AN Unobstructed View

Fall 2018

QUARTERLY INVESTMENT INSIGHT FROM HIGHTOWER LAS VEGAS

Taxing Times

No doubt market volatility has been "taxing" of late, but in this case, we're referring to the need to plan ahead in order to take advantage of the new tax laws for 2018. The Tax Cuts and Jobs Act has altered the usual year end planning landscape in various ways. Here are some things to consider before the year is out.

The standard deduction has been doubled. For 2018 this equates to $12,000 for a single taxpayer, and $24,000 for joint filers. Higher standard deductions will mean less filers itemize going forward. However, there are a strategies to employ that could save you plenty in taxes under the new law.

Let's focus on two charitable strategies that might help you increase your deductions. As always, consult your personal tax advisor!

| Bunching Deductions |

This strategy involves thinking about your tax strategy and charitable giving over a two year time frame. For example, if you're a single taxpayer and your charitable deductions total $7,000 and your eligible itemized deductions are $8,000, it seems you would be better off itemizing deductions of $15,000 versus the standard deduction of $12,000. Let's take this a step further. By bunching two years of charitable contributions into this year ($14,000), your itemized deduction increases to $22,000. If you skip charitable contributions in 2019 and take the standard deduction, you have increased your deduction over the two year period from $30,000 to $34,000. Not too shabby. This strategy can work well in other areas, including eligible medical expenses, state income tax, and property tax. We suggest you consult your tax advisor soon if you want to explore this concept further.

| Donor Advised Funds (DAF) |

Donor Advised Funds have been around for a while. With the new Tax Act, creating one can be more advantageous than ever. A DAF involves making multiple years' worth of donations in one tax year for the tax benefit and having the ability to distribute the funds to charities you'd like to support in subsequent years. Rather than donating to charities directly in yearly increments, you can use the DAF structure to maximize the tax benefit and still maintain the annual benefit to the charities you support. This strategy is particularly beneficial if you have a large gain or one-time extraordinary income event. If you're interested in learning more about Donor Advised Funds, let us know. Don't wait too long as your DAF account must be opened and funded before year end.

Implications of a Split Congress

As has become the norm, U.S. voters dented the party in power with lost seats in the House of Representatives during the midterm election. Now that Congress is split, what does that mean for the economy and markets? One thing is certain, the level of uncertainty in the future economic environment is an important factor in the decision-making process of business leaders. The clearer the picture, the more likely a capital project will move forward. Despite what might be viewed as an election that adds uncertainty to the mix, the midterm results actually have decreased uncertainty in several industries.

On the healthcare front, the repeal of Obamacare is largely considered off the table with a split congress. Additionally, Democrats won several gubernatorial contests in states where Medicaid hasn't been expanded but has been previously approved by voters, while three states voted to expand Medicare in this election cycle. We believe this is a positive development for medical companies, as it increases their addressable market and adds visibility to future earnings growth.

One of President Trump's more market friendly moves as president has been his push to reduce regulations. Many of these regulations can be removed by executive order. According to Investor's Business Daily, the President has cut down the number of pages in the Federal Register by over 1/3 since taking office. While cutting regulation will likely increase bad behavior, the near-term impact is pro-growth and is viewed positively by markets. While the regulatory environment should loosen in general, Democratic control of Congress and a president that doesn't particularly care for Silicon Valley raises the potential for tech regulation. As tech has been the dominant market leader over the past few years, this could create a negative headwind for markets.

When it comes to markets, the fact that the outcome of the midterm elections is known tends to be a net positive for equity values. In fact, equity markets tend to perform quite well in the year after a midterm election. According to economic research firm Strategas, the S&P 500 has been positive in the twelve months following a midterm election in every instance since 1946 and the average return over that twelve-month period is 15.3%. While nothing is a sure bet in financial markets, that's quite a run that needs to be respected.

Typically year three of a presidential cycle is the strongest of the four. Presidents want a strong economy as they head for re-election, so they tend to do what's necessary to get the markets moving in the right direction. The biggest risk to the economic outlook over the course of the next 18 months is the trade war, so the President has a strong incentive to make a deal to avoid a costly market pullback near an election. This is especially true after the President used the strong market performance in 2017 as a report card on his administration's success. Simply put, President Trump can't afford a bad market outcome, which is why a deal with China wouldn't surprise us. China is already signaling that it is ready to compromise on some demands. If a deal emerges, the added certainty will be highly beneficial to markets around the globe. However, the longer we go without a deal, the more likely that the market's streak of positive returns following a midterm election will come to an end.

The Traffic Light

How do we manage the funds entrusted to us by our clients? We utilize a top-down approach that starts with our view of where the world is headed. Each quarter, we complete an exhaustive study of many different economic indicators and trends. The Traffic Light is a quarterly summary of these macro-economic issues, and our opinion of them, that form the basis of our research and portfolio management process. While not everything in life can be easily categorized, in this piece we attempt to look for the hopeful (green light) signs in the world economy as well as the more worrisome (red light) issues and everything in between (yellow light).

GREEN

- Tax Stimulus
- Robust Earnings Growth
- Strong Labor Market
- Elevated Confidence

YELLOW

- Increased Volatility
- Slowing Global Growth
- Housing Market Slowdown
- Higher Inflation & Interest Rates

RED

- Tariffs & Trade Restrictions
- Geopolitical Tensions
- U.S. Dollar Strength

Despite another strong quarter of GDP growth and a robust earnings season, stocks have struggled mightily since the start of the fourth quarter. The S&P 500 fell almost 7% during October and the tech heavy NASDAQ suffered a decline of nearly 10%. Amazon fell over 20% for the month. As markets plunged, investors began to wonder whether the market was headed for more than just a normal correction.

Normal corrections tend to be somewhere in the neighborhood of 14%, but can range from mild to more severe. The key differentiator between a correction and a bear market is not the often-quoted threshold of a 20% loss, but rather if the economy enters recession. Market pullbacks that are recession driven tend to be much more painful. Luckily, we believe this is more of a valuation correction than one driven by looming recession.

Consumer confidence is extraordinarily high, as is business confidence. Employment is also incredibly strong. While housing has slowed and tariffs are starting to bite, the U.S. economy remains quite resilient and is unlikely to enter recession for some time. As a result, we believe current market weakness presents an opportunity.

While the pain in the U.S. markets was center stage here at home, the international markets have fared much worse. We believe this is creating an even bigger opportunity than in the U.S. markets, as valuations are cheaper, currencies are cheaper, and growth prospects remain robust, especially in Asia. We've taken incremental steps to increase our international exposure and will continue to do so. As we look forward over the next decade, we strongly believe investors will be well-served by having a higher level of international investments in their portfolios.

What are they talking about?

Supply Chain

A supply chain is the interconnected process that represents all the steps necessary to transform raw materials into finished products. As the world has become more economically open, supply chains have become more complex. With the existence of trade agreements for example, products such as autos or cell phones are assembled with numerous parts and pieces from all over the world.

While some political observers believe President Trump's trade agenda is meant to level the playing field, there is a growing contingent that believes the true aim is to dismantle the global supply chain and make America less reliant on foreign parts and assembly. While on the surface this may seem like a "no brainer", the reality is that disentangling the global supply chain would be highly costly to many U.S. businesses that have invested hundreds of billions of dollars throughout the world. Only time will tell if this is the true aim of the White House, but needless to say, if we are embarking on a new world order that forces U.S. companies to relocate manufacturing hubs and alter product components, it will be a messy endeavor that will certainly create economic volatility along the way.

In the Media

Adam
On the MoneyLife Show

Check out our HighTower Las Vegas Blogs:

ruminATions:
https://www.hightoweradvisors.com/team/lasvegas/blogs

Thinking & Thriving:
https://www.hightoweradvisors.com/team/lasvegas/blogs

The Stat Pack:
http://www.thestatpack.com

What's New?

As part of our aim to continually improve upon our wealth management offering, several members of the team took the opportunity to attend conferences to expand their knowledge base. Mike and Hugh traveled to Washington D.C. to attend the Schwab Impact conference where they heard from speakers such as Janet Yellen on the state of the economy and the investment environment. Adam headed to New York to attend the HighTower Investment Forum where various investment strategists gathered to discuss global markets and strategy.

Danna and Shelby travelled to Chicago to attend HighTower's Pinnacle conference, which is designed to enhance the service professionals' knowledge base. We feel fortunate to have a team dedicated to continual improvement.