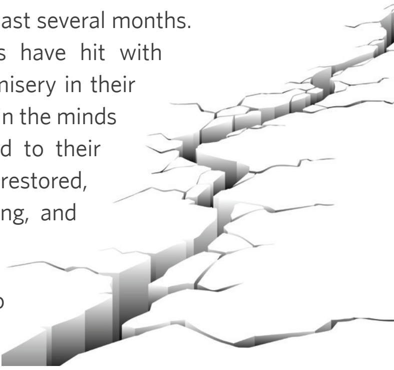
AN Unobstructed View
FALL 2017
QUARTERLY INVESTMENT INSIGHT FROM HIGHTOWER LAS VEGAS

When Nature Strikes
Planning for the Unexpected

Mother Nature has been far from kind the past several months. Hurricanes, wild fires, and earthquakes have hit with incredible fury, leaving destruction and misery in their paths. The human element is always first and foremost in the minds of first responders, supporters, and even those glued to their television screens, as it should be. After safety has been restored, efforts then turn to the process of recovery, rebuilding, and returning to normality.



One of the first steps in the process of returning to normal is getting operations back up and running. Some businesses are bound to their physical equipment, which makes it challenging to operate outside of their workspace. Yet, even those that are not tied to a physical location can find it difficult to resume operations if the proper contingency planning hasn't been done in advance.

As stewards of your wealth, we understand that a natural disaster might elevate your need for access to capital and the services we provide. As such, we've taken steps to build a business continuity plan that would help get HighTower Las Vegas up and running as quickly as possible in the event of an unforeseen business disruption. Our continuity plan includes protocols for team member check-in, as well as a host of instructions on what to do and who to contact in case of emergency. Additionally, each team member is equipped to work remotely and can access all of our important operational systems from the cloud, including client records, custodian platforms, and trading systems. All team members have a printed plan held offsite, as well as the ability to access the document electronically.

While Las Vegas isn't a hot spot for natural disasters, the past year has demonstrated that catastrophes can happen anywhere. While a business continuity plan will not prevent unforeseen adversity, we believe it will help get the team get up and running to serve you in a more efficient and timely manner should the unthinkable occur.

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	YELLOW	RED
Strong Labor Market	Currency Movements	Tension with North Korea
Elevated Consumer Confidence	Uncertain Tax Policy	Political Dysfunction
Rising Home Prices	Rising Interest Rates	Elevated Valuation Levels
Stable Energy Prices	Divergent Soft and Hard Data	Weak Productivity Growth

Despite elevated valuation levels, stocks continue to grind higher. As of October 31st, 2017, the S&P 500 was trading at a price-to-sales ratio of 2.2, the highest level in nearly 18 years. Markets have moved higher as a result of low interest rates, strong housing and labor markets, stable energy prices, and elevated levels of consumer confidence. With the unemployment rate at 4.1% and consumer confidence near decade highs, the conditions appear to be in place for a continued move higher in equity values. Nevertheless, certain risks are on the rise.

After years of extraordinary monetary support, the Fed has begun the process of normalization. The Fed has raised rates two times this year and is expected to raise rates another quarter point in December. The ten-year treasury yield has spent most of the year between 2.2% and 2.6%, but is approaching its upper end of this band. With the Fed now moving away from its extraordinary monetary support of the last decade, the case can be made for higher rates, which would likely put pressure on both stocks and bonds.

Congress is hard at work on a tax plan that could reform the tax code in favor of business, which could also be a catalyst for higher interest rates. While the odds are that something gets done on this front, there is still a lot of uncertainty on the final outcome. Tax reform is a challenging legislative task, even when Congress and the White House are fully aligned. The process becomes even more difficult when the president is at odds with several key senators from his own party. A positive outcome that incentivizes business investment and economic growth should be well-received by markets, while a disappointment on that front could lead to a spike in volatility. Needless to say, the next several weeks will be incredibly important.

What are they talking about?

Pass-Through Rate

You might have heard a lot of unfamiliar tax jargon in the media of late, as Congress is working hard on tax reform legislation. Terms such as territorial system or repatriation are all part of a multi-faceted tax reform plan that impacts both individuals and corporations. The plan aims to cut personal tax rates, raise the standard deduction, and eliminate many other deductions. On the corporate side, the plan calls for cuts to corporate tax rates, the ability to immediately expense capital expenditures, and the creation of a pass-through rate of 25% for small business. So what exactly is a pass-through?

Most small businesses operate as LLC's or limited partnerships. Income generated in the business passes through to the owners as ordinary income instead of being taxed in the LLC or limited partnership. As a result, a corporate tax cut has little direct impact on the small business community. The pass-through provision would allow small business owners to pass-through a portion of business earnings at a tax rate of 25%, rather than at much higher ordinary income rates. Should this provision become law, small business owners should have more flexibility to raise wages, hire additional workers, or expand production.

In the Media

Mike
On KTNV Channel 13 News
Quoted by KTNV Channel 13 News

Adam
On MoneyLife

Check out our other publications for insight into our thoughts and process:

ruminATions:
http://www.hightoweradvisors.com/who-we-are/hightower-advisors/las-vegas/blog/

Thinking & Thriving:
http://www.hightoweradvisors.com/who-we-are/hightower-advisors/las-vegas/thinking-and-thriving/

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

What's New?

Hugh continued his accumulation of designations, adding the Chartered Market Technician (CMT) designation. The three-level program covers the areas of quantitative financial research and trading, risk management, applied behavioral finance, and portfolio management. In addition to the CMT, Hugh holds the Certified Financial Planner (CFP®), Certified Investment Management Analyst (CIMA®), Chartered Financial Consultant (ChFC®), and the Accredited Investment Fiduciary (AIF) designations. Needless to say, impressive!

Mike continues to travel for a cause. In July he traveled to Sri Lanka, in his role as co-founder of Dental Care International, (www.DCare.org) to participate in the graduation ceremony of their fifth class of Dental Surgery Assistants. The organization has provided oral health care services to Sri Lanka for more than twelve years and operates a very successful clinic in historic West Las Vegas where they treat more than 10,000 Southern Nevada children each year.

HEALTH CARE COSTS IN RETIREMENT

Life is expensive. That's a matter of fact. According to MIT Dr. Amy Glasmeier's Living Wage Calculator, the required living wage for a two adult, two child household in Las Vegas is $68,528. That's before tax in a low cost of living state. The required living wage can be much more elevated in other parts of the country, like San Francisco, which comes in at well over $80,000. One large chunk of the spending pie is devoted to health care, which continues to be a high-inflation segment of the economy. As time passes, health care costs continue to eat up a bigger and bigger chunk of the typical American's budget.

By the time retirement age is reached, health care costs can be significant. According to HealthView Services and their 2017 Retirement Health Care Costs Data Report, the total projected lifetime health care cost for a healthy 65-year-old couple is $404,253. The cost is driven by premiums for Medicare Parts B & D, supplemental insurance, dental insurance, and deductibles and copays.

HealthView's Retirement Health Care Cost Index estimates that a 66-year-old couple retiring this year will need to spend almost 60% of their Social Security benefits to cover health care costs in retirement. As health care inflation is expected to grow at a faster rate than Social Security benefits, a 55-year-old couple may spend upwards of 92% of their Social Security benefits on total health care costs, while a 45-year-old couple will not be able to meet their health care costs from Social Security alone.

Unfortunately, there is no silver bullet to fix the health care conundrum. With no legislative solution on the horizon, the onus may fall on individuals to solve their own health care cost problems. The most obvious solution is to increase savings leading up to retirement in order to have more available cash flow to pay for health care. However, for many Americans that's simply not an easy solution. Fortunately, there is another set of actions that could help mitigate future health care costs.

The current health care system is designed to deal with illness, but does a relatively poor job of promoting wellness. Simple actions like eating a healthy diet, exercising, and designating time for stress relief can have a material impact on a person's future health care costs. For example, HealthView estimates that a "50-year-old male with type II diabetes could save (an average of) $5,000 per year in pre-retirement health expenses by shifting from poorly managed to well managed care." If this money were invested at an average return of 6% per year, an additional $141,000 would be available at retirement at age 67.

Taking care of ourselves is easier said than done. Finding time to exercise and eat well is a real challenge in today's demanding world. However, the long-term benefits of both increased life expectancy and improved odds of retirement success may warrant moving wellness up the priority ladder.