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summaries

SIGMA INVESTMENT COUNSELORS

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Powerful Couple: Lower Taxes & Reduced Regulations

The year 2017 was an exceptional one for equity investors, with markets across the globe turning in sizable gains. Domestic markets benefitted from reduced regulations and the tax law passed at the end of the year. Strong performance of global industrial companies such as Boeing and Caterpillar helped the DOW Industrials surge 28.1%, surpassing the very strong S&P 500 performance of 21.8%. Sales overseas into a global economic recovery combined with some weakening in the dollar resulted in the large cap index (S&P 500) outperforming the small and mid cap indices.

After significantly underperforming the US markets since the financial crisis, international stock markets came roaring back in 2017. As a global economic recovery began to take hold we saw both developed and emerging international markets have banner years, evidenced by the returns listed below. We expect the recovery to continue and look forward to better returns from these regions.

Contrary to equity markets, bond market activity was uneventful, providing low single digit returns. The 30 year free ride of outsized return relative to the risks investors took as rates declined now appears to be over. The 10-year treasury yield at 12/31/17 was 2.40%, essentially flat with the 12/31/16 yield of 2.45%.

Benchmark Returns as of 12/31/17	Q4 2017	2017
Domestic Equities		
S&P 500 Large Cap	6.64%	21.83%
S&P 400 Mid Cap	6.25%	16.24%
S&P 600 Small Cap	3.96%	13.23%
International Equities		
MSCI EAFE Dev Int'l	4.23%	25.03%
MSCI Emerging Mrkt	7.44%	37.28%
Bonds		
Barclays US Agg Bond	.39%	3.54%

Despite strong equity performance, a new "speculation", digital crypto currencies, exceeded the returns of all asset classes. Bitcoin, up 1,400% in 2017, continues to be all the rage. At Sigma we have had many discussions and continue to educate ourselves to better understand the currency and its valuation.

Usually an asset, financial or otherwise, represents a store of value. In the case of an asset like a house, the intrinsic value is represented by the price at which we expect it can be sold. This value is based on a number of "data" points, (location, school system, the appointments/decorating, quality of materials used, unique features, square footage etc.). For a business, data points include current and expected future profits, (revenues minus expenses).

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Bitcoin has no data points. And, unlike other currencies, it has no government backing. We have yet to understand how it becomes a store of value on a long term basis. To date there have been fantastic tales about people who know people who know people whose kid bought it and are now multi millionaires. We fear it will end badly.

Lower tax rates and reduced regulations is a powerful combination. We have yet to see the true benefits and impact it will bring for the domestic economy and American workers. We anticipate companies, public and private, will be willing to commit capital to invest in their businesses. This would include new plant and equipment, employee training, pay raises to keep employees or, expanding company work forces.

The activity of last year may have stolen some of the equity performance from 2018. We know trees do not grow to the sky. The long advance that the stock market has had, with no significant pull back, is notable. However, we remain optimistic about the outlook for equity markets.

As we look out over the horizon into late summer, the mid-term election cycle will ramp up and the rhetoric will intensify for the mid term elections. Regardless of your political bent, the reality is markets abhor uncertainty. Should the markets become concerned that the election will produce an outcome that creates uncertainty (in this case defined as anything that might upset the economic apple cart), we would expect to see more market volatility headed into November.

We expect the coming year will bring a slight but increasing interest rate environment. For bond investors this means higher yields, offset by pricing pressure on the bonds.

Thank you for your continued trust and confidence you place in Sigma. We wish you a healthy and wonderful 2018 filled with happiness and good cheer.

Denise M. Farkas, CFA
Chief Investment Officer

Please remember to contact Sigma Investment Counselors if there are any changes in your financial situation or investment objectives