

Commentary

March 6, 2017

The Markets

It was a grand slam.

Major U.S. stock markets were positively euphoric following President Trump's speech on February 28. Optimism about the new administration's pro-growth policies propelled the four major U.S. stock indices to record highs, despite a dearth of policy details, reported *Financial Times*.

It's hard to pinpoint exactly why stocks have moved so far, so quickly. However, it appears that mom-and-pop investors have become quite enthusiastic about the asset class according to data from *JPMorgan Chase* cited by *Bloomberg*. While institutional investors (pensions, insurance companies, etc.) have been reducing exposure to stocks, smaller investors have been loading up on shares.

CNBC reported some industry professionals, including Goldman's chief U.S. equity strategist David Kostin, believe stocks have become too highly valued. *ZeroHedge.com* quoted Kostin, who said:

"Cognitive dissonance exists in the U.S. stock market. S&P 500 is up 10 percent since the election despite negative EPS [earnings per share] revisions from sell-side analysts... Investors, S&P 500 management teams, and sell-side analysts do not agree on the most likely path forward. On the one hand, investors, corporate managers, and macroeconomic survey data suggest an increase in optimism about future economic growth. In contrast, sell-side analysts have cut consensus 2017E [estimated] adjusted EPS forecasts by 1 percent since the election and 'hard' macroeconomic data show only modest improvement."

Financial Times reported pessimism prevails in the bond market. One bond market professional said, "The bond market is taking a totally different view from the equity market. Blowing raspberries is a good way to put it... There's no belief that the growth agenda will be dramatic."

So, is strong economic growth ahead? Do bond investors or stocks investors have it right? Are institutional investors or mom-and-pop investors positioning themselves correctly? Only time will tell.

Data as of 3/3/17	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 (Domestic Stocks)	0.7%	6.4%	19.6%	8.9%	11.8%	5.7%
Dow Jones Global ex-U.S.	-0.2	5.2	12.2	-1.4	1.7	-0.5
10-year Treasury Note (Yield Only)	2.5	NA	1.8	2.6	2.0	4.5
Gold (per ounce)	-2.2	5.8	-1.9	-3.1	-6.4	6.8
Bloomberg Commodity Index	-0.3	-0.4	13.4	-13.6	-9.8	-6.2
DJ Equity All REIT Total Return Index	-1.0	3.2	12.4	11.0	11.2	5.5

S&P 500, Dow Jones Global ex-US, Gold, Bloomberg Commodity Index returns exclude reinvested dividends (gold does not pay a dividend) and the three-, five-, and 10-year returns are annualized; the DJ Equity All REIT Total Return Index does include reinvested dividends and the three-, five-, and 10-year returns are annualized; and the 10-year Treasury Note is simply the yield at the close of the day on each of the historical time periods.

Sources: Yahoo! Finance, Barron's, djindexes.com, London Bullion Market Association.

Past performance is no guarantee of future results. Indices are unmanaged and cannot be invested into directly. N/A means not applicable.

DON'T THINK SO! Tax season is upon us. That means we can all use some entertainment. While many folks dread the process of completing and filing taxes, some see it as an opportunity to test the boundaries of the system. Here are a few deductions Americans have taken that have failed to pass muster in tax court, courtesy of Kiplinger.com:

- **You cannot deduct the cost of a good night's sleep.** A tax preparer who worked from home escaped to a hotel because her clients were calling in the wee hours of the night and causing her to lose sleep. When she attempted to take a business deduction for the hotel expense, the tax court ruled a good night's sleep is a non-deductible personal expense.

• **You cannot take a theft loss deduction for poor construction.** A couple moved into their newly built dream home only to realize the builder had cut some corners. The house had some serious issues, including its foundation. The couple claimed the builder had defrauded them and took a large theft loss deduction. While taxpayers can deduct losses from a home-related theft, shoddy construction doesn't qualify.

• **You cannot take a depletion deduction for bodily fluids.** A woman earned \$7,000 a year donating blood plasma because of her rare blood type. She took a depletion deduction, claiming "the loss of both her blood's mineral content and her blood's ability to regenerate," wrote Kiplinger. While companies that take coal, iron, and other minerals from the ground can take a depletion deduction, the tax court ruled that individuals cannot claim depletion on their bodies.

• **You cannot deduct a business trip if there are no formal business meetings involved.** A repo firm sponsored a trip to Las Vegas for its bank customers. The firm's employees chatted with clients about business on the way to Vegas, but no formal meetings were held. The tax court denied the deduction.

Before you get creative with your taxes, consult with a tax professional.

Weekly Focus – Think About It

"Because of your smile, you make life more beautiful."

--*Thich Nhat Hanh, Vietnamese Buddhist monk and peace activist*

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- * All indices referenced are unmanaged. Unmanaged index returns do not reflect fees, expenses, or sales charges. Index performance is not indicative of the performance of any investment.
- * The Dow Jones Global ex-U.S. Index covers approximately 95% of the market capitalization of the 45 developed and emerging countries included in the Index.
- * 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.
- * Gold represents the afternoon gold price as reported by the London Bullion Market Association. The gold price is set twice daily by the London Gold Fixing Company at 10:30 and 15:00 and is expressed in U.S. dollars per fine troy ounce.
- * The Bloomberg Commodity Index is designed to be a highly liquid and diversified benchmark for the commodity futures market. The Index is composed of futures contracts on 19 physical commodities and was launched on July 14, 1998.
- * The DJ Equity All REIT Total Return Index measures the total return performance of the equity subcategory of the Real Estate Investment Trust (REIT) industry as calculated by Dow Jones.
- * Yahoo! Finance is the source for any reference to the performance of an index between two specific periods.
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Sources:

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