2017 marks an astounding year for the financial markets. Lack of volatility in equity prices, as gauged by the S&P 500, has been extraordinary. During 2017, there have been four trading days that registered at least a 1% drop. Over the last three decades, there has been a 1% plus drop every 7.5 days – on average. One theory being floated: the proliferation of ETFs and other investment products that allow broad market investment, particularly on market dips. Investors buying the dips may disappear during a prolonged market correction or event. Meanwhile Cryptocurrencies, which are not directly available for trade through brokerage or retirement accounts and are detailed below, have created wealth for early investors. Late investors have been active over the last few months piling in, for fear of missing out on any future outsized returns. Finally, the largest tax reform since 1986 has been enacted, with broad consequences both positive and negative, and is also highlighted in a subsequent paragraph.

Cryptocurrencies have dominated the headlines in recent months. The surge in the price of bitcoin and other digital currencies is creating a mania for anything remotely related to virtual/ digital currencies. Coinbase - the primary exchange that allows for a wallet in bitcoin and a growing list of other digital currencies - now has more client accounts than Charles Schwab. A little perspective. Bitcoin is too volatile to be a reliable store of value. There is currently a blind euphoric trust that bitcoin will maintain or increase in value, all while hackers are making inroads by breaching bitcoin repositories. Environmentally, bitcoin is using unbelievable amounts of electricity in recording transactions and solving complex mathematical problems to generate new bitcoin. Massive sever farms performing wasteful calculations are according to one recent estimate, using more electricity than all of Denmark. To date, there is surprisingly little backlash from environmentalists. Cryptocurrencies are a vehicle for criminal transactions. Some of the countries most affected - Venezuela, China and most recently South Korea are actively attempting to tighten controls. Most importantly, sovereign states and central banks will be threatened by a currency that resists licensing and regulation. The worst case scenario, a coordinated move by governments to regulate or bank digital currencies might well send prices to near zero. There is a case to be made for significantly higher prices in bitcoin/digital currencies. This premise is rooted in an endless number of investors willing to pay an ever increasing amount for what is at the moment a relatively scare asset class. New digital currencies (and supply) are being created at a tremendously fast clip.

Tax reform will theoretically boost equity prices. Lower corporate tax rates and a tax break on repatriation of assets held by corporations abroad are the primary divers. Share buybacks, increased dividends, potentially higher wages/ job creation and capital expenditures are also factors that might boost the economy and equity markets. It is far too early to gauge or predict outcomes. Some pundits are already broadcasting large gains for 2018 equity prices. Skepticism of such presumptuous predictions may go a long way toward long term portfolio performance.

A few concerns heading into 2018. The Federal Reserve must at some point unwind the $4.5 trillion balance sheet of government bonds and mortgage backed securities bought to mitigate the effects of the Great Recession. The rate hike cycle which is currently underway may end the expansion. If it does not, the long end of the domestic bond yield may move higher and at a faster rate than the fed's rate path suggests, possibly initiating a recession. $10 Trillion of bonds are currently impacted by the negative interest rate polices of central banks outside of the United States. Many affected investors, primarily in Germany and other European countries are selling the fixed income holdings and placing the proceeds into gold. Conversely, the US ten-year yield is currently near a nine month high. The fed's interest rate path may steepen if tax cuts indeed stimulate economic growth.

Jerome Powell, the first non-economist to lead the fed in nearly four decades, will succeed Janet Yellen, who is stepping down as fed chair on February 3rd. Jerome Powell's views are closely aligned with current monetary policy. That said there are large changes slated for the fed board, with half of the board seats up for review over the coming year. A dramatic shift to a more hawkish policy is not out of the question, although unlikely in the near term.

Best wishes for 2018! Please call/ email anytime regarding portfolio management, account allocation or general strategy. Thank you.