

## Market Recap Q3

2017 has been a surprisingly good year. International Stocks have returned 21.5% and US stocks 14.2% YTD for the US investor due to a combination of a global economic expansion and the continued weakening of the US dollar. The momentum of the stock market and its low level of volatility make it appear to be moving independently of US political news and geo-political news that have mostly contained stories of danger, decline, and dysfunction.

Index	Sept 2017	Q3 2017	YTD 2017
S&P 500	+ 2.06%	+ 4.48%	+ 14.24%
MSCI ACWI	+ 1.93%	+ 5.18%	+ 17.25%
Barclays Global Aggregate	( 0.75%)	+ 2.02%	+ 7.15%
Bloomberg Commodity	( 0.15%)	+ 2.52%	( 2.87%)

Data via Zephyr Associates and City National Rochdale

### SUMMARY

US stocks returned 4.5% in the third quarter of 2017. The economy continued to strengthen, earnings continued to grow, and investor sentiment remained positive.

Realized volatility for the stock market during the quarter remained low. Low realized volatility is encouraging because it tends to persist, providing a high probability that volatility in the near future will remain low.

Stock valuations as a function of forecasted earnings continue to be higher than their historical average. This can be rationalized given low interest rates, where we are in the economic cycle, price-to-book comparisons and dividend yield and suggest that market valuations may still have room to rise.

Bonds provided positive returns during the quarter. The Fed spelled out a plan for a very gradual unwinding of its quantitative easing, set expectations for a rate increase at year-end followed by three more in 2018 which is not yet priced into the market leaving room for bond prices to drop.

**Disclaimer:** This material represents an assessment of the market environment at a specific point in time and is not intended to be a forecast of future events. Index returns are for illustrative purposes only. Indexes are unmanaged and cannot invest directly in an index. Past performance does not guarantee future results.

## Tax Tips

The final quarter of the year can be an important period for implementing tax savings strategies. Below are some tips that you may find helpful.

**Defer income or distributions.** If you have need for a one time distribution as year-end approaches, evaluating which type of account you take that distribution from, the tax implications and whether you should wait until January, a new tax year, is smart.

**IRAs or Retirement Plan Contributions.** Taking advantage of your company's match is just good common sense as well as considering whether you should utilize the Roth 401k. You'll pay taxes on these contributions today but you'll pay no taxes on future distributions. If you have no access to a company retirement plan then IRAs are an option.

**Required Minimum Distributions (RMD).** Although you are allowed to defer taking your first RMD until the year after you turn 70½, this often results in having to take two RMDs in the same tax year. To avoid this, consider taking your first withdrawal by December 31 of the year you actually turn 70½. Failure to take your RMD on time can result in a 50% penalty for the amount not distributed.

## Insurance

Open enrollment for employers, state exchange health insurance and Medicare programs begin in October and final decisions are due December to early January. It is a great time to take your overall insurance temperature to make sure all is in order.

- **Health Insurance** For those without employer coverage, the Affordable Care Act offers the Washington Health Benefit Exchange with options based on age and amount of coverage. At the time you become eligible for Social Security, you are qualified to enroll for Medicare Part A (free) and Part B (premiums).

- **Disability Insurance** One in eight workers will be disabled for five years or more during their working careers with the average disability claim lasting roughly 32 months. If you are single or the sole breadwinner this can be financially devastating for you and your family. Review your options so you are comfortable with this risk.

- **Auto, Homeowner's and Umbrella Policies** Do you carry low limits on your auto policy? If so, remember that you are also protecting yourself in the event an uninsured motorist injures you. Perhaps you'd like to protect your assets in the event your renter injures themselves in your rental home and thus an umbrella policy has merit.

- **Health Savings Account** An HSA is a tax-advantaged savings account that can be coupled with a High Deductible Health Plan ("catastrophic" health coverage). There is no "use it or lose it" with an HSA, the funds roll over from year to year, are funded with tax free contributions and used tax free for approved expenses.

- **Long Term Care Insurance** This coverage helps pay for home care and nursing and assisted living facilities. There are traditional policies with potentially increasing premiums or asset-based policies which typically guarantee premium amounts and could provide a life insurance benefit for heirs if long term care is not needed.

- **Life Insurance** When children are young, underfoot and needs are great, it is especially important to assess and carry an appropriate amount of life insurance. Term insurance can give you "the biggest bang for your buck" as premiums are typically cheaper in your younger years.

**Harvesting Losses offset gains and reduce taxes owed.** Tax loss harvesting is the practice of selling a security that has experienced a loss to offset current and future gains and income which can result in lower taxes.

**Gifting in Appreciated Assets.** Make a bigger impact by donating long-term appreciated securities, including stock, bonds, and mutual funds, directly to charity instead of selling them and then donating. This can automatically increase your gift and your tax deduction.

**Qualified Charitable Distribution (QCD) from an IRA.**

You can make a donation directly to charity of your required minimum donation via a QCD (maximum of \$100,000). Often this results in a bigger gift as the individual pays no taxes on the RMD distribution and resulting donation. However, per IRS Section 408(d)(8), there are very stringent rules imposed on qualifying QCDs so please consult with your tax professional first.

## Kathy's Corner – Football

I love football. I grew up in a “Friday Night Lights” sort of small town where the only game in town was last year’s football season and this year’s. Football on an Eastern Washington fall night, a little chill and the sweet smell of grapes in the air, the whole town turned out for high school ball, it touched my soul. But... it’s changing for me.

Early this season, I saw Jake Browning, Husky QB, take a hit during the Rutgers game and I was sick to my stomach. For a moment, I thought, “He’s out for the season and I think he’s really hurt.” It looked to me like he got a concussion on the hit and then another one when he hit the ground. One YouTube video labeled it the “Best hit of 2017”. Jake did get up, he has continued to play this season but ... at what long term cost? I think about those things now. I didn’t a few years ago.

Maybe it’s the CTE stuff and how these players, even with cutting edge equipment, are having their lives snuffed out prematurely. Maybe it’s the protests that have begun which, whatever position or beliefs you hold, are changing the tone of the game. I’m not sure but I know my love for the game is changing and it’s kind of sad.

## Meet Elizabeth – “Jack of all Trades”

I am delighted to welcome Elizabeth Leider to KSH Advisors as our operations manager/client service associate and all around amazing partner. We



are already seeing increased efficiency with our technology, systems and processes and she is great with our clients! A “jack of all trades” she also is a Mom to 4 adult children, a wife, an athlete, wonderful cook and hostess, terrific quilter and even knows how to shoot a gun which is important since her family hunts and fishes and her oldest son is an Army Ranger.

Elizabeth hails from Seattle, born and raised near the UW where she met her husband and graduated with an MBA in finance. She worked in the finance industry initially, then segued home for her children’s formative years coming back into the work force several years

ago to manage day to day operations for Eastside Catholic High School’s students and families.

It is always nice to work with folks you know, like and respect as I do Elizabeth. As our children were good friends in their early years, we have known each other for some time. Welcome aboard special person. Thanks for all you do!

## Client Corner – Cathy

Just imagine you are a 13 year old girl in Cork City, Ireland when your Aunt invites you to come and live with her and her husband in San Francisco. All Cathy knew about California was “it had lots of movie stars and sunshine.” So, this brave independent young teen boarded a US bound ship, by herself, arriving 6 days later and 65 years ago.

For Cathy, the reality of living in San Francisco 6,000 miles away from her home was nothing like she’d imagined. She was sad and homesick. But over time she learned to make new friends and bonded with the nuns at her Catholic girl’s high school. She recently shared that her Catholic faith “was the anchor that got me through” those years. It was the only constant in her life from Ireland to the U.S.

As she graduated high school she more fully embraced young adult life in San Francisco working full time, attending the USF and reigning as Queen for not one but two iconic celebrations: the USF Mardi Gras celebration and the San Francisco St. Patrick’s Day Parade. Soon thereafter, her long held dream came true when she’d saved enough money to return home to Ireland for the summer.

She would return to San Francisco meeting and marrying her husband Jim the following year. When the opportunity for a 3 month job to work the Ice Harbor Dam Project came up, they took it. But, Cathy was in for a surprise. “I had no idea what Eastern Washington looked like and as

we approached Umatilla, Oregon at sunset I thought I was on another planet. It looked desolate like nothing I’d ever seen before.”

The 3 month job turned into a 26 year stay! They built a prosperous reinforcing steel company, raised 3 children and Cathy earned her master’s degree in nutrition from WSU. Soon after they relocated to Seattle so Cathy could embark on a successful professional career at the University of Washington and split time between their homes in Seattle and Whidbey Island where Cathy now lives.

Unfortunately Jim was diagnosed with cancer in his early 60’s and with the diagnoses Cathy chose to retire early. Over the 10 years Jim lived with cancer, they embraced life, traveled to their Ireland home and to several other countries and welcomed 5 grandchildren. Although she had her children and grandchildren, life without Jim was a difficult adjustment. She found comfort in her new Arizona home spending winter months with new friends.

As a long term friend of Cathy and her family, I shared my respect and admiration for her independence, resilience and accomplishments. In her self-effacing way, she poo poed that. “I’ve realized you can choose to live or choose to wait to die – I choose to live and each day I’m grateful for all the love and blessings I have in my life.”



Grandchildren



The Holman/Shea Ladies