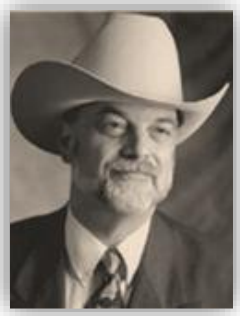

THE PERSONAL WEALTH COACH®

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December 15, 2017

TPWC Market and Economic Update

The Markets

The stock market finally exhibited a reaction, albeit a muted one, to the pending tax law changes. When the bill's passage was in doubt, the broad market would drop a bit more than one percent but when the passage looked likely, it would rise a similar amount. Because we closed out the week in the "likely" category, the S&P 500 Stock Index (SPX) was up 0.92% from last Friday, closing at 2675.81. For the year to date, it is closing in on the 20% mark with a gain of 19.52% but was up 18.5% from one year ago, reflecting the post-election rally of mid-December 2016.

We have been asked to comment on what might happen to the market if the new tax law were to fail. Our opinion is, "not much." Yes, a lower corporate income tax rate could boost earnings at many publicly traded companies, but any tax-related improvement would be a minor element in the various factors that have generated the impressive earnings gains that have driven this market appreciation. The single largest factor in the market level we are seeing is the improved global economy. Europe and the developing countries are both still just getting a good start on a recovery from the 2008-2009 recession. The early part of such recoveries tends to be the strongest, and that is where much of the rest of the world is. The large-capitalization companies that make up the major market indices earn much of their income outside the U.S. and it is those earnings that are driving stock prices.

The dollar finished the week down about a quarter percent against a basket of world currencies. Because the dollar dropped an ounce of gold took more dollars to purchase and thus was up in dollar terms about 0.66%. As we have written before, the price of gold on the market tends to move according to economic forces at work in India and China far more than anything happening in the U.S. Meanwhile, the Bloomberg Barclays US Aggregate Bond TR Index was up 0.30% for the week, 3.66% year to date, and 4.37% for one year.

The Economy

Americans are spending more this season than the WSJ Economists' Survey anticipated and this looks like the best Christmas for brick and mortar retailers in several years. Economists had predicted a 0.3% increase in November sales but instead, the numbers appear to be up about 0.8%, and that put them up 5.8% from November of last year in their best November since 2010.

Macroeconomic Advisers, a widely followed economic forecasting firm, estimated 4th quarter GDP growth would be up at a 2.8% annualized rate, while the Atlanta Federal Reserve Bank is estimating 3.3%. All the economic indicators that have been reliably predictive in the past continue to suggest robust economic activity for at least the next six months to a year.

In an interesting note for those of us who manage investment portfolios, the Harvard Endowment, once the darling child of portfolio management, appears to have some problems. A relatively low demand for lumber and some other commodities coupled with the relatively high cost of maintenance on producing properties has resulted in negative cash flows. Harvard recently attempted to sell some of its "alternative investments" and found no buyers, even with discounts of up to 50% on the book value. As with many such alternative investments, the stability and the profit appear to have been illusions generated by the absence of an active market. Among the conundrums in the economy right now is why the federal debt is costing so little to maintain. Part of the answer is that about 20% of the federal debt "held by the public" is in the possession of the Federal Reserve. The Fed refunds interest paid to it back to the Treasury, resulting in a zero carrying cost. While technically the federal debt is $14.682 trillion, removing the $2.868 trillion held by the Federal Reserve Banks from the calculation leaves the balance at $11.8 trillion. With our GDP at $18.57 trillion, our net public debt to GDP percentage is then effectively at 63.6%. That compares well with the EU at 89.6%, Germany at 69%, China at 65.69%, and Japan at 234.7%!

Until next week, we remain your faithful servants,

Jeffrey W. McClure CFP®
M.S. Personal Financial Planning

Jacob A. McClure, CIMA®