



# INCISIVE INVESTOR

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## WEEK IN REVIEW: FED HOLDS STEADY, WILL REDUCE BALANCE SHEET

### Review of the week ended September 22, 2017

- **Fed will reduce balance sheet beginning October**
- **Trump levies sanctions against North Korea**
- **US home sales declined in August**
- **S&P downgrades China's credit ratings**
- **7.1 magnitude earthquake strikes Mexico**

U.S. stocks ended with slight moves on Friday, as the market's recent upward momentum remained intact, although geopolitical uncertainty limited buying appetite with major indexes near records. The Dow Jones Industrial Average fell less than 0.1%, to 22,349. The S&P 500 rose to 2,502. The Nasdaq Composite Index was up 0.1%, to 6,427. . For the week, the Dow rose 0.4%, the S&P rose 0.1%, and the Nasdaq fell 0.3%.

North Korea returned to the forefront after the country's foreign minister Ri Yong Ho said late Thursday at a United Nations meeting that his country might consider a nuclear bomb of "unprecedented scale" in the Pacific. While geopolitical tensions have been elevated, some analysts said the stock market has become desensitized to the threats the U.S. and North Korea. Among the day's most active stocks, Global equities remained flat for the week, with the US 10-year Treasury note yield slightly higher at 2.24%. The Chicago Board Options

Exchange Volatility Index (VIX) was flat at 10.0, and the price of West Texas Intermediate crude oil ended the week at around \$50.56 a barrel.

### **Fed holds rates steady, will start reducing its balance sheet in October**

On Wednesday, the US Federal Reserve announced that it would leave its benchmark interest rates unchanged but suggested that a hike is likely by the end of the year. Officials projected there would likely be three rate increases in 2018 and two in 2019. In addition, Fed officials projected GDP to come in at 2.2% this year, slightly higher than their expectations back in June. They also reduced their inflation expectations from 1.7% to 1.5% and now expect that inflation will not reach 2% until 2019. As expected, the Fed also announced plans to start reducing its \$4.5 trillion balance sheet of Treasuries and mortgage-backed securities in October. It will roll off \$10 billion initially and then increase the cap by \$10 billion every quarter until the total reaches \$50 billion.

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## President Trump signs new sanctions order against North Korea

On Thursday, US president Donald Trump signed an executive order that will allow him to take action against anyone who finances and facilitates trade with the North Korea. Trump plans to use the measure to cut off funding for North Korea's nuclear weapons program and to put pressure on its economy. The president addressed the United Nations General Assembly earlier this week, encouraging members to take further action to influence the regime.

## US home resales drop to 12-month low

US home resales fell 1.7% to a seasonally adjusted annual rate of 5.35 million units in August, the lowest since August 2016. A sharp decline of 25% year on year in home sales in Houston, related to Hurricane Harvey, accounted for most of the overall decline in sales. The South saw a 5.7% decline. Continued aftereffects of the hurricane are expected to negatively impact home sales in September.

## GLOBAL NEWS

### China's credit rating downgraded

On Thursday, Standard and Poor's downgraded China's long-term sovereign credit

rating from AA- to A+, following a similar downgrade by Moody's in May. S&P claimed that China's sustained period of strong credit growth has increased its economic and financial risks. The credit rating agency expects credit growth will persist at levels that increase the country's financial risks for the next two to three years. In addition, S&P demoted China's short-term rating from A-1+ to A-1.

### Mexico hit by earthquake

Central Mexico was hit with a 7.1 magnitude earthquake earlier this week, causing hundreds of buildings to collapse in Mexico City. An estimated 273 people are dead and 1,900 injured. At least 1,700 homes were destroyed across the region. The death toll is likely to increase as rescue workers continue to search for survivors trapped beneath collapsed buildings. Trading on the Mexican stock exchange was suspended following the quake.

### BOJ holds interest rates steady at 0.1%

On Thursday, after its two-day policy meeting, the Bank of Japan announced that it will hold interest rates steady at 0.1%. The central bank also kept its yield target for 10-year Japanese government bonds at around 0%. Dovish board member Goushi Kataoka was the sole dissenter.

## THE WEEK AHEAD

Date	Country/Area	Release/Event
• Tue, Sep 26	United States	New home sales
• Wed, Sep 27	United Kingdom	House prices
• Wed, Sep 27	US	Durable goods orders
• Thu, Sep 28	US	Average weekly earnings
• Thu, Sep 28	Japan	Consumer price index, unemployment rate
• Fri, Sep 29	eurozone	CPI

Date	Country/Area	Release/Event
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|---------------|--------|----------------|
| • Fri, Sep 29 | Canada | GDP            |
| • Fri, Sep 29 | Japan  | Housing starts |

## Ways to Pay Less Taxes on Retirement Account Withdrawals **Part 2**

There are several ways to minimize taxes as you pull money out of your retirement accounts. Consider these strategies to decrease taxes for your retirement account withdrawals. The first 4 were discussed in a previous issue of The Week in Review, which were:

- **Avoid the early withdrawal penalty.**
- **Roll over your 401(k) without tax withholding.**
- **Remember required minimum distributions.**
- **Avoid two distributions in the same year.**



**Start withdrawals before you have to.** While you don't have to begin traditional retirement account withdrawals until after age 70 1/2, taking smaller distributions beginning during your 60s spreads the tax bill over more years and could allow you to stay in a lower tax bracket and reduce your lifetime tax bill. While most people consider deferring retirement account withdrawals to the latest possible time -- 70 1/2 -- it may be wise to consider spreading out the tax consequences over many years beginning sooner.

**Donate your distribution to charity.** Retirees who are age 70 1/2 or older can avoid paying income tax on IRA withdrawals of up to \$100,000 per year that they directly transfer to a qualified charity. An IRA charitable contribution will also satisfy the minimum distribution requirement.

Consider Roth accounts. Putting some of your retirement savings in an after-tax Roth account could set you up for tax-free investment growth and tax-free withdrawals in retirement. If you expect to be in a higher tax bracket in retirement, a Roth account also allows you to lock in today's low tax rate.

**Keep tax-preferred investments outside retirement accounts.** Investments that generate long-term capital gains receive preferential tax treatment when held outside of a retirement account. However, if you put them in a retirement account, you will pay your typically higher regular income tax rate when you withdraw the money from the account. In contrast, you can lower your tax bill by holding more highly taxed investments, including Treasury inflation-protected securities, corporate and government bonds and funds that generate short-term capital gains inside retirement accounts. Move any income producing securities like bonds into the IRAs. You get a higher after-tax return because of the lower tax rates.