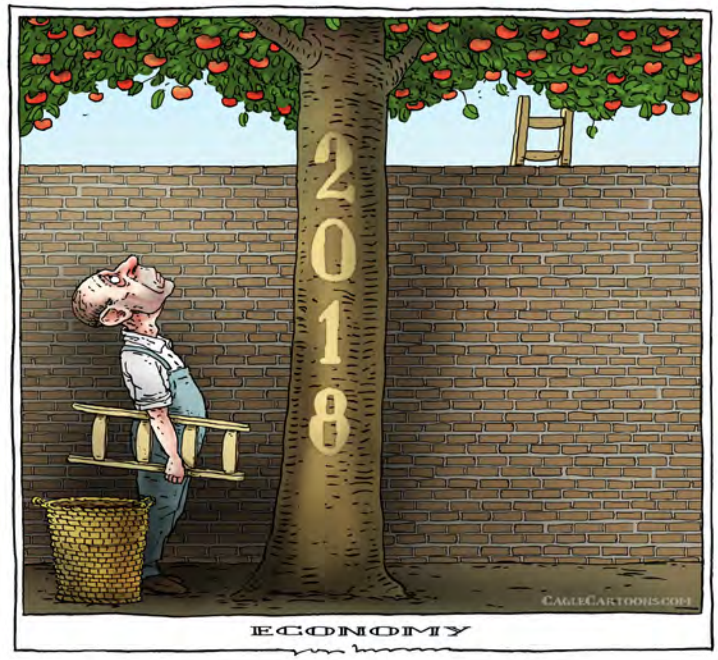
Karp Capital Management

Financial Focus

4th Quarter Report | *Positioning Your Financial World in the Global Economy* | January, 2018

HOW HIGH IS UP?

As 2017 was prosperous for many, we are reminded that not all saw the same benefit. Our thoughts are with the victims of record-breaking storms and flooding, fires, and mass shootings that occurred. We hope 2018 will be a year of recovery and better fortune. The only thing that seemed not too topsy-turvy in 2017 was the stock market. With the U.S. economy continuing to pick up steam and the global economy synchronized, equities were able to propel higher into new record territories. The current domestic expansion has been the 2nd longest on record. The U.S. isn't the only economy that's been a standout. According to Thomson Reuters data, 65 percent of companies in the MSCI Europe Index have beaten third-quarter expectations, with overall year-over-year earnings growth standing at nearly 10 percent. There were plenty of opportunities to capture global growth with emerging markets surging 37.75% for the year. Europe has pulled itself from the doldrums as deflationary forces abate and growth in the Eurozone finally accelerates after extreme monetary accommodation.



The Federal Reserve raised rates three times as unemployment rates hit 17-year lows, although inflation hasn't reached its target level. Janet Yellen's tenure as the first woman to lead the central bank has ended, but Jerome Powell signaled he's prepared to take the reins and stay the course charted for 2018, for now. While domestic and international political turmoil dominated the headlines, the market stayed focused on fundamentals to climb to new heights. Provocations by North Korea and tweets from the White House did little to distract from the hopes of corporate tax cuts, deregulation and positive economic numbers. One of the top, and most interesting, news stories in the investment world and beyond was Bitcoin's 2017 meteoric rise and the entry of cryptocurrencies in our everyday lexicon. Financial institutions have slowly paid more attention to blockchain technologies, but electronic currencies have so far been explosive speculative assets with moves that make them untenable as a cash-alternative. The theoretical applications are interesting but much too risk-on for a feasible direct investment. We're monitoring how the finance world is not only adopting this new technology but what it says about the current state of the markets. When investors are willing to take on such considerable risk, it's important to take note.

Our favorite sectors buoyed our portfolio with technology, homebuilders and industrials fueling growth. Large tech companies like Google and Amazon climbed to all-time highs in 2017, helping the NASDAQ skyrocket over 30% for the year. In December, homebuilder confidence hit its highest level in 18 years, despite worries of the negative effects of the GOP's tax bill on the industry. XHB, the SPDR S&P Homebuilder's ETF also was up over 30% for the year, a trend that is likely to continue as realtors report the housing supply is the lowest on record. Industrial production has increased alongside consumer spending. November numbers showed the industrial sector growing at a +3.5% year-over-year clip, marking a 36-month high. Economic activity has been robust and has benefited nearly every pocket of the economy. We expect that trend to continue as we enter 2018 and so does the Fed. From updated data, the Fed now expects 2.5% economic growth in 2018 which affirms our bullish sentiment.

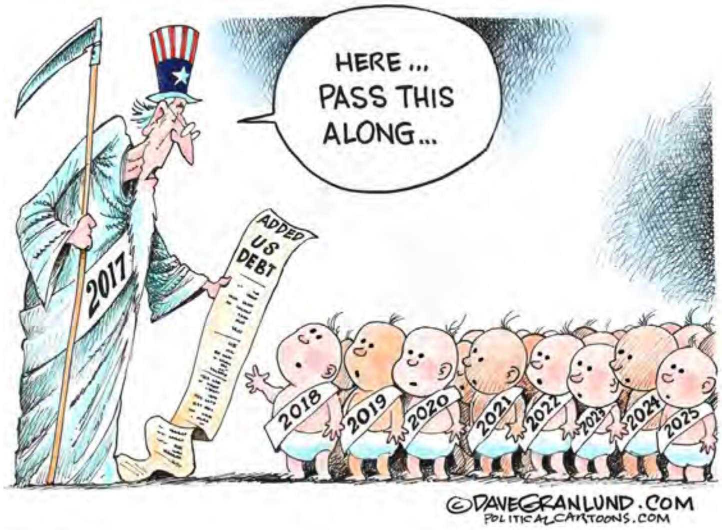
In this edition of Karp Capital's Financial Focus, we will discuss the new Fed chair and how the Fed will navigate continued rate hikes, domestic and international political tensions, and how synchronized global growth is set to propel markets higher in 2018.

Welcome to 2018

We tend to shy away from New Year predictions, but there seems to be some chance that 2018 will witness the peak of certain countries and sectors. This is not to say that we view conditions to be imminently dangerous, but another 12 months of current trends would take markets up to levels that would concern us. U.S. consumer confidence measures continue to exhibit the type of readings that are only seen during the latter portions of an economic cycle, and are one of a number of measures that indicate that the U.S. economy shifted gears decisively in recent months. Supporting the market's ascent is that labor market confidence continues to be strong, with 35.7% of respondents claiming jobs are plentiful and 15.2% saying jobs are hard to get (the lowest since July 2001). Please keep in mind business cycles do not end by accident; there is a catalyst that is needed to start a correction. We see some risk that the balance of supply and demand may start to worsen to the degree that it weighs on corporate earnings sometime next year. They Federal Reserve could add another layer of risk if it raises rates enough to induce a recession. The Federal Reserve has stated its efforts to unwind its $4.5 trillion balance sheet after it bought vast quantities of government bonds and mortgage-backed securities to mitigate the effects of the Great Recession. There's definitely a substantial amount of risk under this scenario. Five of the previous six times the Fed similarly reduced its balance sheet, (1921-2000) we ended with a recession.

On the other side of the coin there is excitement around the passage of major corporate tax reform that has sent all three major stock market indexes to new all-time highs as we ended 2017. Under existing 2017 tax law, it is estimated that most companies in the S&P 500 pay a corporate tax rate of about 27%, with every 1% reduction in tax rates paid by the S&P companies generating an additional $2 in earnings. Tax cut prospects are set to fire up earnings growth and the markets. This year, analysts expect the S&P 500 to earn roughly $131 per share, a 10% increase from 2016. For 2018, earnings are expected to grow by 7%, to $140. The lower corporate tax rate may be a catalyst for a rotation into value stocks beginning in 2018. More economic growth should see higher wages and commodity prices thus a steepening yield curve which helps banks since they'll be lending at higher rates. GDP increased by 3.2% in the third quarter and robust holiday spending continues to exceed expectations. Many economists project growth of more than 3.0% in the fourth quarter which would be the first time since 2004-05 that GDP growth has exceeded 3.0% for three consecutive quarters.

Internationally, Morgan Stanley expects global GDP to grow by a robust 3.8% next year, the best rate since 2011. That's why the market keeps climbing. The combination of expected improvement in the economy and added profits from the tax cuts indicates that we are not yet at an earnings peak for corporate America. We continue to see a rotational correction which started after Thanksgiving where stocks are essentially in a washing machine cycle. Essentially, that means stocks which rise one week tend to be down the following week, and vice versa. The good news is that the magnitude of these daily gyrations is dissipating, which is a sign that this rotational cycle should be over soon. This is an optimal time to add money to our favorite sectors. It's prudent to take profits on some sectors and look to add to selective bonds, by hedging your allocation with asset classes that have low or no correlation to the stock market and starting to build a position in gold. This is part of our process that we will cover in our January client meetings and February conference call. Please reach out to schedule your next review.



New Year, New Fed, New You

The Federal Reserve will have a new chief starting on February 5, 2018 with Jerome Powell replacing Janet Yellen. Mr. Powell is favored by the banking sector and financial markets because of his hands-on experience over the years. Senate confirmation hearings in late November buoyed markets as Powell indicated that the steady pace of monetary tightening under Yellen would continue under his watch. The Fed plays an expectations game: the clearer it is with its targets and policy, the better investors can determine how to set their own expectations. With the confirmation that there wasn't going to be a major shake-up at the central bank, the market was able to handle the transition with ease. The last three months have been characterized by a relentless march higher by short term yields and much duller range-bound trading at the long end of the curve. This is a reasonably rational outcome of an environment characterized by better-than-expected economic data but muted inflation, with the former encouraging the FOMC (Federal Open Market Committee) to match hikes to its dot-path plot and the latter keeping investors patient with the longer end of the curve. Despite the rate hikes in 2017, rates on the 10-year treasury ended the year lower than they began.

Powell will face some of the same quandaries as his predecessor, mainly how to navigate a growing economy when inflation remains at bay. U.S. consumer price inflation has stalled, and wage inflation has not materialized. With unemployment at a 17-year low, ticking down near 4%, policymakers remain mystified about why prices are not rising. U.S. retail sales in November came in at a breakneck speed of +5.7% year-over-year growth, the fastest in over five years. Growth like this is typically correlated with increasing prices as inflationary forces take hold. The Fed still maintains that

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Curve Your Enthusiasm

When building a fixed income portfolio to generate income and provide stability there are a myriad of factors to consider, such as the quality of the bond and the underlying financial health of the issuing entity. In a static environment, these main factors would help you assess most of the potential volatility you may experience with each issue. However, as we know, the world is anything but static. Luckily, the mechanisms behind the market's moves can help us discern the investor-consensus on the direction rates are headed and subsequently the corresponding bond prices and yields.

The yield curve is a tool that shows us where the bond market stands right now, and its movements illustrate changes in investor expectations. The yield curve is a plot chart of the various Treasury maturities with their corresponding yields as determined by the market. When the Fed set the Fed funds rate near-zero, bonds with the shortest maturities paid near to nothing in interest. The further out on the curve you go, the more the rate is determined by market sentiment. Much of the market now is discerning how to adjust to a flattening curve. The yield curve shifts and bends as the economy and the Federal Reserve make adjustments. As the Fed continues to raise rates it pushes up the front end of the curve, leaving market forces to determine longer-duration rates with those hikes in mind. The spread between maturities is how investors weigh the opportunity costs.

The anticipation of Fed rate hikes has gradually raised short-term rates this year, with the demand for longer-term bond maturities increasing. Recently the spread between 5 and 30-year U.S. yields fell below 60 basis points to the lowest since November 2007. The market is beginning to price in more rate hikes from the Fed next year, which is causing short-end yields to climb, while long bonds rally

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from demand for duration and low inflation, driving down yields further out on the curve. This is the flattest yield curve in a decade, leaving many to wonder if we're approaching an economic slowdown. The spread between Treasury yields dropped below zero ahead of each of the past seven recessions.

After raising rates the final time for the year and of her tenure, Janet Yellen acknowledged the relationship between a flattening curve and succeeding recession, but she advised: "correlation is not causation". It's true the circumstances around this flattening curve are quite different than market conditions in decades past. We had an incredible economic recession, followed by years of slow growth and very low inflation. In fact, the current round of rate hikes is more derived from an attempt at normalcy rather than the typical attempts of combatting inflation. November's CPI report was close to expectations and showed that the overall picture within the U.S. remains one of reflation (i.e. higher input prices) rather than inflation (higher consumer prices).

The Fed now expects 2.5% economic growth in 2018 versus a prior estimate of 2.1% and expects growth to be slightly stronger than previously estimated in 2019-20 as well. This strong growth illustrates why we're not too concerned with a flattening curve. We remain bullish on technology and growth stocks as the economy continues to pick up steam. Despite the rate hikes, the Fed is projecting the unemployment rate to go even lower, expected to be as low as 3.9% next year, exacerbating current growth trends. This is one of the many reasons we're strong on consumer-driven industries and have allocated assets to ETFs such as PEJ (PowerShares Dynamic Leisure & Entertainment Portfolio) and Amazon. Eventually, this incredibly low unemployment rate should lead to meaningful wage inflation and give the consumer more money to spend on GDP boosting expenditures. The Fed is scheduled for three more rate hikes in 2018, bringing the funds rate to a range of 2.00% to 2.25% and a rate on reserves to 2.25%. The effects further down the curve remain to be seen, but we expect to find opportunity in sectors like financials that thrive in a higher interest rate environment.

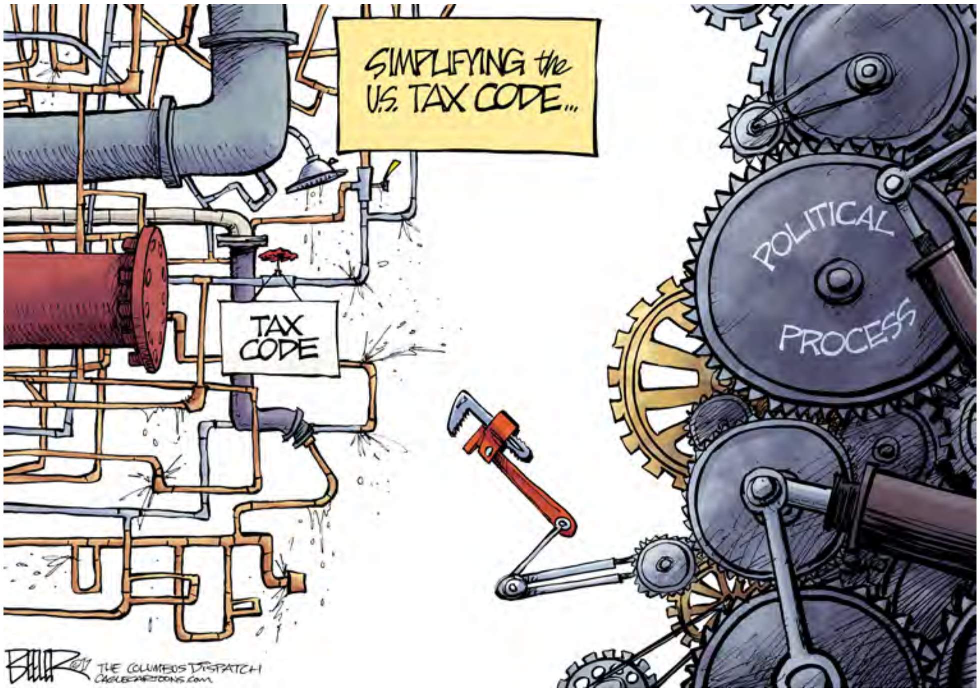
New Year, New Fed, New You *Continued from page 2*

price drops are transitory and that the projected rate hikes for 2018 are still merited.

The Fed wants to be clear that it is intending to stay ahead of inflation and with the current plan it looks to be doing just that. Import prices are expected to spike due to the weakening of the dollar versus other major world currencies. Rate hikes will help combat much of that and keep the dollar competitive. The greenback is starting off 2018 with considerably less buying power than it did in 2017. Much of this has to do with other central banks following suit in returning to a more normal interest rate environment. In the fourth quarter of 2017, exports rose to nearly $200 billion, the highest level since December 2014. According to FactSet data, revenue grew 10 percent year-over-year for firms that generated 50 percent or more of their sales outside the U.S., compared to only 4.2 percent for firms whose sales were conducted mostly within the U.S. The difference was even greater for earnings growth -- 13.4 percent for S&P 500 companies with strong foreign exposure versus 2.3 percent for companies with less exposure. This puts industrials in a better position as exports are expected to rise. We've been bullish on the increased economic production by industrials for quite some time and we expect this trend to continue.

In a rising interest rate environment, you'll eventually see better yields as market forces encourage financial institutions to tick up rates to remain competitive. One detriment, however, will be the effects on borrowing costs. As rates rise, banks are quick to pass along the costs to the consumer. If you're paying a low adjustable mortgage rate now, you should consider locking in a rate before the Fed raises costs further. It's easier to plan for the future when you know your costs are fixed. Give us a call to discuss your current mortgage program and determine if any adjustments need to be made.

The Taxman Go-eth



Since Republicans took control of both chambers of Congress as well as the White House at the beginning of 2017, they've been stumbling to enact the agenda promised to their constituents. After several failed votes to reform our healthcare system, it became questionable whether the GOP caucus could coordinate enough to push the legislation it has evangelized for years. Yet the mantra of the party, cut taxes, came to fruition with a bill being marketed as tax reform. The bill has little support in the polls as the tax cuts for middle income Americans are set to expire in 10 years, while the deep cuts to corporate rates are made permanent. Even some congressional republicans from New York and California were unable to support the bill as many of the credits used by residents of these higher-taxed states were capped or removed altogether. State, local, and property taxes will be deductible up to a combined $10,000; this change affects homeowners in areas with higher assessed property values such as the Bay Area and New York City.

This tax legislation is expected to increase the deficit by 1.5 trillion dollars, which the Republicans plan to pay for by chipping away at social safety net measures like Social Security, Medicare and Medicaid in their next round of budget cuts. Already the repeal of the individual healthcare mandate in the bill will affect an estimated 13 million Americans as they're projected to lose health insurance.

However, the market's focus has been on the significant cuts to the corporate tax rate. With a reduction in the rate from 35% to 21%, the savings for corporations will be huge. The expected corporate cost savings fueled the rally in late December as investors see companies like Apple and oil drillers getting windfalls in the billions. It remains to be seen if corporations will take this opportunity to reinvest and position themselves for future growth, or simply pay dividends and buy back stock.

In the end, this tax bill is fiscal stimulus and should improve GDP numbers by up to 0.3% in 2018. A concern is whether the Fed has accurately priced in a stimulus of this size in its inflation projections. With the economy already running hot and unemployment at 50-year lows, this could be enough to cause price pressures to overheat and lead to inflation becoming a problem for the first time in quite some time. Some are predicting, and we certainly think it's possible, that this tax bill will add another rate increase in 2018 bringing it to a total of four. This will be something to watch for as the Fed meets in the new year.

The Bill – Up Close

The final GOP tax bill was passed by the House and Senate and signed into law by Donald Trump at year end. The law includes tax rate cuts for individuals, corporations and pass-through businesses, an elimination of many forms of tax deductions, larger exemptions from the estate tax and Alternative Minimum Tax, and numerous changes affecting multinational businesses. While most companies should benefit, the impact will differ based on business operations and the amount of revenue generated in the U.S. Larger multinational companies will be able to repatriate offshore funds at a lower tax rate and earnings should substantially increase for those companies which primarily operate in the U.S. The tax rate for C-corps will drop to 21% beginning in 2018. This favorable rate will encourage tax payers to use corporations as tax-preferred savings vehicles with C-Corps being used to shelter income from the top ordinary income tax rate. Given this backdrop retirement plan strategies are more important than ever!

The bill repeals the ability of individuals to recharacterize a contribution to a Roth to a traditional IRA and extended the rollover period for plan loans. The tax bill also makes changes to 529 college savings plans. In 529 plans, tax payers will be able to distribute up to $10,000 per year to cover the cost of K-12 expenses while enrolled in a public, private or religious school. This part of the bill will help some wealthier families who can afford to set money aside, and those already sending their children to private schools.

By most estimates, Donald Trump's historic tax cuts will contribute to even higher debt as a percent of gross domestic product (GDP). There are still glitches that could lead to haphazard and unexpected results that could arbitrarily favor or penalize taxpayers. For example, rather than repealing the estate tax and alternative minimum tax (AMT), the new law simply expands the exemptions. Fewer taxpayers will be affected by them, but with AMT specifically, many will still have to go through the calculations to be sure. The Tax Foundation released its analysis of the bill, finding that it would lead to a 1.7% increase in GDP over the long term, 1.5% higher wages, and an additional 339,000 full-time equivalent jobs.

Overall the tax bill delivers massive tax cuts mostly to the largest corporations, a multi

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IRS Announces Retirement Plan Limits for 2018

Much has changed around taxes for 2018, including some key contribution limits.
Below are updated limits for retirement plan contributions in 2018, announced by the IRS.

	2018	2017
Elective deferral limit for 401(k), Roth 401(k), 403(b), Roth 403(b), & 457 Plans	$18,500	$18,000
Catch-up contribution limit for 401(k), Roth 401(k), 403(b), Roth 403(b), & 457 Plans (50 & Over)	$6,000	$6,000
Elective deferral limit for SIMPLE IRA Plans	$12,500	$12,500
Catch-up contribution limit for SIMPLE IRA Plans (50 & Over)	$3,000	$3,000
Annual limit for defined contribution plans	$55,000	$54,000
Annual limit to SEP IRA Plans	$55,000	$54,000
Maximum plan compensation for retirement plan purposes	$275,000	$270,000
Annual benefit limit for defined benefit plans	$220,000	$215,000
Threshold amount for definition of a highly compensated employee	$120,000	$120,000
Threshold amount for definition of a key employee in top heavy plans	$175,000	$175,000
SEP IRA compensation threshold for eligibility	$ 600	$ 600
Social Security Taxable Wage Base	$128,700	$127,200
IRA or Roth IRA contribution limit	$5,500	$5,500
Catch-up contribution limit for IRA or Roth IRA (50 & Over)	$1,000	$1,000
IRA Deduction phase-out limit for active plan participants starts at:		
Single	$63,000	$62,000
Married Filing Jointly	$101,000	$99,000
Married Filing Jointly and one spouse is covered by a plan	$189,000	$186,000
Roth IRA contribution phase-out limit starts at:		
Single	$120,000	$118,000
Married Filing Jointly	$189,000	$186,000

The content above is for general information only and is believed to be accurate and reliable as of posting date but may be subject to change.

The Bill – Up Close *Continued from page 4*

trillion-dollar debt load to the next generation, but insufficient relief for the small businesses that drives our economy. If you live in California, New York or most of the coastal states that pay the lion's share of U.S. federal taxes, for many of us the bill makes owning a home harder while increasing taxes. The bill makes it easier for U.S. companies to shelter profits overseas while punishing U.S. taxpayers living overseas. In fact the unintended consequences of tax reform encourages offshoring of U.S. manufacturing and jobs while discouraging U.S. based research and manufacturing. Effectively eliminating the benefit of itemization of deductions by raising the level of the standard deduction and reducing the number of tax brackets does not increase job creation for the middle class. For some people, such as non-homeowners and hourly employees it might decrease taxes via a higher standard deduction and slightly lower tax rates. The complexities of the new tax bill highlights the need to have an advisory team that is engaged and coordinated as the new legislation creates more complication and lawyering to game the loopholes. Given our network of CPAs I am sure we will be presented with a variety of tax reduction strategies as these prudent professionals tease through the 1000+ page bill.

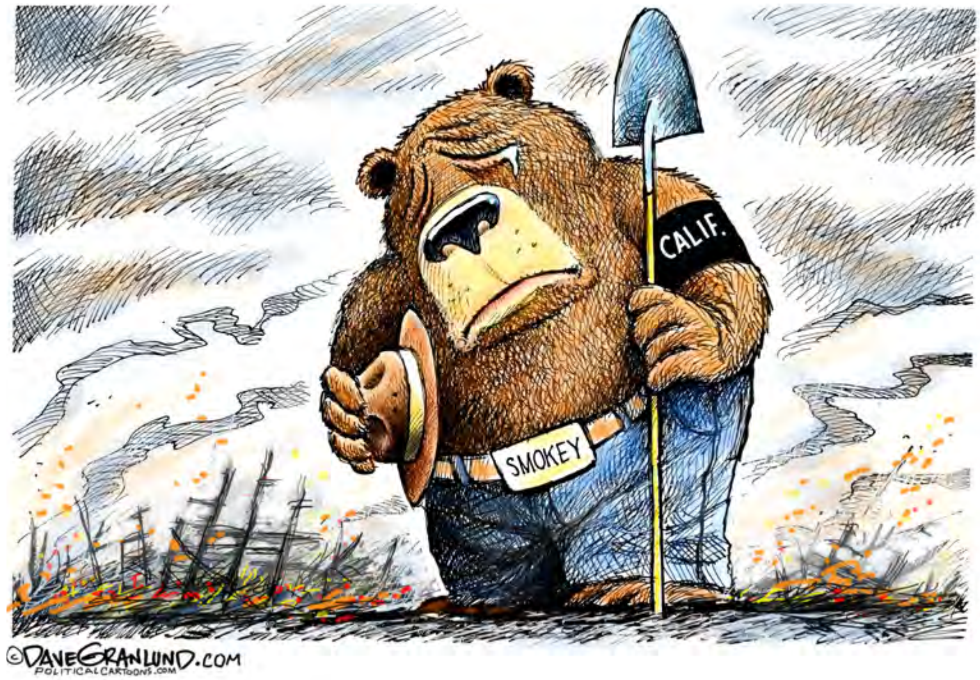
Rollin' With the Homies

As we've mentioned in previous newsletters, the housing market has been brisk. The Census Bureau report from November showed solid growth in single family residence construction.

The report showed total housing starts at 1.297M, which is above the 1.250M expected for the month. This brings the construction rate to a nine year high, up 13% year-over-year. Single-family housing starts in November were at a rate of 930k which is 5.3% higher than October's. Housing permits are showing similar growth, also breaking out to a nine year high at 862k new applications. This shows that homebuilders are responding to higher sales numbers and are engaging with the market by increasing production and starting new projects. These rates are at post-recessions highs yet completions are still well below the 50 year average. This means that homebuilders still have plenty of room to run as not enough homes are being built to end the supply squeeze. Over the past year, the number of sales listings for existing homes has fallen 6.4% (existing homes make up a much larger part of the inventory base than new homes). Home owners' reluctances to put their homes on the market is helping fuel not only the price growth, but the supply crunch of available inventory. The lower supply of new inventory also disincentivizes home owners from selling as there's nowhere to move. Considerable regional variations exist, and certain key geographic markets such as NYC show signs of inventory bloat and worsening sales. It is perfectly possible, even normal, to have an improving national housing market and weakening conditions in particular markets.

Interestingly, multi-family permits are down 7% year-over-year, flatlining at around a 600k level with November starts at 611k. The sector's trend towards single-family homes has much to do with more and more millennials purchasing houses. The last two quarters have seen an increase from renter occupied households to owner occupied households. This is a positive sign as the generation that has been priced out of the American dream has finally begun to accumulate the assets necessary to purchase a home, signaling positive shifts in the consumer markets as well.

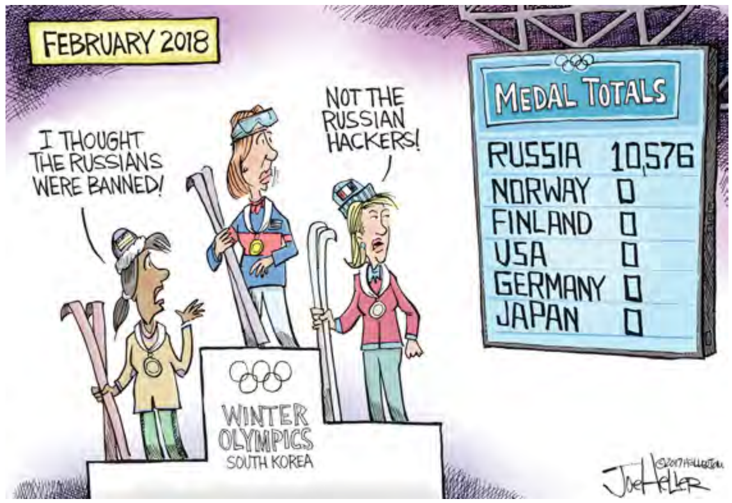
Even with the Fed on a path to raise interest rates, we see these housing production and transition numbers as bullish for homebuilders and associated equities. Along with the homebuilder ETF (XHB), we have exposure to complementary corporations such as Home Depot (HD) and Masco (MAS) which benefit from a thriving housing market. Overall the continued strength of the housing sector is reason for our bullishness on commodities. We continue to add basic materials and commodities to clients' portfolios. Given the current market valuation they look inexpensive vs other market sectors. In fact, they are trending at historical low valuations where they usually start to turn upward. The U.S. housing market, which drives a lot of the demand for commodities, is still recovering from very low levels. According to home-construction services firm Happho, for every 1,000 square feet of new housing, nearly 8,820 pounds of steel are required, as well as 400 bags of cement, 1,800 cubic feet of sand and 1,350 cubic feet of gravel and other aggregate. This doesn't begin to touch on finishers such as brick, paint and tiles, or fittings such as windows, doors, plumbing and electrical. The housing sector has the wind at its back with encouraging economic growth, low unemployment, low inflation and historically low 30-year mortgage rates.



Clients, family and friends of Karp Capital Management were affected by the recent scourge of wildfires in the final few months of 2017. Our thoughts are with those who lost their homes in Sonoma, Napa and Southern California. In solidarity with our local community and with those who were affected, Karp Capital recently partnered with the Habitat for Humanity of Sonoma County in their relief efforts. Habitat for Humanity is a great organization that helps those in need on a daily basis and they've further stepped up their efforts to help the fire victims of Sonoma County. We encourage you to read more about their efforts to rebuild on the website: https://www.habitatsoco.org/rebuild-soco

An Olympic Investment

The 2018 Winter Olympics are scheduled to take place in February in Pyeongchang, South Korea. Despite tensions with the neighboring despot and geopolitical tumult, most of the world is scheduled to come together to compete, celebrate, and spend.



Cities vie for a chance to host the games for both notoriety and potential economic stimulus. Though, lately the benefits of hosting the games hasn't been as apparent to the hosting countries. The Pyeongchang Winter Olympics had an estimated cost of about $10 billion, five times less than the 2014 Sochi Olympics which were estimated to be the costliest ever. Russia's huge expenditure left much to be desired in the previous games, generating complaints by people from around the globe and leaving behind a near ghost town. This year, Russia won't have the chance to see what more cost-effective measures will yield, as the country is barred from participating due to a rampant doping scandal.

South Korea developed high-speed rail lines to the rather isolated city of Pyeongchang, crucial to its bid to host. These new trains not only will allow athletes to travel from Seoul to Pyeongchang in less than an hour, but it provides crucial infrastructure for years to come to the country's citizens. Infrastructure projects like this, in addition to the six new venues built to host the games, can have a lasting impact for the local economy and provide meaningful investment for years to come. The huge increase in tourist spending will hopefully also be a boon to South Korea's economy. However, don't expect to take your Bitcoin to the games to buy souvenirs. The South Korean government has banned its banks from transacting in Bitcoin. South Korea is the fourth largest economy in Asia and Australia's fourth largest trading partner, generating significant economic growth in the region. The Deputy Finance Minister of South Korea also sees the games bringing another potential boon to the economy: Chinese tourists. Relations between the two countries have been volatile since the Korean War, but there is a hope that the games will ignite more interest by Chinese tourists. They've even gone so far as to invite President Xi to visit during the games in hopes of improving relations between the two countries. The Olympics have always been about global unity and hopefully this year the games can bring us a little closer to peace and increased prosperity in the region. Emerging markets and Asia specifically will benefit from improved political relations in the region beyond the bump that the games will provide to the Korean peninsula.

International Intrigue

The geopolitical events in 2017 were not only bizarre, they were quite concerning as well. Week by week we heard more news of Russia's interference in our election, news that North Korea obtained cross-continental nuclear ballistic missile capabilities, news of terrorist attacks, and not to mention a couple coup d'états. Yet, we end the year with several international markets near multi-year highs. Investors were willing to shrug off each new development for one simple reason: synchronized global growth. The world economy is in a goldilocks zone of low inflation and accelerating growth. Reflationary forces have been boosting economies across the globe. Emerging markets had their best year in eight years, rising faster than markets in developed countries. A couple of years ago, worries of a Chinese slowdown spooked the markets and while many are still apprehensive about the country's growth prospects, we see the country continuing to pull the region higher. In China, industrial production rose 6.1% in November; new construction starts increased 18.8%; and retail sales gained 10.2% year-over-year.

Global growth is a boon to oil prices, however continued conflicts can't just be ignored because the economy is picking up steam. Tensions in Saudi Arabia could be disruptive to the global oil market as the power structures of the country are changing and causing friction in the region. Barring any OPEC calamity, we expect the price of oil to trend higher in 2018 as the global recovery continues to pick up steam. We plan to continue adding exposure to energy with drilling companies and energy pipeline partnerships this year.

Institutional investment firms are predicting global growth rates at around 3.7% for 2018. The fact that the rally is not being fueled by one country or region limits risk that the expansion will be hindered by any one development. The Organization for Economic Cooperation and Development (OECD) shows positive growth rates in every one of the 45 individual economies that it covers for the first time since 2007. We've capitalized on growth through a myriad of different investment vehicles. We invested early in the iShares MSCI Emerging Markets ETF (EEM) and it ended the year up over 30%. We're prepared for another year of increased equity prices in international markets with international allocations to capture dividends (iShares International Select Dividend IDV) and through country-specific ETFs like HEWG (Germany), EWA (Australia) and EWC (Canada). We'll be adding exposure as different markets continue to present buying opportunities. We're prepared to continue reaping the gains of global synchronization.

Market Performance

In 2017 financials performed well as the Federal Reserve raised interest rates three times last year; the Trump administration's deregulatory agenda also buoyed sentiment for the sector. Energy was the worst performing sector despite the recovery of oil prices to its highest levels since 2015. Within U.S. equities, large caps outperformed small caps on the back of healthier global growth and a weaker U.S. dollar. One of the most remarkable things about 2017 was the lack of volatility.

The Russell 2000 (small caps) ended Q4, and 2017 as the worst-performing size segment. Tax cuts are particularly good for small cap stocks which will benefit from increasing economic growth. There have been 374 trading days without a 5% or greater pullback, the second longest streak since 1928. Consumer confidence fell in December a month after hitting a 17-year high, but the level of optimism among Americans this year was the highest since 2000.

Here are the performance numbers for the major indices as of 12/31/2017: (Absolute Price Return)

	December 2017	Latest 3 Months	2016 % Change	2017 % Change	The Close
Dow Jones Industrials	1.84%	10.33%	16.16%	25.08%	24,719.22
Standard & Poor's 500	0.98%	6.12%	11.96%	19.42%	2,673.61
NASDAQ- Composite	0.43%	6.27%	8.95%	28.24%	6,903.39
Russell 2000*	-0.56%	2.99%	21.31%	13.14%	1,535.51
MSCI EAFE*	1.52%	3.90%	1.51%	21.78%	2,050.79
Long Term Treasury Bonds	1.70%	2.32%	1.31%	8.57%	
Gold	0.84%	0.62%	8.10%	12.66%	$1,302.90

Sources: Thomson Reuters; WSJ Market Data Group, Dow Jones & Co., BTN Research, BofA ML, Ned Davis Research, J.P. Morgan. Stock market indices do not include reinvested dividends.

Client Spotlight: Doree Friedman

Doree Friedman is the CEO of FineLine Construction, which she founded in 1980. FineLine's focus is providing affordable housing for low income and homeless people and over the years it has produced over 25,000 units of housing. Her business has grown through the years and this past year was awarded the top LGBTQ business in San Francisco by the SF Business Times. Doree got her undergraduate degree, and her Masters of Fine Arts degree, majoring in Sculpture, and teaching credential at NYU and currently enjoys being an avid art collector. She has recently begun to do sculpture again. In a corporate capacity,

she collaborates with city governments and labor unions and is an adept strategist and coalition builder. In an individual capacity, she has served on multiple boards and is passionate about and supportive of the arts as well as continuing to help people in need outside of the office. She serves on the boards of the Treasure Island Homeless Development Initiative (THIDI) and the Headlands Center for the Arts and is a producer of an upcoming documentary about women in prison. She enjoys much of her spare time in her Inverness home and studio which she shares with her partner Kirsten Kuhlmann. She also loves spending her time with her children, her sister and her niece as well as her ever-growing family. Right now, she is enjoying holding her new grandson, adding to the collection of grandchildren and blended grandchildren.

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