



News & Views / February 2018

In this issue: Market review, where are we headed, paycheck withholding, travel tips

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2017 market review

2017 was a great year for the U.S. and global capital markets! In the first year of the Trump presidency, the U.S. economy grew by circa 2%, the federal unemployment rate fell to 4.1%, inflation was held in check, and interest rates remained low. Consumer and business optimism soared, spurred on by the promise of tax cuts, deregulation, and robust corporate profits.

The S&P 500 Index (large-cap U.S. stocks) rose by 21.8% and the Russell 2000 Index (small-cap U.S. stocks) gained 14.7%. The broad-based MSCI ACWI ex U.S. Index of developed and emerging international markets returned 27.8% [while the more focused MSCI Emerging Markets Index rose by a staggering 37.3%]. In the fixed income sector, the Barclays U.S. Aggregate Bond Index gained 3.5%. 10-year Treasuries returned 2.1%, and the Barclays Municipal Bond Index rose by 5.8%. PFPG's recommended benchmark for most client portfolios, Morningstar's Global Moderate Target Risk Index - circa 60% stocks (38% U.S.; 22% non-U.S.) and 40% bonds (35% U.S.; 5% non-U.S.) - was up by 14.7%.

Where are we headed?

The folly of short-term forecasting is well established by historical evidence. Positive factors supporting high valuations include market breadth; momentum; accelerating earnings growth; low unemployment rate; low interest rates; and increasing consumer spending. On the other hand, factors that might contribute to the next market correction – which we are currently experiencing - include heightened investor expectations; above-average market valuations; large US budget deficit; ever-present geopolitical risk; trade protectionism; not to mention an increasingly dysfunctional political system.

For a recent article on US stock valuations by Robert J. Shiller, author of *Irrational Exuberance*, take a look at *ProjectSyndicate.org*'s "[The World's Priciest Stock Market](#)". His conclusion: Diversify, and don't give too much weight to the overall US stock market in your portfolio.

Thus our advice to clients at all times - and especially when markets are turbulent - is consistent: stay diversified, save a substantial portion of your income (if you are still in the workforce), spend prudently (if you are retired), and expect the unexpected!

Don't do the paycheck happy dance yet

Congress's recent tax changes may result in a "bad surprise" if you don't review your paycheck withholding, according to Laura Saunders' recent article in *The Wall Street Journal*. The majority of workers are likely to see a bigger paycheck as early as February - but the W-4 form currently used by employers to calculate withholding is based on a repealed provision.

As a result, assuming your paycheck accurately reflects the tax you will owe or the refund you will receive at the end of the year puts you at risk of underwithholding - and potentially subject to a penalty. Those most likely to be affected are taxpayers who previously had large itemized deductions that have been eliminated or limited; those who receive bonuses, stock options or

commissions; and those with dependents age 17 or older.

The IRS hopes to have the new form and withholding calculator available in February. Check with your tax preparer or financial advisor about how to adjust your new W-4 to respond accordingly.

Rx to reduce travel headaches

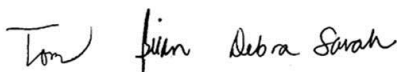
Minimize your travel hassles by acquainting yourself with current security guidelines. By October 1, 2020, US air travelers must provide “Real IDs” to pass checkpoints (and enter federal buildings). You’ll either need to provide a [Real ID-compliant driver’s license](#), a passport, or another form of acceptable ID.

Some states’ drivers’ licenses (including Maine’s) currently do not comply with Real ID guidelines. Maine has been issued a waiver that allows current license holders to use their existing licenses until October 1, 2018 as the state retools to meet compliance regulations. Whether that waiver will be extended should Maine not be compliant is anyone’s guess. Once the State of Maine begins to issue REAL ID-compliant licenses, if you choose not to obtain one, you may want to consider getting a passport unless you have an alternate form of ID that is acceptable.

Review the current [TSA screening protocol](#) before you pack your medications and medical accessories. For prescription meds, prepare a plastic bag with meds in original containers with your name, a prescription or letter from your doctor with brand name and generic name, and a copy of the product information sheet (pharmacy can provide).

Some medications or supplements that are over-the-counter or commonly prescribed in the US may be illegal in a foreign country. Check out the *New York Times* article “[How to Make Sure You Travel with Medication Legally](#)” for suggestions. For example, pseudoephedrine, found in cold and sinus medications, is considered a controlled substance in Mexico. Melatonin, used for sleep disorders, is banned in certain countries and available by prescription only in others. Check with the [foreign embassy or consulate office in the US](#) to find out what may be prohibited. Remember too that many common US over-the-counter medications are available in pharmacies overseas, so keep a list with the generic name and dosage of your favorite decongestant, pain reliever, etc.

Best wishes for a safe and healthy winter,



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