget the daily fluctuations. These are meant to shake us out.

DO YOU SEEK PRIMARILY INCOME OR GROWTH AT THIS STAGE? This is an important question we ask of our clients. If current cash flow is NOT needed, then *growth and or safety* may be the two best options of choice. With a "balance" between *variable* returns on equities, and *fixed guaranteed returns* of principal at some future time on bonds and cash, you can decide your risk allocation preference.

AS WE ALL KNOW, THANKS TO ARTIFICIALLY LOW GLOBAL INTEREST RATES, for real safety of principal we probably will fall behind, considering inflation and taxes each year. Consider the poor European & Japanese investors who get charged interest to seek less risk in bonds and cash. They sell some stock, then park the proceeds in cash overnight until they decide what to do. They will get a daily interest *bill* (annualized at about (-.45) at the bank and (-.20%) on short term quality bonds). Kinda an inducement to get out of bonds and cash and back into equities.

AS FOR GROWTH, we buy "growth stocks" that reinvest most of their earnings back into the business and consequently pay little or no current dividends to shareholders. This approach takes a longer term view that earnings will be higher and stock valuation will eventually follow, to give a *capital gain return* when we need the money. Historically, over a 20 year period, this strategy has typically met its objectives.

AND FOR INCOME, the average dividend on stocks is about 1.8% right now for the S&P500 index. Higher dividend stocks closer to 3x that amount, pay out more of their earnings rather than reinvest profits for more growth. Over the longer term, the dividends have increased on average with the inflation of revenues & profits, (for example, from our home utility and telephone bills). We get the dividends, the stock goes up and down, but typically not constantly in direct correlation nor comparison to the growth stocks. Who wouldn't like the Growth of lower dividend paying stocks as well as the Dividends of the income stocks? Some years it happens to work out that way. Other years, there is a variance (2017 being one of the most *unusual* experienced).

BALANCED VS BLEND

IN THE OLD DAYS, we thought that at retirement time we could put two thirds of our nest egg into a "fixed bucket", knowing we'd get that bucket contents (principal) back at maturity with some spendable interest. Maybe the other one third went into an "equity bucket" with a "variable return" with potentially more "volatility"(as we say euphemistically). But over 20 year periods, we've been ahead by some percentages historically for the growth averages.

TODAY THE MATH CAN BE TOUGHER FOR US TO MAKE ENDS MEET. The less volatile "fixed" interest bucket income is a 1.8% return, and the longer term dividends of the "variable" index bucket are about the same. For investors willing to forgo the more predictable monthly (quarterly) higher dividend check from the higher dividend paying stocks, we can consider a more "*total return*" approach. We take what is needed from that "blended bucket", whatever its value might be, up or down.

THE BLENDED BUCKET can consist of having varied amounts of bonds, cash (it is an asset as well), gold (& other commodities), and equities. We offer two managed accounts following this *blended approach*. One is modeled after the Harry Browne concept of the Permanent Portfolio, but without the rigid parameters & tax inefficiencies of a fund co-mingled with other investors. Each investor gets just his tax effect, not that of others who got in earlier. The second is modeled after Alex Green's Oxford Club's Asset Allocation, ("Gone Fishing Portfolio"), with a very wide diversification of funds from around the globe.

TO BOTH OF THESE BLENDED ACCOUNTS, we add our proprietary *"flexible portfolio method"* of following the various markets and "hedging" with investments that are "inverse" to the general market…that is, positions designed to go up if the market is down and vice versa.

WITH THE BLENDED APPROACH, we are somewhat, also "pre hedged". That is, should there be a sudden surprise event that adversely affects the market, we are not all in equities. Perhaps only 2/3's or less is in the stock market. So for example, if we get re-"9/11'd", we're not all in equities. We typically would have some high quality bonds and gold which can become a place for "fight to safety" inflows. Our IPMG Team expects surprises, and cyber is probably the most expected surprise. With our "smart phone", the financial digits can be stored in a cloud up above vs a vault down below. To assume all is secure may be a stretch. If we only knew. As a former FBI chief was quoted, "there are two types of companies…those who know they've been hacked, and those who don't know it yet". As individuals, we may also fall into one of those two categories.

THINKING AHEAD

CYBER IS A BIG TOPIC. Raymond James takes it very seriously and has invested millions in defensive measures. Over the last 2 years the firm's cyber personnel expanded by about 25 fold. Clients are welcome to the home office to tour the "young brains" center that watch for infiltration. And cash balances in investor accounts are divided over 10 banks in the investor's state to get up to $250,000 per bank to a maximum of 10 banks of FDIC insurance coverage for each account. As you may agree, RJ's board has taken this cyber reality very seriously. I'm not sure if any place else goes to the mat for clients on this issue to the degree that Raymond James is doing. As such, I can't think of a better place to store "digital funds" today. That commitment, along with our flexible portfolio method as a part of all our IPMG managed accounts, and perhaps our semi "pre hedged" *blended* approach (rather than *balanced* approach) we believe could be both a viable defense & offense to the growing uncertainties around us. *We think a strong emphasis on these precautions makes the most sense for the times.* Although we look forward to arriving at our destination safely for the duration, please keep your seat belt fastened…

JOHN HUSSMAN, "Hussman Market Commentator", (Hussman fund) agrees that the near term has "*buying chasing buying*". In *March 2000*, he forecasted an 83% plunge in tech stocks (then reminiscent of the 1969-1970 tech massacre). He said, "to anyone who understands values and market history, you know we're not joking". Tech stocks subsequently began an 83% decline. Hussman says that based on historically reliable market valuation measures, the US equity market is now at the most offensive level in our valuation history. He says that investors have a "speculative bit in their teeth" and that this will continue near term allowing more speculation and ending in abrupt market loses. (Nov. 2017 *"This Time It's Different")*.

MARTIN WEISS (Weiss Reports) believes the Fed's low interest rate policy has prompted many investors to take unprecedented risks. Meanwhile, Weiss and RICHARD MAYBURY (Early Warning Report) stress that *global conflicts and wars are not going away* and are currently deepening, escalating & spreading.

The NOKO "ROCKETMAN'S" missiles may be capable of reaching Washington DC with nuclear warheads. MAYBURY says that this can impact our investments in strange ways and will continue to do so for years to come. We at IPMG model one of our *growth objective* portfolios based on Rick's philosophy as overseas troubles have driven large sums of "fear money" into the US market, pushing US shares higher.

LARRY EDELSON (deceased 3/17) in his last book (131 page letter), "*Winds of World War III*" stated that the next big problem will be a series of escalating wars overseas with the "war cycle" *ramping up* through the year 2020. Civil wars, rebellions, social protests, internal conflicts, and wars between countries are *escalating.* The world is sadly, he said, at very high risk of a major international war, a war that will go down in history as WWIII. MAYBURY, meanwhile, says that: *currency, trade wars, & cyber espionage will remain the order of the day.*

POPE FRANCIS stated in September 2014, that WWIII had already "in piecemeal *begun*". POPE (SAINT) JOHN PAUL II (Ronald Reagan's "best friend" according to both Pres. Reagan and wife Nancy) said years ago that the Islam world will overwhelm the European Christian world. The Edelson report states that *61 countries* are actively engaged in wars: civil wars, wars of attrition, cold wars, proxy wars, rebellions, revolutions, guerrilla wars, terrorist attacks, economic warfare and cyber warfare. Such is what he said we will witness. **WWIII.**

IT COULD ALSO BE THESE VARIOUS TYPES OF WARS AND GEOPOLITICS…*not inflation or monetary policy*, that will drive several more bull markets in stocks and commodities. "Off the grid **gold**" and **US** equities could become the destination of "flight to safety". This does not mean these markets will go straight up. Nor does it mean that investors can simply buy, hold, and throw away the keys. To the contrary, sharp pullbacks are periodically needed, to pave the way for higher prices.

7 & 1

FOR INCOME & GROWTH, we have put together over the years *seven* equity and *one* fixed account to help match the objectives of income, growth or a blended (balanced) approach for "total return". With three equity *growth*, two *blended* and two equity *income* strategies, we also have a more fixed portfolio of bond funds. A concentration or a combination of these strategies can be put together to help further diversify while utilizing the *flexible portfolio method* of hedging. The fixed or bond portfolio can likely be more challenging in a rising interest rate environment. Our objective is to at least earn interest. The growth objective, meanwhile, is to be comparable to other growth strategies, but with possible downside protection when the time comes. Our blended accounts are somewhat in between.

32,000 DAYS

M.I.T. HAS DONE A VERY INTERESTING STUDY (sponsored in part by Raymond James & Hartford Life) on the "aging" process. The Hartford people are telling the story in meetings around the country, and it has created more interest from most audiences than any "brilliant" economic forecast of the future. The study goes something like the following (I'm paraphrasing a long white paper…full copy available…just ring us).

WE HAVE on *average*… **32,000** days "of aging". Saving you some time with your calculator, that is 88 years or so. These 88 years are divided into 4 segments, and these 4, further subdivided into 4 sub segments. So, our first stage is 22 years, when most of us reading this newsletter were in the *learning phase*. The second 22 years, we were in the *household formation & career building phase*. *The third 22 years*, with our careers more determined, we possibly educate the off spring, pay down the living accommodations, save more in our retirement plans, and perhaps help our parents and in laws. If we are affluent, we can easily find ourselves in the "sandwich generation"…helping both children and parents at the same time.

THEN COMES "*OUR TIME*", as we think about how to use time differently in the *fourth quarter*. At sixty six and beyond, do we continue our work? Full or part time? Spend more time on hobbies, special interests, charity, travel, work, time with kids, grandkids? The fourth quarter, also has 4 quarters. In the "2nd of the 4th", (71 to 77) we may start considering planning for living adjustments. Do we downsize? Is the master on the first floor? Do we move to be closer to our children, "dabble with the estate plan", get the "house in order" as we approach 71-77? We might remember our parents processing through these steps.

THEN INTO THE GOLDEN YEARS, when we start realizing at some point, we may be able to do less serving and at last be more served. At the 4th quarter of the fourth, we may then ask ourselves, "Who can I have get me my ice cream? I just prefer to relax a bit". And living perhaps a single life, that choice of having the ice cream brought to us at home, or by room service at a full service residence, can cost us a lot. Naturally our savings bucket can start to *drain,* especially with interest rates as low as they are today. As we head toward the great day of the big surprise, do we wonder, is this it? Or was this only a 32,000 day dress rehearsal? We may "overhear", "How much do you think the Ol' boy (gal) left behind?" Answer: "All of it" of course.

MAY THE SQUABBLING BEGIN. Based on my observations in 45 years in this field, with most estates, the written intentions do not assure the outcome. Mom had 2 daughters. (names changed & circumstances combined to protect the "innocent"). Daughter Jane, like Mom, was a good cook. Daughter Sally tries not to boil water. Mom leaves *all of it* to ½ Jane and ½ Sally & Jane gets my pots and pans". Sally hasn't talked to Jane since. "Wolf in sheep's clothing" goes to local group bereavement meeting. Here Jane confidentially tells her story (mom left her a lot more than pots), of the big house to sell, & all the jewelry to appraise. The Wolf invites Jane out to a first class dinner. Sally's husband, meanwhile, has severe ongoing addiction problems, including Vegas, etc. He needs funds to pay off big debts. Their only child is "special needs".

SO LET'S BACK UP, if it's not too late (or go forward if possible) and consider the getting more of our "house in order" stage. Getting this close to right takes some experienced thinking, and hopefully some flexibility over time, if needed. Going into a cookie cutter trust services arrangement can cause real issues for *keeping or maintaining illiquid assets* such as real property, private business, bullion etc. And most "cookie cutter" trustees don't want small accounts anymore. They are into the bigger fish (higher 8 figure types or more). They are "in charge", so they will say, "Do it our way", (And pay the fee, even on the illiquid assets that just grow weeds).

TRUSTS CAN BECOME INFLEXIBLE TRUSSES

WANT TO MAKE A CHANGE? Petition the court, and then think about possible legal fees far beyond our expectation. Mr. Murphy (of Murphy's Law) becomes our (or your heirs) new partner. Folks think "I've got all these things covered", but *seldom is actually the case*. The layers of our Raymond James trust services department can almost always detect some of the surprise traps waiting ahead. A personal review of "what's currently in place" *is an included service* for managed accounts of $500K & above. They won't rewrite the legaleez for us, just suggest where & what we might have written with more detail or considerations. I have personally used their service with surprisingly detailed revelations. Our IPMG team *can help you through the simple process.* It's not as fun as a day at the beach, but hopefully we're less likely to get burned at stage 4/4 and beyond.

JUST ONE MORE THING

WHILE ON THE SUBJECT, women are known to outlive men. And they prefer living at home ("take in" ice cream home delivery service, please). A family member can assist, but this responsibility can cause long term issues for them as well. Getting licensed professional help can become expensive. There are ways to plan ahead for this. *The sooner the better* (it's less costly while insurable). *Seventy percent* of those who get to 66 (who start the fourth quarter), will need some type of assistance in living *for at least 3 years*, and 20% will need help for *more than 5 years.* Two thirds of us will require nursing homes averaging over $85,000/yr. It's more than *twice* that for in home care at $500/day for round the clock. And these costs keep rising. Our IPMG team has a specialist who can help plan for ways to cover those expenses.

AND HAVING A PLAN IN PLACE CAN MAKE US FEEL MORE SECURE IN RETIREMENT. We can have more confidence knowing we're better able to manage our financial situation, have a more flexible professional trustee, and can access care *quickly* if and when we need it. Let's call it *living the fourth quarter in style and getting to the sweet spot of* "*being well served*".

Here's to improving upon the MIT study averages, and becoming both…***well served and "pleasantly surprised".***

Optimistically, Martin

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It is not possible to invest directly in an index. The S&P500 is an unmanaged index of 500 widely held stocks. The Dow Jones Industrial Average is an unmanaged index of 30 widely held securities. The Russell 1000 Index measures the large cap segment of the US equity universe representing approximately 92% of the US market. The index is constructed to provide a comprehensive and unbiased barometer for the large cap segment and is completely reconstituted annually to ensure new and growing equities are reflected. The index includes the largest 1000 securities in the Russell 3000. The Russell 1000 Growth Index measures the performance of those Russell 1000 companies with higher price to book ratios and higher forecasted growth values. The Russell 1000 Value Index measures the performance of those 1000 companies with lower price to book ratios and lower forecasted growth values.

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