THE PERSONAL WEALTH COACH®

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TPWC Market and Economic Update

The Markets

The S&P 500 Stock Index ended the week at 2,297.42, having budged up a mere 0.12% for the week. That small total move masked moves that ranged up and down, with "down" dominating the early week and the "up" almost all happening this morning. It remains below its recent high of 2,300.99 on January 26, but remains up 2.62% year-to-date. The Index is up over 22% from last year at this time, again because we were in a market correction last year in February. It has gained 7.82% in the nearly two years from May of 2015.

The recent market moves reflect the optimism over regulatory relief, like the announcement from the White House that the President wants most, if not all the regulatory reforms that were enacted following the financial meltdown of 2008-2009 eliminated and the fear that executive policy and actions might trigger a trade war with some of our bigger trading partners around the globe. Still, the moves since the election continue to be based in rhetoric and not on substance. We can hope for the positive substance, but be on the alert that the stock market could plunge in the short term if all does not work out as expected. While the regulatory reductions have a great deal of promise for increasing corporate earnings, and thereby the market, some of the actions by the administration could result in international trade expenses that could drive earnings down. The stock market lives and dies on corporate earnings.

Interest rates in the bond market remain about where they were last week with the 10-year U.S. Treasury Note falling from last week's 2.4860% to 2.4720% at today's close. Gold rose slightly to $1,221.40. The 10-year Treasury and gold seem to be pretty much in lock-step with both down in value about the same amount from last July. The dollar fell a bit against the Euro (or conversely the Euro rose against the dollar) with a price of $1.08 per Euro versus the $1.04 of a month ago.

The Economy

The headline economic news this week was led by the employment report from the Bureau of Labor Statistics. Nonfarm employers added 227,000 jobs last month versus a consensus expectation of 174,000. Meanwhile the unemployment rate rose a tenth of a percent to 4.8%. The underlying numbers indicate that the rise in unemployment was largely from new participants entering the job market as the percent of people able to seek or do work who are actively looking for a job rose to 62.9% from last month's 62.7%. At the same time the average hourly wage rose by 2.5% from this time last year. More people working and the hourly wage rising are, long-term, big positives for the economy.

Headline number two was that the Federal Reserve Board did nothing. Their statement indicated that the members of the Board are pleased to see the economy expanding while inflation remains low and with little sign of rising.

A significant drag on the economy is the shortage of skilled workers. The Wall Street Journal conducted a survey of employers and found that many have set up training programs that often last as long as six months to train unskilled workers up to minimum qualifications for industrial jobs. It is in that problem that an accelerated economic expansion is encountering resistance. That issue is worrisome to businesses as they have traditionally gotten around the problem by moving manufacturing overseas where workers are less expensive to train and there are more workers who are willing to learn. Our discussions with local businesses have indicated much the same problem. Businesses have openings, but finding someone with the skills necessary to fill them is difficult.

As a closing note, a lot is in flux right now. One of the prime issues circulating in Congress is a rewrite of the federal income tax code. More and more, it looks like that will happen in some form. Among the more popular provisions that may make it into the new code is an elimination of the estate, or as some call it, the "death" tax. Another is an elimination of corporations' ability

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to deduct loan interest on borrowings. If corporations cannot deduct interest expenses from other income, the cost of borrowing for those corporations would rise. That rise might largely offset the increase in profits from a reduction in the corporate tax rate.

What does all this mean to you? It means that long-term tax planning should be put on the shelf for the moment. One of the most distorting issues in investing is tax planning. Often properties or other investments are purchased by companies or investors that, were it not for the tax advantages, would not be bought. Those who have made tax-based investment decisions may be in for some unpleasant surprises, while those companies and individuals who have held to the old-fashioned idea that taxes should be a secondary consideration when investing may be made quite happy.

As an example, a decision to convert an IRA into a ROTH IRA and pay the taxes up front may best be deferred. All indications from Congress appear to indicate a reduced tax level for upper income returns. Such a conversion can easily put a middle-income couple or person into the highest tax bracket under current law. Waiting might well mean a lower tax bill for a conversion. Just as importantly, the new tax code might make conversions, already a questionable move, into one that just makes no sense. In addition, a large part of reducing the overall tax percentage levels is the elimination of specific tax deductions. As no one currently knows what deductions will disappear, a wait and see attitude is probably a good idea.

Another issue in flux is the "fiduciary rule" issued by the Labor Department last year which was to take effect this spring. The fiduciary rule would make any person dealing with IRA or retirement fund money pledge to act in the best interest of the owner of the retirement plan assets or at least detail in writing what the conflicts of interest were in the transaction. The President stated this week that he will be delaying implementation of the rule and for the Labor Secretary to investigate how to rescind it. In practical terms, any time you roll over an IRA or transfer it from one investment company to another, it will be a "buyer beware" relationship. Ask a lot of questions as to who is benefiting from the more and get the answers in writing.

One of the few things about which we can be confident right now is that things are likely to change and ultimately to do so in ways that may be quite surprising.

Until next week, we remain your faithful servants,

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