WIMMER ASSOCIATES

QUARTERLY REPORT

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LETTER FROM KATHY

Dear Friends,

2017 was a rewarding year for stock markets around the globe. Prospects for 2018 are looking even brighter for the economy although we may not see as much price appreciation for common stocks as last year.

The International Monetary Fund estimates that world economic growth rose 3.7% in 2017 and projects 3.9% annual global growth in 2018. Developed and emerging markets have lagged behind the US recovery from the Great Recession, but are now expected to outpace the US growth rate in 2018.

Inflation has appeared relatively dormant these past nine years, but the passage of tax reform by Congress may lead to future inflation, as employers have seen fit to raise wages and bonuses in light of lower corporate income taxes. Regardless of one's politics, the tax reform is clearly a positive for individuals who own equities. US corporations are expected to increase earnings by as much as 20% as a result of corporate taxes being sliced from 35% to 21% in 2018.

The initial fourth quarter GDP number came in at a "soft" 2.6% growth rate, but is expected to be revised upward as the Bureau of Economic Analysis receives more in-depth information. The December GDP growth rate may also appear a bit light due to the drawdown in corporate inventories, which will need to be replenished in the coming months. The US manufacturing index reached a 164 month high in December, while the services index hit a 149 month record high in the same month, as gauged by the Institute for Supply Management. With these signs of economic expansion, we remain constructive as to overall economic prospects and the general investment landscape.

On the next pages, we recap 2017's economic and market returns and outline our generally favorable forecast for 2018. The recent return of volatility to the equity market in February 2018 is notable and, perhaps, a bit jarring to investors. "Corrections" (defined as a fall in stock prices of 10 percent or more), however, are the historical norm; they should be viewed as an opportunity to put new money to work in high quality companies that are on sale. Please feel free to email us or pick up the phone if you have questions or would like to discuss your personal portfolios.

Cordially,

Kathy Wimmer, CFA, CIC
President

KEY FACTS FOR 2018

- *Annual gift exclusion $15,000*
- *Estate, gift and generation-skipping tax exemption $11,200,000 per individual*
- *Highest marginal estate tax rate 40%*
- *IRA contribution limits $5,500, plus another $1,000 for those over fifty*
- *SIMPLE IRA and 401(k) contribution limits $12,500, plus another $3,000 for those over fifty*
- *401(k) contribution limits $18,500, plus another $6,000 for those over fifty*
- *SEP IRA contribution limits 25% of compensation, max of $55,000*
- *Top Federal tax rate is 37% on income over $500,000 (single filers)*
- *Top Federal tax rate is 37% on income over $600,000 (married filers)*

INSIDE THIS ISSUE:

2017 IN REVIEW

In 2017, it was a very good year nearly everywhere. Global equity markets rallied in unison as economic expansion, loose monetary policy from central banks, lower unemployment and moderate inflation fueled sizable returns to investors. The broad based and large capitalized S&P 500 index increased 19% in 2017. A quarter of the S&P 500 increase (or $1 trillion in added capital value) is attributed to the five largest stocks in the index, namely, Apple, Alphabet Inc. (formerly known as Google), Amazon, Facebook and Microsoft Corp. The technology laden Nasdaq Composite Index added 28% in value in 2017, while the small cap S&P 600 Small Cap Index offered a relatively modest return of 12% in 2017. A possible indicator of the underperformance of the small capitalized stocks last year is their reliance on borrowings in a rising interest rate environment. The worst performing commodity in 2017 was natural gas, indicating oversupplies from "fracking operators". Oil, on the other hand, rebounded from its three-year downturn, as global leading producers (Saudi Arabia and Russia) agreed to production restrictions, which firmed prices worldwide. West Texas Intermediate crude oil rallied 12% in 2017, as London-based Brent crude prices firmed 18% in the same period.

The rise in US equity values was supported by accelerating revenue

and earnings in the fourth quarter of 2017. With 81% of US corporations having reported fourth quarter 2017 financial results, S&P sees revenues and earnings growing 4.2% and 8%, respectively, year over year. In December, the S&P 500's forward price-to-earnings ratio (or PE) reached a high of 18.9 times earnings, which was pricey compared to its 10-year average of 14.5 earnings. The high valuation of the stock market was boosted by investors' anticipation of corporate tax cuts that should increase earnings going forward.

Outside the United States, equity markets thrived in 2017, as both developed and developing countries saw faster economic acceleration, coupled with lower price valuation than in the US. The reasoning for this is that non-US central banks lagged behind the US Federal Reserve in instituting quantitative easing monetary policy. Consequently, their economies lagged behind the US in economic recovery. The S&P Developed Ex-US Broad Market Index, representing most equities in 47 countries, rose 23% in 2017. Emerging markets outran the developed world's markets, with a 32% annual return, as measured by the S&P Emerging Broad Market Index. The best showing for Emerging Markets since 2009. The S&P Broad Market China Index rose 46% in 2017, with infotech giants, Baidu, Tencent Holdings and Alibaba Group Holding leading the way.

It is often said that the stock market is not the economy, which has been borne out time and again. Strong economic growth, both domestically and internationally, however, clearly supports stock valuations, as trade increases, consumers gain confidence and corporations reinvest in operations to improve efficiency. Underlying the US and global rally in equity prices stands a synchronous economic expansion, fueled by loose monetary policy and continuing recovery from the Great Recession of 2007-2009. US gross domestic profit rose 2.3% in 2017, up from 2.1% in 2009. In actuality, the US economy's growth accelerated in the last three quarters, despite damage from three hurricanes. The global economy grew at a faster pace than the US in 2017, with the International Monetary Fund seeing "notable upside surprises in Europe and Asia". Worldwide growth tallied a one half of one percent

Continued on Page 3

2017 IN REVIEW (CONTINUED FROM PAGE TWO)

higher in 2017 than 2016. China continued its breakneck economic expansion, with an increase of 6.8% in 2017 versus 6.7% in 2016.

The US dollar weakened 14% versus the euro in 2017, as Europe reached it highest growth rate in a decade. Similarly, the US dollar weakened against the Japanese yen in 2017 by 4.6% year over year. These developments are a bit puzzling, as the US Federal Reserve began raising interest rates after the US presidential election, while Europe and Japan's central banks have jump-started their countries' economies with negative interest rates. Higher interest rates should favor a stronger US dollar, but the strength of the European and Japanese recoveries have outweighed the US dollar.

A weaker US dollar is also reflected in higher world commodity prices, such as gold and oil, as both commodities are priced in dollars. A rising dollar tends to be bearish for commodity prices, while a weakening dollar is bullish for US dollar-priced commodities. Both gold bullion and Brent crude oil prices rose 12-13% in 2017, while the value of the dollar declined 14% against the euro.

The US Federal Reserve ("Fed") successfully fulfilled its dual mandate to keep inflation low and maximize employment in 2017. The Federal Reserve Bank of Dallas calculates the Trimmed Mean Personal Consumption Expenditures (PCE) inflation rate, the Fed's preferred measure of core inflation. The Fed has targeted 2% PCE inflation for a number of years and has pursued quantitative easing monetary policy to approximate its target. The PCE inflation rate of 1.7% at year end 2017 was slightly down from 1.9% at year end 2016. While inflation continues to lag the Fed's target rate, the US central bank nevertheless believes that the economy is in a strong enough position to allow for three short-term interest rate hikes in 2017 and a tapering of purchases of longer term US Treasury debt.

The December 2017, and preliminary January 2018 unemployment rates, held steady at 4.1%, which is at a 17-year low. The labor participation rate, however, has remained stubbornly low at 62.7%, which is well below the pre-Great Financial Crisis level of 66.2% in January of 2008. The unemployment rate does not reflect the number of individuals who have fallen out of the work force due to frustration with unattractive job prospects or through disability. While the direction of the level of unemployment is clearly positive, there remains hope that those who have dropped out of the workforce will find enticing job prospects and reenter the workforce, thereby increasing the labor participation rate.

Former Secretary of Labor, Larry Summers, coined the phrase "an era of secular stagnation" to explain the low interest rates, tepid economic growth and modest inflation that occurred during the past eight years of the US economic recovery.
A source of concern to economists is that the so-called era of secular stagnation saw little benefit in terms of rising wages to the common worker. Quantitative easing by central banks showed up mostly in asset appreciation as homeowners, art collectors and shareholders received the most benefit from easy global monetary policy. Preliminary Bureau of Labor Statistics data for January, however, augur well, as average hourly earnings jumped 2.9 percent in January from a year earlier. This may signal that the long era of secular stagnation has at last ended and better times are finally in the offing for the American worker. Additional data released showed that non-governmental wages and salaries rose 2.8 percent in the final quarter of 2017, compared to the same period in 2016, the fastest growth since the recession. ~

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We strive to optimize our clients' financial well being by coordinating investment decisions with other professionals in the fields of taxation and estate planning.

LOOKING FORWARD

Looking forward through the end of 2018, we remain positive and constructive as to US equity prices for a number of reasons. While there are concerns as to how the Federal Reserve's return-to-normal policy, i.e., higher short-term and long-term interest rates, may dampen the economy, the stimulus of corporate tax reform should serve as a strong boost to corporate earnings, increased capital spending, pay raises and bonuses to employees, stock repurchases and dividend increases. Moreover, even if the Fed raises interest rates three more times in 2018, monetary policy would still fall into the historical range of accommodation. On top of this, Congress has recently lifted spending caps, which (while adding to overall government debt) will also be a fiscal stimulus to the economy in the short run. The low unemployment rate of 4.1% and the recent report of a 2.8% rise in wage growth in the fourth quarter both bode well for a stronger consumer, who accounts for 69.1% of US economic activity. At the same time, the world is seeing global synchronized growth, with the IMF recently raising its outlook for worldwide economic growth of 3.9% in 2018, up from 3.7% in 2017.

Many analysts have posited that the US's tax reform's repatriation of US corporate overseas cash is already "baked in" to share prices and that a further climb in stock prices from here is more challenging. We disagree. Most US companies have not yet repatriated the estimated $1 trillion of stranded overseas cash. When the overseas money returns to America's shores, it will be used to pay US taxes at a lower rate and the rest of the funds will be directed to the benefit of shareholders through reinvestment, repayment of debt and/or increases in share purchases and dividends.

While the recent "correction" in the US stock market unsettles some investors after a long run without a pullback, we note that it is normal, if not, healthy for valuations to rise and then adjust down to avoid "overheating" in the marketplace. We do not know whether the recent share price reversal is at a bottom or when a bottom may be reached. We are confident however, that we have the strong underpinnings of growing economies and rising corporate earnings, both domestically and worldwide. We also see the Federal Reserve's recent shift to a tighter monetary policy as a positive sign that indicates that the US economy can withstand higher interest rates without faltering.

In summary, we view US corporate tax reform as a beneficial influence in maintaining the current, robust rate of US economic growth. This positive economic momentum in the US and overseas should contribute to increasing prices of US stocks in the medium- and long-term, despite periods of short-term stock market volatility. ~