
Equities and Inflation Climb

Weekly Update – January 16, 2018

Domestic markets continued their strong start to 2018, posting gains across the board for their 2nd week. The S&P 500 added 1.57% and closed at a new record high on Friday. The index just posted its best 10-day beginning to a year since 2003, with a 4.2% gain so far this year.¹ The Dow also hit a new record on Friday and gained 2.01% for the week.² The NASDAQ increased by 1.74%,³ while international stocks in the MSCI EAFE joined last week's gains, adding 1.20%.⁴

By week's end, we didn't receive a tremendous amount of economic data. However, the economy did provide details that reveal it continues to pick up speed. In particular, both corporate earnings and inflation appear to be on the rise.⁵

What We Learned Last Week

1. Corporate Earnings Continue to Increase

Earnings season is upon us, and analysts expect the data will indicate strong corporate performance in the 4th quarter of 2017. Some projections show corporate earnings may have risen 11.2% between October and December last year. According to FactSet, each of the S&P 500's 11 sectors will likely record growth in both revenue and earnings. We haven't seen these kind of broad increases since 2011.

In addition to gaining insight on last quarter's performance, this earnings season will provide perspectives on how large corporations expect tax reform to affect them.⁶ As we make plans for 2018, this information will help inform our strategies.

2. Inflation Is Accelerating

On Friday, the latest Consumer Price Index (CPI) data came out, showing an unanticipated uptick in core inflation.⁷ At first glance, the inflation numbers don't seem particularly noteworthy. The CPI's December growth was 0.1%, and its annual rate was 2.1%, which met expectations.

When digging a bit deeper, however, you'll see that the CPI rose at a 2.6% annual rate during the 4th quarter—significantly faster than the Fed's 2% inflation target. Even the "core" CPI numbers, which don't include the more volatile food and energy industries, have 2.5% annual growth over the past 3 months.⁸

What This Information Means For You

Faster inflation, combined with our currently strong labor market and low unemployment, may mean interest rates will also pick up this year. With this latest CPI data, the Fed will likely increase rates at least 3 times in 2018.⁹

Higher inflation may also impact stock performance. When Friday's CPI numbers first came out, stocks stumbled as some investors worried that economic growth could slow if the Fed raises rates too much. However, the strong corporate earnings data helped demonstrate our economy's vigor and reassure investors.¹⁰

In short, we haven't experienced such strong inflation increases in quite some time. As more details around inflation and economic growth come out, we will continue to monitor how they may affect your financial life. If you have any questions about your specific strategies and needs, we are here to talk.

ECONOMIC CALENDAR

Monday: Markets Closed for Martin Luther King Jr. Day

Wednesday: Industrial Production, Housing Market Index

Thursday: Housing Starts, Jobless Claims

Friday: Consumer Sentiment

PERFORMANCE

DATA AS OF 1/12/2018	1 WEEK	SINCE 1/1/18	1 YEAR	5 YEAR	10 YEAR
STANDARD & POOR'S 500	1.57%	4.21%	22.72%	13.61%	7.12%
DOW	2.01%	4.39%	29.72%	13.85%	7.43%
NASDAQ	1.74%	5.18%	30.89%	18.36%	11.52%
INTERNATIONAL	1.20%	3.67%	23.45%	5.12%	-0.13%
DATA AS OF 1/12/2018	1 MONTH	6 MONTHS	1 YEAR	5 YEAR	10 YEAR
TREASURY YIELDS (CMT)	1.31%	1.59%	1.78%	2.35%	2.55%

Notes: All index returns (except S&P 500) exclude reinvested dividends, and the 5-year and 10-year returns are annualized. The total returns for the S&P 500 assume reinvestment of dividends on the last day of the month. This may account for differences between the index returns published on Morningstar.com and the index returns published elsewhere. International performance is represented by the MSCI EAFE Index. Past performance is no guarantee of future results. Indices are unmanaged and cannot be invested into directly.

QUOTE OF THE WEEK



“Strive not to be a success, but rather to be of value.”
– Albert Einstein



Shaved Zucchini and Prosciutto Grilled Pizza



Serves 4

Ingredients:

1¼ pound pizza dough
4 tablespoons olive oil, plus more for greasing
½ cup marinara sauce
¾ cup shaved pecorino cheese
2 medium zucchini, trimmed
1 jalapeño chile, thinly sliced
¼ cup packed fresh mint leaves, torn
2 tablespoons fresh lemon juice
2 ounces thinly sliced prosciutto, torn into strips

Directions:

1. Take the pizza dough out of the refrigerator 30 minutes prior to cooking.
2. Preheat grill at medium.
3. Use oil to brush clean grill grates.
4. Stretch and roll dough into a 13-inch round on lightly floured parchment paper.
5. Generously brush the top of the pizza with 2 tablespoons of oil.
6. Use the parchment paper to place dough, oiled side down, on the grill. Remove parchment paper.

7. Cook the pizza for 2 minutes or until the bottom is crisp and charred.
8. Flip the dough and layer on sauce and add ½ cup of cheese.
9. Cover and cook for another few minutes until the dough is lightly charred on the bottom.
10. Cut the zucchini into long, thin slices with a vegetable peeler.
11. Mix zucchini, jalapeño, mint, lemon juice, the remaining 2 tablespoons of olive oil, a ½ teaspoon of salt, and ¼ teaspoon of freshly ground pepper in a medium bowl.
12. Spread zucchini salad, prosciutto, and ¼ cup of cheese on top of the pizza.

Recipe adapted from Good Housekeeping¹¹



Letters from the IRS

Benjamin Franklin may have recognized life's 2 certainties: death and taxes, but a letter from the IRS can certainly produce a similar sense of doom. IRS representatives understand the angst a letter from the agency can produce in American taxpayers. Their initial advice to recipients is: Don't panic. Simply responding to the agency's query usually resolves the issue. Here are 4 more tips to help relieve the stress and address the IRS's questions:

1. **Read the letter completely and carefully.** The agency is typically looking for an answer to a particular question. Follow the steps closely and do exactly what the letter requests.
2. **Compare the issues flagged in the letter with your tax return.** If the IRS is pointing to changes or corrections in your return, review the information and compare it with your original return.
3. **Reply to the letter only if the agency is asking for a response.** The IRS only wants a response when it specifically requests one.
4. **Respond promptly.** If you don't agree with the issues the IRS is raising, explain in a letter exactly why. Mail the letter to the address listed at the bottom of the letter; include documents and other information. Allow at least 30 days for the IRS to respond.

Other details may apply, and you can find more information on the [IRS website](#).

* This information is not intended to be a substitute for specific individualized tax advice. We suggest you discuss your specific tax issues with a qualified tax advisor.

Tip adapted from IRS.gov¹²



Increase Your Distance

Accurate short drives may make for more strategic games, but they sure don't make approach shots any easier or less intimidating. In the long run, short drives translate into more shots and higher scores. Who wants that?

How do you improve your long game, knock the balls closer to the greens, and put a little more swagger back into your step?

Here are 3 easy tips to get you swinging more smoothly and to send your ball sailing for the long journey:

No more swing swaying: Turning your right foot outward during the swing helps prevent swaying, but only if you're a little stiff in the first place. If you have good hip flexibility and are able to maintain a neutral hip position, you may proceed to the next step.

Grip strength: Improving your grip is one of the easiest and most useful tips to going long. While it may take you a while to get accustomed to the hold, a stronger grip packs more punch in your swing. Rotate your hands to the right (for right-handers) on your club, which turns the clubface to create a draw spin.

Move the ball closer: This enhances the prospects of hitting a draw, which sends the ball on a lower trajectory but with greater roll. Hard and dry terrain is the best for this type of maneuver.

Sometimes a few simple changes in how you play can make a big difference in your game.

Tip adapted from Age Defying Golf¹³



Understanding ADHD

What is It?

Sufferers of attention deficit hyperactivity disorder (ADHD) display symptoms of inattentiveness, impulsivity, and hyperactivity. Formerly called attention deficit disorder, ADHD afflicts both children and adults.

Adult sufferers may experience difficulties managing their time, getting organized, setting goals, and retaining employment.

How Do You Treat It?

Doctors typically prescribe stimulants to treat ADHD, which help sharpen concentration and curb distractions. Drugs help rewire brain circuits that direct attention and focus. Doctors will prescribe antidepressants if stimulants don't mitigate ADHD symptoms. Antidepressants or other drugs stabilize moods and control impulsive tendencies.

Material adapted from WebMD¹⁴



Doing an E-Cleanup

High technology ushers in the inevitable glut of gadgets, devices, and tech toys. While technology enhances our personal lives, it also adds clutter and can damage the environment and harm our health. Here are 4 tips to manage the rising tide of technological waste and lower stress levels:

1. **Use products for their duration:** Popular culture and commerce have taught us that we have to get the newest, the latest, and the most advanced gadgets on the market. This has led to a mass influx at landfills and other disposal sites of functional devices while rapidly depleting world resources. Consider carefully why you're buying the newest or the latest products.
2. **Used or pre-owned:** Most refurbished electronic devices—phones, computers, cameras—possess the same quality and function as newer ones at a fraction of the cost. Going pre-owned also means you're helping to preserve the planet.
3. **Do recycling right:** Recycling provides an excellent opportunity for going green, but the industry lacks adequate regulatory oversight. Old devices are often exported to Third World nations where chemicals in electronics poison small communities.

4. **Refill those ink cartridges.** Refilling empty cartridges saves you a lot of money and protects the environment.

Tips adapted from EarthShare.¹⁵

Share the Wealth of Knowledge!

Please share this market update with family, friends, or colleagues. If you would like us to add them to our list, you can have them check out our Web-site (www.thebacagroup.com) or let me know and I will add them to our list. We love being introduced!

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Diversification does not guarantee profit nor is it guaranteed to protect assets.

International investing involves special risks such as currency fluctuation and political instability and may not be suitable for all investors.

The Standard & Poor's 500 (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general.

The Dow Jones Industrial Average is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange and the NASDAQ. The DJIA was invented by Charles Dow back in 1896.

The Nasdaq Composite is an index of the common stocks and similar securities listed on the NASDAQ stock market and is considered a broad indicator of the performance of stocks of technology companies and growth companies.

The MSCI EAFE Index was created by Morgan Stanley Capital International (MSCI) that serves as a benchmark of the performance in major international equity markets as represented by 21 major MSCI indices from Europe, Australia, and Southeast Asia.

The 10-year Treasury Note represents debt owed by the United States Treasury to the public. Since the U.S. Government is seen as a risk-free borrower, investors use the 10-year Treasury Note as a benchmark for the long-term bond market.

Opinions expressed are subject to change without notice and are not intended as investment advice or to predict future performance.

Past performance does not guarantee future results.

You cannot invest directly in an index.

Consult your financial professional before making any investment decision.

Fixed income investments are subject to various risks including changes in interest rates, credit quality, inflation risk, market valuations, prepayments, corporate events, tax ramifications and other factors.

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¹ <http://performance.morningstar.com/Performance/index-c/performance-return.action?t=SPX®ion=usa&culture=en-US>

<https://www.cnbc.com/2018/01/12/us-stocks-earnings-season-dow-jp-morgan.html>

² <http://performance.morningstar.com/Performance/index-c/performance-return.action?t=%21DJI®ion=usa&culture=en-US>

<https://www.cnbc.com/2018/01/12/us-stocks-earnings-season-dow-jp-morgan.html>

³ <http://performance.morningstar.com/Performance/index-c/performance-return.action?t=@CCO>

⁴ <https://www.msci.com/end-of-day-data-search>

⁵ <https://www.cnbc.com/2018/01/12/us-stocks-earnings-season-dow-jp-morgan.html>

⁶ <https://www.cnbc.com/2018/01/12/us-stocks-earnings-season-dow-jp-morgan.html>

<https://www.cnbc.com/2018/01/11/earnings-season-is-underway-and-its-going-to-be-a-really-good-one.html>

⁷ <https://www.bloomberg.com/news/articles/2018-01-11/asia-stocks-tipped-to-end-week-on-a-strong-note-markets-wrap>

<https://www.ftportfolios.com/Commentary/EconomicResearch/2018/1/12/the-consumer-price-index-rose-0.1percent-in-december>

⁸ <https://www.ftportfolios.com/Commentary/EconomicResearch/2018/1/12/the-consumer-price-index-rose-0.1percent-in-december>

⁹ <https://www.ftportfolios.com/Commentary/EconomicResearch/2018/1/12/the-consumer-price-index-rose-0.1percent-in-december>

¹⁰ <https://www.bloomberg.com/news/articles/2018-01-11/asia-stocks-tipped-to-end-week-on-a-strong-note-markets-wrap>

¹¹ <http://www.goodhousekeeping.com/food-recipes/a44186/shaved-zucchini-prosciutto-grilled-pizza-recipe/>

¹² <https://www.irs.gov/newsroom/individual-taxpayers-seven-things-to-do-when-an-irs-letter-arrives>

¹³ <http://www.agedefyinggolf.com/3-super-simple-tips-senior-golfers-get-distance/>

¹⁴ <https://www.webmd.com/add-adhd/default.htm>

¹⁵ <http://www.earthshare.org/2009/06/eliminating-ewaste.html>