

# PLANNING POINTS...

December 2017

	12/31/2017	2018 4th Quarter Change	
S&P 500 *	2673.61	+	7.19%
Russell 2000 **	1535.51	+	4.23%
Barclays Capital Aggr. Bond Composite Index***		+	.25%

\*The S&P 500 is an unmanaged index of the largest 500 companies weighted by capitalization.  
\*\*The Russell 2000 index is comprised of the smallest 2000 companies of the Russell 3000 Index which measures the performance of the largest 3000 U.S. companies based on total market capitalization. The Russell 3000 represents approximately 98% of the investable U.S equity market. Past performance may not be indicative of future results.  
\*\*\* Barclays Capital Aggregate Bond Composite index is a measure of the investment grade, fixed-rate, taxable bond market of roughly 6,000 SEC-registered securities with intermediate maturities averaging approximately 10 years. The index bonds from the Treasury, Government-Related, Corporate, MBS, ABS, and CMBS sectors  
\*\*\*\*MSCI EAFE Index is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the United States & Canada  
Inclusion of these indexes is for illustrative purposes only. Keep in mind that individuals cannot invest directly in any index, and index performance does not include transaction costs or other fees, which will affect actual investment performance. Individual investor's results will vary.

**All of us at Gavin & Associates wish you and your family a happy and healthy New Year!**

## STOCK MARKET REVIEW

The fourth quarter produced a strong finish for the year. The S&P 500 was up 7.19%, the Russell 2000 Index rose 4.23%, and international stocks advanced with the MSCI EAFE Index rising 3.85%. For the year, the S&P 500 was up 22.46%, the Russell 2000 up 15.64%, and the MSCI EAFE rose 24.58%.

The stock market story for 2017 was a "smooth and steady upward ride". Volatility was extremely low with no 3-5% corrections that are typical during a trading year. In fact, there were only eight days when the S&P 500 moved more than +/-1%. The stock market this year will be remembered for producing one of the best risk-adjusted returns in history.

The stock market was not affected by controversial tweets, nuclear threats from the "rocket man", and unwelcome visits from Harvey and Irma. Instead the market focused on strong and improving earnings, GDP growth accelerating, and regulatory reform. Late in the year, tax reform produced lower corporate taxes to make US corporations more competitive in the world.

The stock market run has been impressive. The S&P 500 has gone up for the last 9 straight years. In fact, when we review the last 30 years, the market has been up 25 of those years. 18 of the 25 up years were double digit gains.

Just because the market has been strong does not mean the market must go down. As the Bespoke Group recently reported, "Bull markets don't die because of old age. Their

demise is usually the result of a downturn in the economy or a major shock to the system. On the former, we don't yet see that in the cards, and the latter is something no one can predict". The stock market currently sees things getting better not worse.

As the stock market goes up, stock allocation typically increases in diversified investment portfolios as well. We urge clients to be aware of their potentially higher stock exposure and to consult with us to be sure their portfolio mix is appropriate.

## BOND MARKET REVIEW

During the quarter, interest rates moved higher on expectations of an accelerating economy and increases in rates by the FED. The short end of the yield curve increased the most with 2-year treasuries rising to around 1.9%. The 10-year rose from 2.33% to near 2.42%. 30-year bonds remain low at 2.76% and actually fell during the quarter from 2.87%.

The yield curve has been shifting over the past several years. Short term rates have been rising while long term rates have moved lower. This implies inflation concerns have abated and reduced pressure on long term rates, while Federal Reserve rate increases have put upward pressure on short term rates. Our advice remains consistent, which is to remain cautious on bonds and focus on short to intermediate maturities. An improving economy may lead to rate increases and perhaps a pick-up in wages and inflation.

## **PLANNING STRATEGIES**

### **ASSET ALLOCATION IN RETIREMENT**

We frequently mention that our clients should have an appropriate asset allocation, which refers to the mix of stocks, bonds, and cash in their investment portfolio. The most appropriate asset allocation depends on many factors such as return objectives, risk tolerance, liquidity needs and time horizon to name a few.

Young investors typically invest in stock that is riskier than bonds and cash. For investors that are near retirement or are currently retired, perhaps they do not need to maintain high levels of stocks.....or do they?

People are living longer these days, living well into their 90's and extending their time spending money on goods and services. Unfortunately, the cost of health care and other services for retirees is growing at a multiple of reported inflation. Inflation erodes the purchasing power of income from retirees' investment portfolios and fixed pension payments. Social Security cost of living increases are not likely to keep up with the rising costs for retirees. Low interest "safe" investments that are often held in retiree investment portfolios may not produce enough real return.

Historically, one of the best hedges for inflation has been stock. This is not to say that all retirees should put more into stock than they are comfortable with, but they should avoid falling into the trap of getting too conservative. We want retirees to avoid finding out a decade or two later that they risk running out of money due to unrealistic inflation expectations.

So, what is an appropriate allocation to stock? Well, it depends. Stock allocation typically varies as we age and what is appropriate at age 65 may not be at 75. We have clients over the age of 80 that have over 80% of their portfolio in stocks. We have other retirees in their 60's who feel comfortable with a stock allocation of 30%. An appropriate allocation to stock for investors depends on their individual circumstances and unique preferences. Sometimes market conditions are a factor as well.

Asset allocation for retirees may depend on goals beyond providing for retirement income. Some retirees have more than enough assets to care for their needs. They desire to leave assets to family members or charities. If that is the case, higher stock exposure may leave higher values at death to bequeath to others.

Stock investments are volatile and there are periodic bear markets. How will you behave when the market falls? Will you abandon your equity investments? How did you react during the "great recession" bear market and subsequent recovery? If you have controlled the urge to

abandon your investment strategies in the past you may be more able and willing to assume a higher stock allocation in retirement.

We do not provide nor believe in a logarithm or "one size fits all" asset allocation framework for our clients. Every investor is different and their needs are unique. This is why we welcome the opportunity to discuss all the changing factors you face in your own retirement and assist you with identifying an appropriate asset allocation, unique to you.

### **TAX FORM MAILING SCHEDULE**

Tax preparation is certainly not one of our favorite new year's resolutions but this year you get two extra days to file, since April 15th falls on a Sunday and Monday is a holiday. In order to assist you with your taxes, the following are important dates that detail when Raymond James will issue 1099s.

- Feb 15 – Original 1099 mailing begins
- February 28 – For clients that have specific holdings and/or hold securities that are likely to have income reallocations such as mutual funds or UITs will have their 1099s mailed after February 28<sup>th</sup>
- February 28 – Amended 1099s mailings begin
- March 15 – Remaining original 1099s that may have been previously delayed will be mailed

If you haven't yet signed up for our on-line portal called "Investor Access", another reason to reconsider is the fact your tax forms will post before you receive them in the mail. You can also utilize the "Vault" within "Investor Access" to store, download and upload important documents such as old tax returns and estate planning documents.

### **ONE REMAINING TAX DEDUCTION**

If you are eligible, you have until this year's tax filing deadline (April 17, 2018) to contribute to a Traditional IRA and record a deduction on your 2017 tax return.

If your 2017 modified adjusted gross income is above \$62,000 for individuals and \$99,000 for most married couples, you may be eligible to make a non-deductible, Traditional IRA contribution.

If you are eligible, you may consider making a Roth IRA contribution. There is no tax deduction, but there is also no tax on qualified distributions if withdrawn after age 59½

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