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Sent: Monday, January 8, 2018 10:59 AM
To: nicole@parkhurstfinancial.com
Subject: [Test] Year End Update

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Market Update

Despite many Wall Street expert's projections at the beginning of 2017 for a flat to sideways market, in 2017 stock markets had their best year since 2013. The major U.S. indexes (Dow Jones, S&P 500 and Nasdaq) all set various records throughout the year. For the first time since 2012, international stocks did even better.

The stock market gains have come with broader economic improvements, including an unemployment rate that has been steadily dropping for more than five years, and consumer confidence that reached a 17-year high last month. The gains were also impressive given 2017 featured rising U.S. tensions with North Korea, an economic slowdown in China and three major hurricanes that caused massive damage to the United States and its territories.
(1)

While 2018 begins with renewed optimism for more gains ahead, the lack of volatility and downward movement we saw in 2017 will be challenged by:

1. Continued international tensions remain beyond just North Korea.
2. Janet Yellen will step aside as Federal Reserve Chair in February. Her replacement, Jerome Powell, will be tasked with determining how quickly to continue raising interest rates, along with reducing the Fed's balance sheet.
3. The United Kingdom is preparing to exit from the European Union, and elections overseas could have economic and market implications.
4. At the end of 2017, the S&P 500 was trading at a forward Price/Earnings (P/E) ratio of 18.2, which is almost 14% above its 20 year average of 16.
(2) That's not to say U.S. stock prices can't keep rising, but they are currently trading above their historical levels.

Tax Reform

On December 22nd, President Trump signed into law a sweeping tax reform bill. These changes went into effect January 1st, 2018. Some of the highlights are:

1. Real Estate Taxes and State and Local Income Taxes are deductible only up to \$10,000 per year.
2. Personal Exemptions have been repealed, while the Standard Deduction is doubled to \$12,000 for single filers and \$24,000 for married couples.
3. The individual mandate, or tax penalty for failure to carry health insurance, goes away.
4. 529 Educational Savings Plans are now expanded, and funds can be used to pay for private elementary and high school tuition expenses (up to \$10,000/year).
5. The estate tax exemption doubles to \$11.2 million per person in 2018.
6. The corporate income tax is reduced from 35% to 21%.

In closing, we again want to express our appreciation for the trust you've placed in us and want to wish you and your families a Happy and Healthy New Year!

The final ramifications of this bill are still being studied, although it appears that the majority of taxpayers should see some reduction in their tax liability. It's believed the corporate tax reduction will improve corporation's earnings and hopefully stimulate economic growth, which should be a positive for equity prices. Some are questioning whether this is already priced into the U.S. stock markets, given their elevated valuation levels relative to historical benchmarks as discussed earlier. (3)

Best Regards,

Jim & Jon

(1) O'Connell, Merle and Gregg "Stock Markets wrap up best year since 2013"
Washington Post December 31, 2017

(2) JP Morgan Guide to the Markets, Page 45, December 31, 2017

(3) Philip Bump, "What the GOP Tax Overhaul means for your taxes"
Washington Post December 23, 2017



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