Q4, 2017

THE QUARTERLY

Inside this issue...

SAVE THE DATES!

Quarterly Seminar

Plan to attend our next quarterly seminar. Jim will be giving an economic and investment overview while Elizabeth & Barbara will be giving an overview of the Tax Cuts and Jobs Act. We expect that this seminar will fill up quickly, so please RSVP if you plan to attend one of the seminar dates below, as seats are limited.

DATES & TIMES:

Tues, January 30, 2018
Noon – Lunch provided
5:30pm – Light Hors D'oeuvres

Weds, January 31, 2018
Noon – Lunch provided

Thurs, February 1, 2018
Noon – Lunch provided
5:30pm – Light Hors D'oeuvres

PRESENTERS:
James Walden, Elizabeth Young, Barbara Duncan

PLACE:
Clayton Wealth Partners
716 S. Kansas Ave.
Topeka, KS

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A Surprisingly Positive Year for Markets in 2017 Should Make for a Tough Act to Follow in 2018

JAMES WALDEN, CFA
Director of Investments

2017 in Review

As 2017 began, many investors understandably felt a sense of trepidation about what might lie ahead for global economies and markets, despite the equity markets ending 2016 with a bang. After all, just months earlier, British voters had surprised observers with their Brexit decision, Donald Trump had won the U.S. presidential election, and the U.S. bull market and economic expansions had been ongoing for a lengthy nine years. To be sure, U.S. and international politics dominated the headlines in 2017. But underneath the surface, the global economy further improved, in both the acceleration of its growth and in the number of countries participating.

The growing strength of the global economy translated into impressive performance across financial markets. Consider:

- Including dividends, the S&P 500 was up 22% in 2017. For the first time in its history, it rose in every month.
- Of the 11 industrial sectors represented in the S&P 500, all but two (Energy and Telecom) increased in 2017.
- International equity markets fared very well, too. Emerging and developed international markets were up a total of 38% and 26%, respectively, in 2017. Further, of the 44 markets represented in the MSCI All Countries World Index, all but two (Israel and Russia) were positive for the year in their local currencies.

What surprised us the most (in a good way) was how "tranquil" the markets were as they advanced. The largest drawdown for the S&P during the year was only about 3%.

The growing strength of the global economy translated into impressive performance across financial markets.

Since World War II, such a low intra-year decline has occurred only once before (1995).

Strictly limiting this narrative to the financial markets, just about everything that could go right in 2017, did go right in 2017.

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A Surprisingly Positive Year... continued.

Early Thoughts on 2018

With such a strong 2017 as the backdrop, we're confident in saying that 2017 should be a tough act to follow for 2018. We remain cautiously optimistic as we begin the year, as the synchronized global expansion remains intact, and the U.S. economy should get a jolt from tax-cut benefits (although we're skeptical that tax cuts will provide continued economic benefits over the intermediate term). Valuations for equities remain elevated but not excessive, especially considering the current environment of still-low interest rates.

We do expect volatility to increase somewhat from that of the benign 2017. Looking back over time, years which enjoyed similarly low drawdowns saw larger sell-offs the following year in almost every instance. (Now is a good time to remind our readers that we have historically seen, on average, one 10% selloff in any given calendar year. It has been almost two years since the last one.) Importantly, though, we still don't expect recession imminently, which should limit the size of any meaningful market decline in 2018. As always, we will make portfolio changes should our thinking change.

Cryptocurrency: Understanding the Phenomenon and the Risks

J.D. Kaad, CIMA®
Portfolio Analyst

The subject of cryptocurrency (particularly Bitcoin) has garnered a lot of press in recent months. Nearly half of CNBC's programing the last two weeks of 2017 was devoted to multiple discussions of Bitcoin, electronic currencies and their record rates of return. With the creation of Bitcoin futures markets by the Chicago Mercantile Exchange and Chicago Board Options Exchange and the cryptocurrency's monumental 2017 return that exceeds 1,000%, there is good reason for the recent press and investor curiosity.

Cryptocurrencies were designed by computer software experts to provide electronic "money" existing only between its users, and without the involvement of banks, credit card companies or government oversight. This lack of oversight theoretically creates the ability for users to buy and sell products utilizing currency transactions with little or no fees associated. A record of these transactions is kept on a digital ledger tracking all users amount of digital currency at any one time. This ledger, known as the "blockchain" is constantly audited by individual "miners", who in turn receive newly issued currency for utilizing their computers to verify user transactions.

CRYPTOCURRENCIES were designed by computer software experts to provide electronic "money" existing only between its users, and without the involvement of banks, credit card companies or government oversight.

While the technological aspects of cryptocurrency are fascinating, it doesn't explain the sudden explosion of interest in cryptos as an investment vehicle. To explain the sudden interest, we need only look at the returns. Bitcoin, the first and largest crypto, was up over 1,000% in 2017 and that's after the currency tumbled from over $19,000 down to around $14,000 per bitcoin. Some of the relative newcomers to the crypto marketplace faired even better in 2017. Ethereum, the second largest crypto, was up over 8,000%. Ripple, the only corporate-owned crypto, was worth less than a penny at the beginning of 2017 and is now up over 32,000%.

These returns are difficult to explain under any traditional investment analysis, because cryptocurrencies generate no revenues, pay no dividends and have no tangible value. The price increase seen by the cryptos is driven purely by buyer demand and currency supply. This buyer demand is fueled by news of the cryptos' returns and in turn even higher returns are realized--creating an unprecedented cycle of extreme investment speculation. This speculation has many investment professionals accusing cryptocurrencies of being in an asset bubble. However, without any real historical comparison it is impossible to determine

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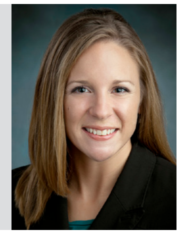
A Look at the New Consolidated Standard Deduction & Expanded Child Tax Credit

Elizabeth Young, CFP®
Vice President & Senior Wealth Advisor



With the Tax Cuts and Jobs Act of 2017 (TCJA) now signed into law, the real fun begins for the tax planners out there. Ultimately, the new tax rules are complex enough that it will likely take months for all of the new strategies to emerge. Because of this and for the sake of space, I thought I would focus on one significant area of change: The merging of personal exemptions into an expanded standard deduction.

Under the new rules, the Standard Deduction will be $12,000 for individuals and $24,000 for married couples. This is compared to the 2017 amounts of $6,350 for individuals and $12,700 for married couples. For those that qualified for the "additional standard deduction" (for a blind individual or anyone over age 65), you will continue to receive that additional deduction of $1,250.

While these new Standard Deductions will be higher, Personal Exemptions will be going by the wayside. Under 2017 law, individuals received a $4,050 personal exemption in addition to their standard deduction. Married couples could claim a personal exemption of $8,100. This means the consolidated standard deduction is a slight net increase:

	INDIVIDUAL		MARRIED COUPLE	
	2017	2018	2017	2018
Standard Deduction	$6,350	$12,000	$12,700	$24,000
Personal Exemption	$4,050	$0	$8,100	$0
TOTAL	**$10,400**	**$12,000**	**$20,800**	**$24,000**

While individuals and married couples will see a slight increase in their total deduction, the same cannot be said for families. This is due to the fact that under 2017 tax law, families received a personal exemption of $4,050 per family member. With the changes in 2018, adding just one child to the equation leaves the family with a smaller deduction under the new rules than existed under prior law.

	FAMILY OF 3	
	2017	2018
Standard Deduction	$12,700	$24,000
Personal Exemption	$12,150	$0
TOTAL	**$24,850**	**$24,000**

But never fear, there is some positive news for those with children. Further tax relief for families will now come via an expanded Child Tax Credit. In 2017, the credit was $1,000 per qualifying child under the age of 17. Under the new rules, the credit will now be $2,000 per qualifying child, of which $1,400 is a refundable credit. Furthermore, the phase-out levels for the Child Tax Credit have been dramatically increased. In 2017, phase-out began at $75,000 for individuals and $110,000 for married couples. Now, the credit does not begin to get phased-out until an individual reaches income of $200,000 and $400,000 for married couples.

The long and short of it is that the combination of the new consolidated standard deduction and expanded Child Tax Credit should be a net savings for most taxpayers. While the loss of personal exemptions will be especially painful for families, the expanded child tax credit is likely to make up for it. If the tax changes spark your interest (or even if they don't but you'd like to learn more), be sure to RSVP for our upcoming quarterly seminar – we will be taking a deeper dive into the changes. See the front page for dates and times and RSVP early as we expect seats to fill quickly.

TAKE NOTE!

Our office will be closed on the following dates:

Monday, January 15th –
Martin Luther King Jr. Day

Monday, February 19th –
President's Day

Cryptocurrency... continued.

if cryptocurrency is in a bubble or even a reasonable investment asset. What can be analyzed is the extreme volatility of cryptos over a relatively short time period, a demonstration of the potential risk involved when investing in digital currencies.

Investment	Standard Deviation (Volatility)
Bitcoin	100%
Ethereum	153%
Ripple	177%
Emerging Markets Stocks	23%

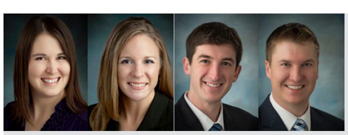
Using standard deviation to measure volatility, one can see the standard deviation of emerging-market stock (generally regarded as a riskier investment) is 23%, while the LEAST risky cryptocurrency has a standard deviation of 100%.

It should be noted that cryptocurrencies were not designed to be speculative investments. Rather, they were intended to create low or no cost electronic payment transactions between users. The speculation is in fact hampering the actual use of these currencies, as it is nearly impossible to establish a price for goods or services with the values wildly oscillating from one day to the next. Further, governments around the world are scrambling to determine ways to regulate and control the use of cryptocurrencies: control that could eliminate one of the major advantages of private currency.

There is no question that cryptocurrencies like Bitcoin may very well represent the type of currency that will be used in the future. As we continue to live in a more digital world, the use of paper money and checks are being replaced daily by electronic transactions. However, anyone looking to these new currencies as an investment vehicle should be aware of the risks involved. Crypos are a new creature, with no tangible value and unprecedented levels of volatility at an early age. While this story is literally evolving daily, cryptocurrencies as an investment and should be examined with great skepticism given the uncertainty of their future.

Employee Highlight: Meet Emily!

Full Name: Emily Beth Schallock
Position: Client Services Administrator
Nickname: Em
Hobbies/Interests outside of work: Reading, my children's sports and boating
Favorite restaurant: McCormick & Schmick's
Favorite movie: *National Lampoon's Christmas Vacation*
Favorite candy bar: 5th Avenue
Hidden Talent: Fishing
Words to live by: "Be the reason someone smiles today"



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ERIC PURCELL
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Aspire.
Prepare.
Enjoy.
With you for life.

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