# Perspectives

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## Midyear Outlook: A Rising Tide

*By Joan Alexandre, Investment Analyst, Investment Management Research Group at 1st Global*

The adage "a rising tide lifts all the boats" was introduced to the American lexicon with President John F. Kennedy's 1963 dedication of the Greers Ferry Dam in Heber Springs, Arkansas.

*"This State…has a million cars…They were built in Detroit. As this State's income rises, so does the income of Michigan. As the income of Michigan rises, so does the income of the United States. A rising tide lifts all the boats…So I regard this as an investment by the people of the United States in the United States."*

The nation has rebounded from the financial crisis, with unemployment dropping to 4.3 percent, far from a crisis high of 10 percent in March 2009.

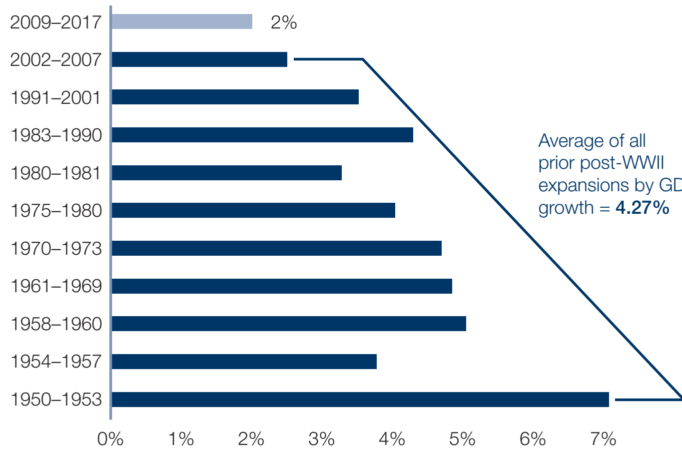
Rather than being buoyed by the recovery, some people feel this "rising tide" has run them aground. While the labor market's revival has been one of the strongest since WWII, it is important to note that fiscal policy has been contractionary, which is not usually seen after so deep a recession. Although monetary policy has been wildly expansionary, government spending decreased as the budget deficit's share of GDP — falling 1 percent a year, on average, since 2010 — only the third such occurrence in more than 125 years, according to Goldman Sachs Investment Strategy Group's "2017 Investment Outlook." This has done much to keep GDP growth muted, resulting in gains that have been half the average of all prior post-WWII advances (see graph to the right).

Even with questions about the potential success of the new administration's domestic agenda, our outlook remains net positive — with qualifiers. Roughly 70 percent of GDP is driven by personal consumption,[1] which has pulled back in the most recent reading. More than a function of economic weakness, this may be a persistent wound from the financial crisis. In "This Time Is Different: Eight Centuries of Financial Folly" (Carmen Reinhart, Kenneth Rogoff), the authors analyzed 200 years of historical data from 66 countries, finding that slow-growth recoveries that usually followed major financial crises are likely the result of prolonged personal savings. Household deleveraging occurred faster than any other post-WWII recovery, but with unemployment approaching its natural rate, and wage growth at 3.5 percent, according to the Wage Growth Tracker from the Atlanta Federal Reserve, increased consumption will likely follow. As such, it appears that the economy is on track to match its average annualized rate of 2.1-percent GDP growth seen during the recovery from 2009 until now.

The long-awaited shift to tighter monetary policy began with the first of four rate hikes, beginning in December 2015 and bookended by the June 14 increase. Despite disappointing retail sales and Consumer Price Index (CPI) readings, the Fed maintained its forward guidance for one more increase this year. The Fed will carefully need to balance its mandate of keeping inflation in check without extinguishing growth. Usually a headwind for stocks, the anticipated increases are regarded as largely benign — neither punitive to U.S. equities nor likely to induce a recession. Consensus expectations among Goldman Sachs, Citigroup and Wells Fargo analysts delay the possibility of a domestic recession until the second half of 2018.

### Post WWII GDP Expansions

Real GDP Growth Rate by Post-WWII Expansions




Source: Goldman Sachs ISG, DataStream, National Bureau of Economic Research

However, a smooth ride isn't guaranteed; with Wall Street's fear index — the VIX — trending toward the lowest calendar year average since inception, an uptick in volatility can be expected.

With the S&P 500's price-to-earnings ratio at 24.2[2], U.S. equity valuations appear stretched. This does not suggest the bull has entirely concluded its run but, rather, that a well-diversified portfolio (rebalanced to the appropriate target allocation) will be properly positioned should domestic equity markets experience a pull back. While the tide shows no signs of receding, it won't be rising as fast as it once had.

[1] Economic data — Federal Reserve Bank of St. Louis. https://fred.stlouisfed.org/search?st=Personal+Consumption+Expenditures%2FGross+Domestic+Product

[2] P/Es & Yield on Major Indexes. The Wall Street Journal Market Data Center. http://www.wsj.com/mdc/public/page/2_3021-peyield.html

# The Principles, Perks and Pitfalls of IRAs

*By Christopher Ricci, CFP®, Financial Advisor, Briggs Advisory Group*

## Basics of IRAs

An IRA offers an ideal way for an individual to save money for life after work, as the account allows savings to grow on a tax-deferred basis. Anyone with an income can open an IRA, and you can contribute to both a 401(k) and an IRA. Though you may already have a 401(k) or other employer-sponsored retirement plan, it might not be enough to accrue the amount of savings you want or need to support your retirement lifestyle — in fact, according to the estimates of many financial experts, you might require up to 85 percent of your preretirement earnings in retirement.[1]

Individuals are able to opt for either traditional or ROTH IRAs. Traditional IRAs offer tax deductions for the tax years in which the contributions were made (and you pay taxes on your money only when you make withdrawals during retirement), while Roth IRAs provide individuals opportunities to invest money after taxes and then take the contributions and earnings out during retirement without paying taxes. There are income limits for contributing to Roth IRAs, though, so a traditional IRA may be the better fit if your income surpasses those limits. However, keep in mind that, while there is no income limit on being able to contribute to a traditional IRA, there are limits on the deductibility of IRA contributions, depending on your income and whether or not you and your spouse are covered by retirement plans at work.

## Making Contributions

Because IRAs are tax-deferred vehicles, investment growth can compound at a higher rate than a nonretirement account. In order to maximize this powerful benefit, it's wise to contribute as much as you are able to, up to annual government limits. For example, for 2017 contributions, an individual younger than the age of 50 was limited to a contribution of $5,500 or the total of his or her taxable compensation, whichever was less. For an individual 50 or older, he or she was able to contribute an additional $1,000, totaling up to $6,500 for the annual contribution.[2]

Contributions made to a Roth IRA are limited by an individual's income level, based on his or her filing status and modified annual gross income.

In contrast to the Roth IRA, you won't be paying taxes on the money you put in your traditional IRA until you withdraw that retirement savings from your account, which can also add to the motivation not to touch that money until you reach retirement.

If you decide to withdraw any amount of savings from your traditional IRA prior to reaching the age of 59 1/2, you will be required to pay a penalty fee for taking that money out early. The penalty is 10 percent, and you will also pay an additional income tax on that distribution, which will be calculated according to your tax bracket. In contrast, because you have already paid taxes on them, your contributions to a Roth IRA are able to be withdrawn at any time without taxes or penalty; however, any gains in the Roth IRA are subject to early withdrawal penalties similar to a traditional IRA if withdrawn prior to age 59 1/2.

## Pitfalls to Avoid

To make sure you're making the most of your investments, it's important for you to take necessary actions in order to avoid certain pitfalls — such as those listed below — that could end up being costly in the end.

- Contributing to a Roth IRA when you don't qualify — If your income is too high, making contributions to a Roth IRA is not allowed. Over-contributing will result in a 6-percent excise tax on the over-contribution. (Keep in mind that you can still convert a traditional IRA contribution to a Roth IRA, regardless of your income level, via a Roth conversion. Speak to your financial advisor for more information about this strategy.)

- Not keeping track of nondeductible IRA contributions — Your nondeductible contribution amounts are treated as your basis. It's important to track the basis of these contributions (money that you've already paid taxes on) so that you don't end up paying taxes on them again when you withdraw them during retirement. (For a much more comprehensive understanding of nondeductible contributions, speak with your financial advisor.)

- Not taking required minimum distributions — You must take your first required minimum distribution (RMD) either by Dec. 31 in the year in which you turn age 70 1/2 or by April of the following year. If you defer until April of the following year, you must take two RMDs that year. Failure to take your RMD will result in a tax penalty of 50 percent.

- Not properly executing 60-day rollovers and trustee-to-trustee transfers — Receiving a check for your IRA balance and depositing it into another IRA within 60 days is considered a 60-day rollover (or an indirect rollover). The rollover distribution is not taxable if it is deposited into the new IRA within 60 days, but you must still report it when you file your taxes. A trustee-to-trustee transfer (or a direct rollover) is an electronic transfer of funds from one IRA custodian to another and is the preferred method because it is not reportable to the IRS and is not required to be reported on your tax return.

Ensuring you are taking the proper measures to save for the retirement you desire is essential throughout your entire career. Your financial advisor can help you decide what type of account and what investments are best for you and your situation, especially when life's unexpected changes come along.

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[1] "What Is an IRA?" Retirement Planning — Learn about IRAs. Fidelity Investments.

[2] "Ultimate guide to retirement." *CNNMoney.*