PINNACLE
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FINANCIAL FORUM

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Market Commentary

Stocks rallied strongly in November as investors decided that Republican control of our government will be good for the economy in 2017 and beyond. The reasoning went that a Trump administration will cut taxes and regulations, while at the same time, using fiscal stimulus to spur growth through a rather large infrastructure spending program. On that premise, Wall Street watched one of its greatest rotations out of bonds and into stocks. In the seven days after the election, $45 billion went into equites, exceeded only in July 2007, just a few months before the market top in October of that year. This rotation not only caused one of the sharpest rises in interest rates seen, but also a strong rally in the U.S. dollar. This past July, after the Brexit vote, the U.S. 10-year Treasury yielded 1.366%, its lowest yield ever. Today, those bonds yield approximately 2.4%. The rise in rates and the dollar will hurt both corporations and individuals alike. Over the next two years, it is estimated that roughly $2 trillion of corporate debt is coming due, which will have to be refinanced at higher rates, hurting profits. Likewise, the stronger dollar will hurt multinationals' international sales and profits. On the individual side, loan payments will rise for many homeowners, car purchasers, and other consumer debtors, thereby reducing disposable income. The rise in rates resulted not only from the selling of bonds, but also from the belief that our federal deficit will continue to rise at an unsustainable level. By the time President Obama leaves office in January, our budget deficit will be a little north of $20 trillion dollars, with no relief in sight, as President-elect Trump's team has already discussed issuing 50-year and 100-year U.S. Treasuries.

Some in the media have compared Donald Trump's future policies to that of former President Ronald Reagan. While only time will tell, it is unlikely that investors are going to see the kinds of gains they witnessed during Reagan's presidency, if for no other reason than valuations. As the chart below demonstrates, in 1981, when Reagan took over, valuations were very low. For one thing, both stocks and bonds were in long bear markets, as interest rates climbed from 4% in 1964 to 14% in 1981. Additionally, the total stock market valuation of the S&P 500 was only 40% of our country's GDP. Today, it is almost five times that at 196%. Meanwhile, our debt to GDP stood at only 135% back in 1981, compared to 251% today. Also, from an ideology standpoint, Reagan welcomed globalization, while Trump wants to "Build a wall."

	Reagan	Trump
S&P 500 to GDP	40%	196%
Rates (10-yr Treasury)	14%	2.4%
Debt to GDP	135%	251%
Globalization	Welcomed	Build a wall

Another headwind facing investors is the recent rise in oil prices. Two years ago, global oil prices crashed after the world started pumping out far more crude than needed. That plunge wreaked havoc on oil producers as billions of dollars in revenues were lost. As a result, last week, OPEC announced that it would cut oil production by 1.2 million barrels a day, while non-OPEC countries, led by Russia, agreed to trim an additional 600,000 barrels a day. Oil finished up 12% last week on this news. Of course, the real question remains: will the cuts last? As we know from past agreements, OPEC members are notorious for cheating on their quotas. There's also the question of what happens next in the U.S. Over the past year, with prices low, many fracking companies in North Dakota and Texas have idled oil wells. If prices rebound now, those companies could start drilling again, supplying more crude and driving prices back down. One thing we know for sure is that, if oil prices remain elevated, it will be another potentially inflationary item for the Federal Reserve to consider.

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Wealth Management – Why Estate Planning is Important

Maybe you think your estate isn't that large or that you're young, and therefore, don't need to do estate planning. You couldn't be more wrong. Estate planning involves much more than just reducing estate taxes or avoiding probate at your death. In a nutshell, **planning gives you control**. You are making certain that *what* you have, goes to *whom* you want, *when* and *how* you want it. It also allows you to set forth health care and guardianship directives and avoid conservatorship proceedings in the event of legal incapacity. For your heirs, it allows you to protect them should they become disabled, get divorced or sued, among other things. Below, I've listed some common mistakes that can be financially costly (but easy to correct):

- Naming children as joint owners on your bank accounts or home. (People do this to avoid probate but they do not realize the legal, financial, and relational ramifications of these actions.)
- Naming your estate as beneficiary of your IRA, causing them to be liquidated at your death instead of rolled over and "stretched-out" over the lives of your beneficiaries.
- Naming minor children as beneficiaries of your IRA.
- Owning assets in a sole person's name and then having to pay expensive court costs to get access to those assets should the person become disabled or die.
- Not properly funding your revocable living trust(s).
- Improper ownership of life insurance causing the death benefit proceeds to be included in your estate.

These items only represent the tip of the iceberg of potentially costly estate planning mistakes. The bottom line is this: you've worked a lifetime to accumulate what you have and it's important to know what is going to happen to those assets when you die or become disabled. If you would like to know how you could avoid these types of mistakes and many others, please give us a call. Even though we do not provide legal advice, we would welcome an opportunity to point you in the right direction.

Weekly Thought

Einstein once said, "Try not to become a man of success but a man of value."

What I have personally observed is that men (and women) of value usually are quite successful. And I'm sure that's not by coincidence.

Have a great week.

Dan

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P.S. Please feel free to forward this commentary to family, friends, or colleagues. If you know of anyone who would like to be added to this list or who might benefit from our services, please pass along our name. We are always looking for opportunities to meet and help great people like you.