The Light

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Where to Invest in 2018

By Tim Rowsey, CPA, Investment Advisor Rep.

As we move into a new year, one of the pressing questions for investors is “where should I invest as we begin a new year?” Before we answer that question, it may be helpful to take a look at the current investing environment to see where we stand today.

U.S. Stock market. Currently the U.S market as measured by the S & P 500 is in the midst of one of the longest bull runs in stock market history. Since the low in March of 2009 stocks have grown consistently with only a few small pullbacks. The most significant pullback happened back at the beginning of 2016 when the S & P 500 declined almost 10%. Outside of that one temporary setback, stocks have grown significantly with the S & P 500 growing from 773 in March of 2009 to over 2,650 today. This equates into an average rate of return over that time period of over 14%. Obviously the market will pull back at some point, but knowing when that may be is the question.

Economy. Economic growth has continued to be strong in the United States and around the world. Unemployment has continued to stay low and interest rates also remain relatively low. The growth of the economy has been slow and steady which generally is a better sign of continued long term growth compared to a dramatic spike in economic activity. Much of the growth in the economy has been coming from increased revenues rather than cost cutting. This is another positive sign.

Tax reform. New tax legislation will come into play in 2018 which will lower the highest corporate tax rate from 35% to 21%. This should be a benefit to most companies doing business in America and should ultimately help drive stock prices for most companies higher. In addition, one-time tax repatriation at a 15.5% rate could bring back billions of dollars into the U.S.

International opportunities. While the U.S. stock market and economy have been strong the last several years, the worldwide economy has also been extremely positive. 2017 was one of the few years where nearly all the global markets and

Bitcoin: What is it, How Does it Work, and Should You Own Some?

By Greg Emmons, Investment Advisor Rep.

Easily one of the most talked about topics of 2017 in the finance world has been Bitcoin. Recently, it is extremely difficult to pick up a newspaper, magazine, or go online and not see it being mentioned in the day’s news. This hot topic appears to have a couple of different camps and each has its own very opinionated take. But before we delve into that, I want to explain what Bitcoin actually is and how it works.

Bitcoin is a digital currency (there are no physical Bitcoins) that allows peer-to-peer transactions to complete instant payments without any central bank or intermediaries which take a cut on each financial transaction. Bitcoin can be exchanged without being tied to one’s real identity, providing a lot of anonymity. Each user has a Bitcoin wallet, or address, that is a series of numbers and letters that represent the value (in Bitcoin) that person owns. The place that stores all of these accounts and values is called the Block Chain, where all transactions, since the beginning of Bitcoin, are kept. You might be thinking, “How is all this secure and how do you keep people from cheating and misrepresenting how much Bitcoin they own?” (Me, too.) This ledger, the Block Chain, is sent out to tens of thousands of people. When owners of Bitcoin want to transfer value, these other users around the world will confirm that the story adds up before they are allowed to make the transfer. In this cryptocurrency world, the users that double and triple check that transactions are valid have a name and they are called Miners. And for their services they get paid in, you guessed it, Bitcoin.

I hope that my Intro to Bitcoin 101 was helpful. As I mentioned earlier, there are two sides to this new-found phenomenon. Someone in the “for” camp of Bitcoin would argue that it is a modern solution for money that doesn’t rely on financial institutions and it will save consumers from unnecessary fees and expenses. Others would argue it is the new gold because its value isn’t tied to or controlled by the government, a huge plus economies grew.

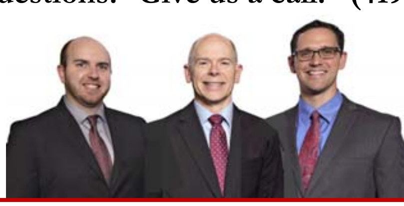
Bonds. The bond market was relatively stable in 2017. Slow and moderate increases by the Fed were mostly anticipated and did little to rattle the overall bond markets. Jerome Powell, the new Chairman of the Federal Reserve, is likely to maintain the slow and steady policy that has been in place in recent years. Several rate increases may be in store for 2018 so we don't see significant risk at least in short and intermediate term bonds.

Alternative investments. We see Real Estate and Real Estate Investment Trusts (REIT's) as legitimate investment opportunities as a portion of a balanced portfolio. Gold and Silver and other hard assets also can play a small part in many portfolios as a hedge against inflation. The current craze in cryptocurrencies such as Bitcoin or Ethereum are not valid investment opportunities in our view. (See our other article on Bitcoin.) This type of "investment" probably falls much more under the category of speculation or gambling. We don't feel that they have a place in most investors' portfolios.

Other Risks. There are always factors that could be a wildcard that could negatively impact investments. North Korea and their continued saber rattling, political upheaval in the U.S. or significant natural disaster or terrorist attacks are always uncertainties that could disrupt the markets.

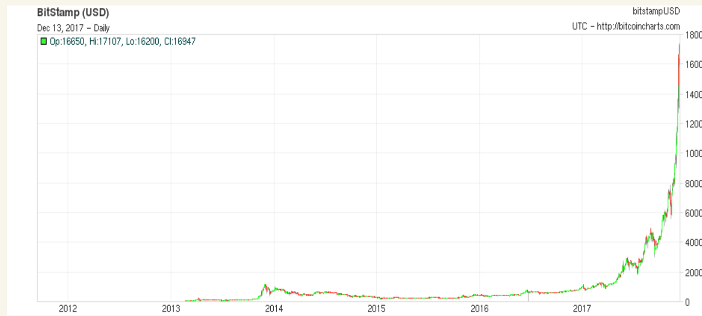
In light of all of this information, where should you invest in 2018? We feel that the economic growth both in the U.S. and the world economy will make U.S. and international stocks a good place to be in 2018. Additionally, for more conservative investors, balancing a portion of a portfolio with some allocation to bonds will continue to be a prudent decision. We would recommend short term or intermediate term bonds to help minimize any interest rate increase disruptions to bond value. A portion of a balanced portfolio in Real Estate and Gold can also be appropriate for slightly more aggressive investors. Financials and technology are both sectors that we like for the new year. We also tend to favor managers or strategies that are more value focused. Some of our preferred managers have shown a consistent knack for finding value and providing investors with consistent strong returns. We would be glad to discuss your individual risk tolerance and portfolio with you at any time..

Have questions? Give us a call! (419)496-0016



Bitcoin (continued from page 1)

for Libertarians. Another advantage in buying Bitcoin is there's only a limited amount of it. Only 21 million will ever come into existence and most of the currency is already circulating. Laws of supply and demand suggest scarcity could continue to drive demand - thus driving the price even higher. A look at the following chart shows the meteoric rise; notice what it's done in 2017 alone.



I should note, the "against" side, is significantly larger than the "for". One of the first things someone on this side would point to is the anonymous nature of it. It's not hard to imagine the people that would love to exchange a currency that's not traceable. A recent example of this is cyber criminals, who launched a wave of "ransomware" attacks known as WannaCry, and demanded for payment in Bitcoin. Another problem is that there are so few companies that even accept it as payment. I scrubbed the list of accepted merchants and Subway was the only place on the list in which I do regular business. But hey, good to know the next time I get a footlong meatball. One of the biggest deterrents investing in this currency is that it is dangerously volatile. There have been recent swings of up or down 20% in a matter of days - sometimes hours. Bitcoin is not like a stock; it doesn't have underlying earnings or a dividend that it pays for being an owner. It doesn't produce a good or a service; it's purely speculative by nature.

Now that we've looked at both sides of this, we get to the big question, Should you own some? Ultimately, this decision comes down to the same question that investors ask themselves before investing: Is the expected return I'll potentially receive worth the risk I'm assuming? While some investors will have an appetite for something like this, our advice is to steer clear. It seems there are more questions than answers about Bitcoin and it's hard to imagine that there's a lot more upside to the run that has already occurred. A lot of us have watched Bitcoin from the sideline and it is human nature to feel that we've missed out. The feeling of missing out on something like this is closely associated with greed. If Bitcoin goes from its current value of $17,204 to $30,000 in the coming months, I will have looked foolish. But a big component of investing is being okay when you've missed an opportunity, being happy for those that did capitalize, and moving on to the next one. ■

New limits for 2018

The chart below shows some of the limits that might be helpful for your planning purposes including limits on contributions to IRA's and 401(k) plans, annual gifting amounts and mileage rates.

Limitation	**2017**	**2018**
IRA Contribution limit	$5,500	$5,500
IRA Catch up contribution (age 50 and over)	$1,000	$1,000
401(k) elective deferrals	$18,000	$18,500
401(k) catch-up deferrals (age 50 and over)	$6,000	$6,000
Other information		
Income subject to Social Security tax	$127,200	$128,700
Maximum earned income before SS benefits are reduced for those collecting SS before full retirement	$16,920	$17,040
Annual Gift Exclusion	$14,000	$15,000
Standard Mileage Rate	$0.535/ mile	$0.545/ mile
Social Security Cost of Living Adjustment	0.3%	2.0%

Market Recap

How the major indices performed in the 4th Quarter 2017:

DOW JONES INDUSTRIAL AVERAGE
4th Quarter return 11.8% YTD return 25.1%

S & P 500 COMPOSITE
4th Quarter return 6.9% YTD return 19.4%

RUSSELL 2000
4th Quarter return 3.3% YTD return 13.1%

BARCLAYS AGGREGATE BOND
4th Quarter return 0.7% YTD return 3.8%

Market Update

By Tim Rowsey, CPA
Investment Advisor Rep.

The 2017 year was great for equities.
Stocks finished 2017 with another strong quarter with both the Dow Jones Industrial Average and the S & P 500 climbing to new highs in December. The Dow Jones Industrial Average grew 11.8% for the quarter, bringing the year to date performance to 25.1%. The S & P 500 was also up 6.9% for the quarter, and finished up 19.45% for the year. The S & P had positive monthly returns in every month in 2017. This is the first time this has happened since 1970. Small cap stocks, as represented by the Russell 2000, also grew by 3.3% for the quarter and ended the year with a 13.1% gain.

Bonds also increased for the quarter.
The Barclays aggregate Bond index grew by an additional 0.7% for the quarter and ended the year up 3.8%. The Fed increased the benchmark interest rate another .25% in December of this year as was widely expected. They are projecting three rate increases for 2018 which is identical to the changes made in 2017. The Fed has been very measured and calculating in their approach. At this time we don't anticipate them doing anything that would disrupt the markets in a significant way.

Tax reform and a cut in corporate tax rates was the major yearend news.
In a surprise to many, congress and the President agreed on a tax bill that became the law of the land at the end of the year. While this will impact most individuals with a reduction in their personal taxes, the big news is the impact on corporations. The maximum corporate tax rate will drop from 35% to 21% effective January 1, 2018. This should provide an additional spark to the market as less tax to corporations means more profit and potentially higher value for companies. In addition a provision in the bill will allow companies to bring cash back into the United States at a reduced tax rate. This could also stimulate growth. While the market had a great year in 2017 there is every indication that 2018 could also be a very good year. ■

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