SIA

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THE SIA REPORT

2017 YEAR IN REVIEW: SO MUCH FOR OLD ADAGES

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We've all heard it said countless times before: there's nothing the stock market hates more than uncertainty! Yet in a year marked by a spate of natural disasters, nothing has managed to impede the market's inexorable rise. In the twelve months following Donald Trump's election, US stocks (the S&P 500®) rose 21%, making it the fourth largest post-presidential election yearly gain since 1936 – exceeded only by Bill Clinton (32% rise in 1996), JFK (29% growth in 1960) and Bush Sr. (23% in 1988).

We can also put to rest the old adage of 'no risk, no reward' as the profits garnered this last year came with very little risk. Since the election, U.S. stocks have not had a 3% pullback at any point, even though the average annual correction in bull markets is in the 5-10% range. Furthermore, when you include dividends U.S. stocks managed a gain in every single month! Novice investors should take note that this is NOT normal and in fact, represents the least volatile period in 50 years—a fact that few would have predicted on election night one year ago.

The persistent bull market was also pervasive, as gains were widespread including both the Technology (+39%) and Financials (+37%) sectors. It was not limited to our domestic markets as the first synchronous global expansion in a decade lifted multiple regions. Both Developed Markets (+24%) and Emerging Markets (+26%) outpaced the U.S.*

If anything, 2017 will serve as a reminder to view your investments through a green lens and not the red or blue lens that was the focus for much of 2016.

Passing the Growth Baton

How long this bull market can continue seems to be the $64,000 question at the top of most investors' minds. While little has changed as far as underlying economic and market fundamentals are concerned, we need to be particularly attentive to the fiscal and monetary policy changes that may take place over the coming 6-12 months.

Savvy investors know that stocks are predictive rather than reactive – pricing in future expectations for both the company's prospects as well as the economy at large. Although we don't have a crystal ball, we can still glean some informed insights based on the current discussion and the apparent shift in focus from monetary to fiscal policy.

On the monetary front, while a change at the helm of the Federal Reserve is always noteworthy, the nomination of Jerome Powell to replace the departing Janet Yellen is viewed by many as a continuation of current policy. But one needs to remember the currently policy is to continue to raise short-term rates as well as to continue the reduction of the Federal Reserve's balance sheet by letting the bonds that accumulated under their Quantitative Easing program mature and runoff. Thus, the Fed's demand for bonds is now removed from the marketplace at the same time as increasingly large budget deficits argue for an increase in the supply of newly issued Treasury debt. Econ 101 tells us that decreased demand in the face of increased supply leads to lower (bond) prices—or higher yields in this case. Higher interest rates and tighter monetary policy crimps margins and will act as a headwind to corporate profits and the ongoing bull market.

But fortunately, fiscal stimulus may fill the void as the stimulus baton gets passed from the Fed to Congress. Proposed corporate tax reform should serve to boost corporate earnings throughout 2018, and help to elongate the business cycle. Similarly, reductions in personal income taxes will likely increase consumer

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Source: Bloomberg, 10/31/2016-10/31/2017.

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SUCCESSFUL WEALTH MANAGEMENT IS THE RESULT OF AN ONGOING COLLABORATION BETWEEN INVESTOR AND ADVISOR, BUILT UPON TRUST AND MAINTAINED ACCORDING TO THE HIGHEST STANDARDS OF INTEGRITY AND EXPERTISE.

- BRIAN D. HOLMES, MS, CFP®, CMFC, AIF®
PRESIDENT & CEO

spending power which may further drive corporate earnings. These dual tailwinds should propel markets higher in 2018.

2018: Return to "Normal"?

What could impede continued growth? The tailwind of better corporate earnings should keep recession at bay for the time being. Note the biggest challenge of 2018 might not be an economic one.

History and the data suggest that the red state-blue state divide may narrow. If so, a return to more normal volatility may ensue as the markets start to price in a shift in congressional control. Thus, economics might simply take a (temporary) backseat to politics as the focus shifts to the now normal divisive attitude and bitter rancor from our elected officials.

But perhaps 2016-17 marks the high in divisiveness. Perhaps elected officials will become the leaders they should be and the 2018 election season ushers in a new era of statesmanship and civic harmony.

Perhaps.

But if it doesn't, set an alert reminder for next summer and have it read, *"Dear savvy investor, this is a reminder to avoid viewing the world through a red or blue lens but rather through a profit-making green lens. For investment decisions, don't focus on Fox News or MSNBC. Focus instead on the yield curve. Watch consumer sentiment. Find out where NYSE margin levels are. Rather than clicking on Facebook ads or reading Twitter feeds, spend that time analyzing what corporate earnings will look like in 2019. Or better yet, 2025. Research what Draghi and Kuroda just said and their effect on the DAX, the Nikkei and the 10-year Treasury bond. Remember Brexit? Remember Trump? Don't base long-term rational economic decisions on the short-term emotional political environment. Be boring at the next cocktail party. But be wealthier. Yours truly, your portfolio."*

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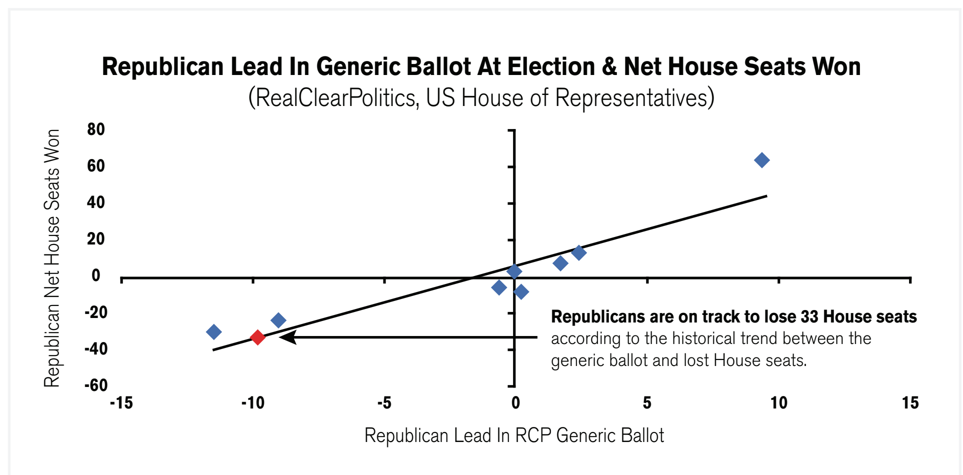

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DEMYSTIFYING MILLENNIALS: How today's generation thinks about money; and what we can learn from them

Andrew Lin
Relationship Manager

We're all familiar with the stereotypical depiction of millennials (the generation born between 1980 and 1995). They're the insulated, disengaged and narcissistic young adults raised by overprotective helicopter parents, obsessed with instant celebrity and expecting everything to be handed to them without the requisite hard work. Aren't they?

After all, this is the first generation whose lives have been shaped by the Internet. Social media platforms such as, Facebook, Twitter and Instagram have, to a great extent, minimized their need for face-to-face interaction and communication. A seemingly endless sea of reality TV programming celebrates dramatic behavior. Even the diminishing size of the modern family unit seems to have conspired to inflate the perceived self-importance of our millennial children.

Yet despite memes and public consensus, millennials very much tend to buck the negative stereotype that has been attributed to them. Unquestionably they are tech-savvy information sharers, but they are far from isolated and disengaged. Quite to the contrary, this is a globally aware, empathetic and cause-driven generation with an incredibly strong collective social conscience.

Having witnessed the economic impact of the Great Recession on their parents' lives, they've become exceedingly distrustful of the irresponsibility and excesses of corporate America. It's an experience that has forged a much more conservative, risk-averse investor mindset, and fostered a belief in more stringent corporate governance and socially responsible business practices. In short, millennials are far more driven by a desire to "do good" rather than a desire to "do well."

ENCOURAGING DEEPER FINANCIAL ENGAGEMENT

If you're like many wealthy parents of millennials, you probably worry about the fiscal preparedness of your children. Are they equipped with the financial knowledge and skills they'll need to manage the complexities of wealth? Even if they're fortunate enough to start life without a mountain of student loan debt, will they make sound decisions with both the money they earn and the more than $30 trillion in wealth this generation will inherit over the next three decades?[1]

Certainly, members of the millennial generation often ascribe to the "enjoy the present because who knows what tomorrow may bring" philosophy of life. But they are by no means reckless with money. They just don't view wealth the same way that previous generations have – as a scorecard of individual success. Instead, they value the life experiences and personal fulfillment that money can provide – particularly when it comes to helping others and bettering society. And it is here where parents and millennials are most likely to find common ground and a basis to begin sharing financial values.

Whether an investor is looking to "do good" or "do well" with their investment dollars, the most powerful dimension to investment success is time. While the philosophy of #YOLO may seem ridiculous to those of us that have been through cycles of ups and downs, one would be advised to remember the "don't worry be happy" and "carpe diem" mantras of previous generations. Point being, is that the more things change, the more they stay the same, and even our children will need security in retirement. Engaging millennials on their terms is the key. Perhaps it is engaging them in a conversation on their view of the world and the causes they are passionate about. From there, work with advisors on customizing an investment portfolio that promotes their values not just focusing on returns.

Beyond making an impact on the world with what and where to invest, Family philanthropy offers a unique and ideal opportunity (and more intimate impact) to cultivate your children's inherent empathy, generosity and social engagement. Through planned giving vehicles such as donor advised funds, charitable trusts and private foundations your family has a chance to come together as a unit to talk about the causes that matter most to you and work to further the mission of those organizations with both your time and money.

In addition, if you've been putting off having an inheritance conversation with your children, stop delaying. The sooner you can begin preparing them, the better off they'll be. Having a clearer understanding of what they will inherit, despite the inherently uncomfortable nature of the topic, not only provides insight that may significantly impact their own wealth plans (e.g., perhaps it might allow them to funnel more income towards paying off high interest debt sooner since inherited assets will augment their retirement savings) but allows you to share a lifetime's worth of financial learning.

Of course it's always dangerous to paint an entire generation with such broad brushstrokes. But whatever your personal wealth situation and the financial preparedness of your future heirs, we at SEIA are here to help. From providing financial education to offering personal wealth guidance, we can help get your millennials ready for the future – and we have the technology platform and online tools to work with them in a manner that will be familiar and comfortable.

[1] Accenture, "The Greater Wealth Transfer," December 2015

As the holiday season is upon us, we find ourselves reflecting on the past year with gratitude and best wishes for our family, friends, clients, and colleagues.

From the SIA Family to Yours, We Wish You a Happy, Healthy Holiday Season and a Wonderful New Year!

L to R

Alexander Kirk, Matthew Kim, Alina Barrass, Troy Franzen, Deron McCoy and Christian Hutchins

Our SIA Team and guests visit the New York Stock Exchange (NYSE) in 2017.

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