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PHILLIPS FINANCIAL

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## January 2017

## A Review of 2016

To describe 2016 as a "wild ride" for investors is a bit of an understatement. The year started off with US equity markets recording their worst January ever. The new year also saw the S&P 500 index fall at alarming rates. The middle of the year brought dire forecasts of what the Brexit vote would do to the world market. And as the November election approached forecasts abounded about the possible havoc that would be wreaked by a Donald Trump victory.

But after their gloomy start to the year, the markets surged to new highs and maintained a bull market run that is almost 8 years old (if it stays bullish until March 2017). The S&P 500 closed out the year at 2,238.83, up 9.5% from the close of 2015. The NASDAQ closed 7.5% higher than in 2015 (at 5,383.12). The Dow Jones Industrial may not have hit the elusive 20,000 mark, but it closed the year at 19,762, up 13.4%.

And those politically-related doomsday forecasts about Brexit and Trump proved false. Very false....at least up to now.

Other financial news from 2016:

- Fears early in the year that a slowdown in China's economic growth would negatively affect the rest of the world, proved unfounded as the year progressed.
- The U.S. dollar rose 4% in 2016. Growth expectations for the US were relatively better than the rest of the world, resulting in other currencies underperforming vs. the dollar; e.g., the euro ended at 1.052 per dollar and the yen was at 128.43 per dollar.
- The Fed didn't raise interest rates until December, even though forecasters had predicted two or more increases during 2016.
- 2016 also marked the top of the 30-year Treasury bull market. While the 10-year Treasury yield fell to 1.36% in July; it ended the year at 2.45%.

Most investors could ring in 2017 feeling pretty darn good. So…

**Our Predictions for 2017**

As we've maintained since we started this newsletter in 2004, looking for "predictors" of stock market performance (such as which party holds political power, or who wins the Super Bowl, or even the height of the hems of women's skirts) is fun, but not guaranteed to put money in your pocket.

Here's a look back at what we said in this space a year ago about political history and market predictions:

*"In an election year the market has increased 77% of the time since 1926. When one party controlled both houses of Congress but not the presidency [such as in 2016], the market has gone up 76% of the time. However, when a President is in the last year of his second term – [as Obama was in 2016] – the market has gone up only twice (40% of the time). So which factor of 'political history' is the strongest? ..."*

Eleven months later, we now can see that the "last year of second term" factor proved to be relatively weak in 2016. Some people credit that all to the "Trump Bump"; but history shows that, since the Crash of 1926, 77% of the time the market goes up in an election year — no matter which other factors are in play.

There's no denying that the investment community is looking for a Trump presidency to lower taxes, decrease regulations, and put into place more pro-business initiatives. How quickly these will occur and what the impacts will be are uncertain, but the experts are running as a pack this year and all predicting the bull market will continue.

What we can predict is that a new year means, at some point, new worries. There is always the possibility of some unexpected economic or political event derailing any predictions. And that unexpected event will cause some investors to panic and sell at absolutely the wrong time.

We remind you to take a long-term view, avoid rash actions and talk with your advisor throughout the year. His or her job is to help you

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stay on track in working toward achieving your financial goals.

### Aging and Finances: Article No. 2 in a Series

**Essential Legal Documents (Do You Know Where They Are?**

As we wrote in the last issue of the newsletter available at

https://1phillips.com/wp-content/uploads/2016/10/Q3-2016-Newsletter-Lobby-00118883xC58DC.pdf

when it comes to aging, it's imperative to understand the steps to take to lower risk and protect the financial outcome for everyone concerned. Many of our clients fall into one of these two categories:

- they have aging parents and need to know the legal and financial arrangements their parents have made, OR
- they themselves are aging (it happens to the best of us!) and want their children to know the legal and financial arrangements they have in place.

Whether you are the parent or the child, just as important as knowing if these documents exist, is knowing how to access them. Where are each of these documents located and who has copies? Get specific: if copies are in a safe or lockbox, what is the combination to the safe or where is the key to the lockbox kept? Also make sure the attorney's contact information is known by all parties.

Here, we outline the basic legal documents to discuss (in upcoming issues we will address investment accounts and insurance).

Will
The legal document that explains the distribution of assets after death and appoints guardians for minor children.

Trusts (testamentary, revocable, irrevocable, charitable, etc.)
These provide options for passing on assets. They can minimize taxes and avoid a probate process.

Durable Power of Attorney
This grants a specified person legal power to perform, on behalf of the "grantor", any functions specifically outlined in the document. Powers granted often include banking and financial transactions, personal and family maintenance, and estate trust and beneficiary transactions.

Health Care Power of Attorney (POA)
This designates at least one person to make medical decisions on behalf of another should he or she become incapacitated and unable to make, or communicate, decisions. Each designated POA should have a copy of this document, in case of emergency.

Advance Directives
These specify an individual's requests for medical treatment should he or she become incapacitated or unable to communicate. This can include a Living Will, as well as Do Not Resuscitate or Do Not Intubate Orders.

*Please note, this article is to inspire consideration and conversations, not to take the place of legal counsel.*

## Tax Preparation

You may already be in the process of gathering information to prepare your 2016 tax return. Most of the 1099s will go out by mid-February; however, because of the complexity of gathering capital gains information, some may not be sent out until mid-March. As a rule of thumb, you can generally expect to get them around the same time as you did the previous year. You will receive the documents in the timeliest manner if you sign up with Fidelity for electronic delivery. Contact your Phillips Financial adviser if you need assistance with setting this up.

- Deadlines for 2016 IRA (regular and Roth) contributions are the date you file your tax return unless you have requested an extension. Then, the deadline is usually April 15.
- SEP IRA contribution deadlines may be extended until you file your return.
- Always consult with your accountant concerning tax deadlines, contribution limits, and other tax matters to ensure you are receiving information specific to your own situation. Your accountant is in the best position to advise you on these matters.

## Other Reminders

- Please remember to inform us of changes to phone, address, email, employer, employment status and other relevant events.
- Please notify us if your computer has been compromised (hacked, virus infected, etc.), or if you have been the victim of identity theft in any way.


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## Market Recap: Asset Class Performance – Table

The following table is a regular feature of our newsletter to provide information about the total return performance (i.e. price movement plus dividends) over various time periods of the indices that track many of the major asset classes.

| Index | % Last Quarter Return 10/01/16 – 12/31/16 | % Year-to-Date Return 1/01/16 – 12/31/16 | % Cumulative 1 Year Avg. 1/01/16 – 12/31/16 | % Cumulative 3 Year Avg. 1/01/14 – 12/31/16 | % Cumulative 5 Year Avg. 1/01/12 – 12/10/16 | % Cumulative 10 Year Avg. 1/01/07 – 12/31/16 |
|---|---|---|---|---|---|---|
| Barclays Aggregate Bond Index | -2.98 | 2.65 | 2.65 | 3.03 | 2.23 | 4.34 |
| S&P 500 Index | 3.82 | 11.96 | 11.96 | 8.87 | 14.66 | 6.95 |
| S&P 500 Value Index | 7.35 | 17.40 | 17.40 | 8.51 | 14.69 | 5.50 |
| S&P Mid Cap 400 Index | 7.42 | 20.74 | 20.74 | 9.04 | 15.33 | **9.16** |
| S&P Small Cap Index | 11.13 | 26.56 | 26.56 | 9.47 | 16.62 | 9.03 |
| S&P Small Cap 600 Value Index | **12.60** | **31.32** | **31.32** | 9.64 | **16.88** | 8.18 |
| MSCI EAFE Index | -0.71 | **1.00** | **1.00** | -1.60 | 6.53 | 0.75 |
| MSCI Emerging Markets Index | **-4.16** | 11.19 | 11.19 | -2.55 | 1.28 | 1.84 |
| Wilshire REIT Index | -2.28 | 7.24 | 7.24 | **13.78** | 12.02 | 4.80 |
| S&P GSCI Commodities Index | 5.76 | 11.37 | 11.37 | **-20.60** | **-13.13** | **-8.10** |

**Source:** Standard & Poor's, Barclays Capital, Morgan Stanley Capital International, Wilshire Associates, Fidelity Investments, BlackRock, Inc.
**Green** = best performing asset class
**Red** = worst performing asset class

Definitions:

▪**Barclays Aggregate Bond Index.** An index originally developed by Lehman Brothers and now managed by Barclays Capital to track the general performance of the domestic taxable investment grade bond market.

▪**S&P 500 Index.** An index that measures the large-capitalization sector (generally greater than $5 billion of market capitalization) of the U.S. equity markets. t is a capitalization-weighted index from a range of securities chosen by Standard & Poor's for liquidity and industry group representation. Prior to Dec. 16, 2005, the S&P 500/BARRA Value Index contained the half of the stocks, as measured by market capitalization, in the S&P 500 Index with the lowest price-to-book ratio. As Dec. 16, 2005, the S&P 500/Citigroup Value Index became the benchmark for identifying U.S. large-cap value stocks.

▪**S&P MidCap 400 Index.** An index that measures the mid-capitalization sector (generally $1.5 billion to $5.5 billion) of the U.S. equity market. It is a capitalization-weighted index from a range of securities chosen by Standard & Poor's for liquidity and industry group representation.

▪**S&P SmallCap 600 Index.** An index that measures the small-capitalization sector (generally $300 million to $2 billion) of the U.S. equity market. It is a capitalization-weighted index from a range of securities chosen by Standard & Poor's for liquidity and industry group representation. Prior to Dec. 16, 2005, the S&P SmallCap 600/BARRA Value Index contained the half of the stocks, as measured by market capitalization, in the S&P SmallCap 600 Index with the lowest price-to-book ratio. As of Dec. 16, 2005, the S&P SmallCap 600/Citigroup Value Index became the benchmark for identifying small-cap value stocks.

▪**MSCI EAFE Index.** An index developed by Morgan Stanley Capital International Inc. as an equity benchmark for performance of publicly traded securities in developed international markets.

▪**MSCI Emerging Markets Index.** An index developed by Morgan Stanley Capital international Inc. as an equity benchmark for performance of publicly traded securities in emerging markets.

▪**Wilshire REIT Index.** An index developed by Wilshire Associates to track the general performance of Real Estate Investment Trusts (REITs) traded on domestic equity markets.

▪**The S&P GSCI Commodities Index.** An index developed by Standard & Poor's and Goldman Sachs that is based on a production-weighted basket of principal physical commodities that reflects the level of commodities prices at a given time and is designed to be a measure of the performance over time of the market for these commodities.

*Index returns are for illustrative purposes only, and do not reflect any management fees, transaction costs or expenses. The performance of an unmanaged index is not indicative of the performance of any particular investment. It is not possible to invest directly in any index. Past performance is no guarantee of future results.*