


# ***Rochester Financial Services***

*Fee-Only\* Financial Management Services*

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December 3, 2017 Sunday	Dow Jones	S&P 500	NASDAQ	Russell 2000	10 yr Treas	Earnings Yield (S&P)	Crude Gold	Oil	
	24,232	2,642	6,848	1,537	2.36%	5.30%	\$1,280	\$58.29	

## ***Investment Strategy Report***

### ***Will Mueller Investigation Slow Down Market Advance?***

The Dow Jones Average was on its way to a more than 600 point advance last week when word came out Friday morning that former National Security advisor Michael Flynn had plead guilty to lying to the FBI. On fears that this might just be the beginning, with more to come, the Dow quickly collapsed, falling almost 350 points in a matter of minutes. But wait, this was not the only news of the day. Early Friday morning, the Senate had passed its version of the tax bill, which contained the key corporate tax cut provision, lowering the corporate income tax rate to 20% from 35%. The US stock market had been rallying in anticipation of this measure that would undoubtedly be a boon for American businesses.

This good news, bad news day resulted in a roller coaster ride for the stock market on Friday. After the Dow fell 350 points following the Flynn news, investors decided that maybe they should be cheering the Senate passage of the tax bill, and by the end of the day, the Dow had recovered all of its losses except for 40 points. For the week, the Dow gained 2.9% and the S&P 500, 1.5%. Despite the increase in volatility, it appears that the bull market remains intact. However, while the industrials were moving higher, the Nasdaq composite lost 0.6% for the week. Does this represent a rotation out of the technology companies that have done so well this year, into the financials and other value stocks? We also saw the emerging markets experience some weakness, again, an area that has outperformed the S&P 500 significantly this year.

This isn't the first time this year that investors have taken profits of the stock market leaders. Back in my July 4<sup>th</sup> letter to you, I pointed out that we had recently seen a spike in the shares of financials and energy companies while the Nasdaq had retreated, although I surmised that "this mini correction of [the core tech companies] ... should not last very long". Sure enough, by August 6<sup>th</sup>, I was writing that "since July 4<sup>th</sup>, we have seen the Nasdaq rebound 3.9% while the financials are up only 1.4% and energy shares are down 0.8%". As we head into the final trading days of the year, it is normal for traders to jockey for position, taking profits in their winners and attempting to bet on which sectors will be the winners in the new year. We will have to wait and see what develops, but for now, it appears that the general direction of least resistance is higher.

I also want to point out that the title of my August newsletter was "Dow Tops 22,000. Are You Nervous Yet?". And here we are 4 months later with stocks now 10% higher still. Those who were afraid of new record highs missed out on those gains. It doesn't mean that there is anything wrong with taking profits, but for those who are investing for long term goals, it is always difficult to try to time the top.

**RMDs** – This is your last chance to make your required IRA distributions for 2017.

**New Tax Law** – It looks like there is a good possibility that we will have a new tax law for 2018, and that means that we need to do some important year end tax planning. The biggest change will be that the standard deduction for everyone will be going up, to \$24,000 for married couples and to \$12,000 for single individuals. This means that most of you who currently itemize will no longer, and will take the standard deduction instead. Therefore, you won't be able to deduct charitable deductions, state income taxes, real estate property taxes, mortgage interest, medical expenses, investment fees, etc. So if 2017 is the last year that you will be itemizing, then you should a) shift any charitable donations you were planning to make in 2018 to the last few weeks of this year, b) pay any property taxes due in early 2018, this year, c) pay before 12/31, any estimated state income tax payments due in January. Please call me if you have any questions about how any new tax law changes will affect you. *Jeff Feldman*

***Happy Holidays and Best Wishes for a Happy and Healthy New Year!***

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