



## State of the Economy

January 2018



Have you attended a holiday party or had dinner with friends recently? It would be surprising if there wasn't a conversation on Bitcoin or the proposed changes to the tax code. These issues likely impacted investors' decision-making over the past few months. As we try to decipher their significance, the enormous run in the stock market continues to progress. We are possibly headed to 25,000 on the Dow Jones Industrial Average by the end of 2017. The Dow posted over 70 record highs throughout the year and shows no signs of slowing down.

The stock market's momentum can be attributed to a positive outlook on the U.S. economy. The pending tax overhaul by Congress helped boost the market during the 4th quarter. The tax changes are anticipated to increase corporate profits, as corporations will be subject to lower tax rates. The plan looks particularly favorable to smaller companies and financial firms, which have consequently seen some of the bigger gains in recent weeks. Additionally, the final earnings reports from last quarter are expected to show an increase of over 8% from this time last year.

Last week, Fed Chairman Janet Yellen decided to raise interest rates another quarter percentage point to keep pace with economic growth. She pointed out that the global

economy is seeing synchronized expansion for the first time in many years. Here in the U.S., the Fed projected the economy would grow 2.5% next year, up from the 2.1% estimate the Fed provided in September. The Fed also predicted that the current 4.1% unemployment rate would drop to 3.9%. With these factors in mind, officials penciled in three more rate increases in 2018.

In contrast to the Federal Reserve's actions, the central bank in Europe demonstrated continued caution with regard to their economic recovery. The European Central Bank (ECB) left its interest rate unchanged, despite new economic projections forecasting strong growth for the eurozone through 2020. While the ECB is still buying government bonds to help keep interest rates lower, it is comforting to see their growth forecasts starting to run parallel with the U.S.

Investors of cryptocurrencies benefited significantly in 2017. Some of these investments had skyrocketing gains totaling over 1,500% over the past year. These types of returns are astounding and the euphoria is still gaining momentum as regulators scramble to track the various ways to invest in these instruments. While investors decide whether or not to ride the wave, there are many questions surrounding the future of these virtual currencies. Is Bitcoin a bubble? How can I ensure my investment is safe? Is blockchain technology the wave of the future? Or are the likes of Warren Buffet right when they predict it will suffer a bad ending? Only time will tell the direction of this asset class.

Before jumping into a virtual currency investment, I recommend first reviewing your financial goals. It is important to avoid sacrificing contributions to your core strategies such as saving for retirement, college, or paying off debt. With all of the uncertainty going forward, investing in a cryptocurrency at this time is analogous to gambling. I do believe there is a future for these investments, but if you move forward I recommend having the mindset that you are comfortable potentially losing most if not all of your capital.

I hope everyone has a safe and happy holiday season. Cheers to a prosperous 2018

Sincerely,

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The Dow Jones Industrial Average is a popular indicator of the stock market based on the average closing prices of 30 active U.S. stocks representative of the overall economy.