

October 24, 2017

## **Economic & Market Outlook is Still “Cautiously Optimistic” – Alex Petrovic III, CFP®**

Broadly speaking, not too much has changed from my 3Q economic commentary... and we are still cautiously optimistic about growth and the stock markets.

- **U.S. Growth:** The Bureau of Economic Analysis will report its advance estimate of 3Q17 GDP growth on Friday. The figures will be revised, as they always are, but investors should be aware that hurricanes Harvey and Irma are expected to have a temporary impact on the Lower 48 U.S. economy, but Maria will have a more devastating and long-lasting effect on Puerto Rico. The forecast for 3Q U.S. growth is 2.8%. 2Q U.S. growth came in at 3.1%. These are respectable results given our slow-growth environment.
- **U.S. Inflation:** The Consumer Price Index is up 2.2% year over year. Excluding food and energy, it's up 1.7% year over year. Federal Reserve Chair Janet Yellen said that low inflation was “the biggest surprise in the U.S. economy this year. My best guess is that these soft readings will not persist, and with the ongoing strengthening of labor markets, I expect inflation to move higher next year.” In other words, Yellen and the Federal Reserve will continue to increase interest rates because it assumes that a tight U.S. labor market will eventually translate into higher inflation, as it has done in the past.
- **Interest rates and monetary policy:** A rate hike from the Fed is looking more likely for December, says Raymond James Chief Economist Scott Brown, but, as often is the case, the central bankers' actions will be data dependent. Currently, the Federal Funds Interest Rate is 1.25%. A 0.25% December increase is still anticipated. The unwinding of the Fed's balance sheet is beginning, with a modest pace initially, but is set to pick up over the next four quarters. That ought to put some upward pressure on long-term interest rates, which will also be driven by inflation expectations and the level of bond yields abroad, Brown says.
- **Consumer sentiment:** The University of Michigan's Consumer Sentiment Index rose to 101.1 in the first half of October, the highest reading since early 2004. Consumers are feeling good about the current state of the economy and about the prospects for the next six months.
- **Global Growth:** Roughly three-quarters of countries are experiencing economic growth. All economies in the eurozone are improving — a first in the post-crisis period. China's growth surprised to the upside this year as Beijing kept the economy humming ahead of the Communist Party's key National People's Congress (NPC) in October where President Xi is widely expected to be reelected to his second 5-year term. Overall, we see no change to the big picture of a global expansion chugging along at an above-trend pace.
- **Bottom line:** our economy, and the broader global economy, are still in slow growth mode. Geopolitical risk (North Korea, Brexit, NAFTA negotiations, Iran negotiations, China's high debt levels, etc.) are the current risks that might offset the incoming positive economic news.

Switching gears to the financial markets:

- **S&P 500 Index:** The S&P 500 continues to surprise to the upside and make new all-time highs. The index has now gone more than 300 calendar days without a 3% correction on a closing price basis. The trend clearly remains up. However, we would not be surprised to see a 5% - 15% correction in the coming months. These are a normal part of a 'healthy' bull market, and we have not seen one since the end of February 2016 when the S&P 500 Index was down around 15%.
- **U.S. Corporate Earnings:** 3Q earnings are currently being reported. The 3Q 2017 estimated earnings growth rate for the S&P 500 is now 4.2%. As of last week, an above-average 73% of companies that have reported 3Q results thus far have exceeded top-line revenue estimates, while 80% have beaten on the bottom line (earnings per share). This is certainly good news! Full-year EPS (earnings per share) are projected to increase by 10.2% in 2017 and 11.1% in 2018.

- **International stock markets:** This is the hot area of the global stock market in 2017. Some of the performance has been driven by a decline in the dollar relative to developed market currencies, but corporate earnings growth, particularly in emerging country stocks, has been very positive.
- **International corporate earnings:** The sustained global expansion is providing a positive backdrop for corporate earnings. Earnings are growing at a faster than 10% pace in all major regions for the first time since 2005, excluding the post-crisis bounce, Blackrock Investments research shows. Analyst forecasts for corporate earnings are holding steady in the U.S. and Europe, are up in Japan and have almost doubled this year in emerging markets.
- **Current trend:** The primary trend remains bullish as the six major factors (monetary, economic, valuation, sentiment, supply/demand, and internal/momentum/technical) continue to produce positive readings. As mentioned earlier, corrections are normal during bull markets, and we have not had one in 18 months.
- **Our managed portfolios:** Most of our managed portfolios investments are positioned to benefit from the current bull market. There are a few stock fund positions that are a bit defensive, but our tilt is towards taking advantage of this bull market. The bond section of our portfolios will undergo some changes by the end of year. Please continue reading for an explanation.

## **Upcoming Bond Changes in Our Managed Portfolios – Alex Petrovic III, CFP®**

Later in the 4<sup>th</sup> quarter, we will make significant changes to our bond investments in our managed portfolios. The investment committee has spent considerable time revamping the bond section of our managed portfolios. The main intent of the changes is to better position our bonds, and the portfolios, for a potential selloff in stocks due to an economic downturn. To be clear, we don't foresee a recession around the corner in the next 6 – 12 months. However, we want to make sure that if a stock bear market arrives, our bonds hold up well and potentially increase in value. As a result of this, the revised bond section will have even less credit risk (read: less risky bonds) while still trying to select mutual fund managers that can deliver some positive returns in the meantime without taking outsized risks.

As many of you have noticed over the past few years, we have shifted some of the stock allocation to index investment funds in order to help lower portfolio costs. However, at this time we do not anticipate using index investment products in the bond section of the managed portfolios.

There are two primary reasons for this. First, research over the past 15 years has shown that select active bond manager categories have a decent chance of beating their benchmarks after factoring in expenses. The active bond managers that we presently use, and those to be added later this year, have solid long-term track records that have beaten their respective benchmarks. Of course, past performance does not mean the future will hold the same, but we feel very comfortable with paying a little more in expenses for these actively managed bond funds.

The second reason we are not using index bond funds or ETF (exchange trade fund) bond funds is due to liquidity concerns if/when a bear market occurs. While the Dodd-Frank Wall Street Reform Act was important for helping shore up our financial system, one of its effects is less bond inventory and liquidity. This could increase potential risks to financial stability of big investment firms in times of market stress. Therefore, for all of our future bond positions in our managed portfolios, we have decided to use active mutual funds with the thought that active managers may be better positioned to navigate a potential liquidity stress event.

We will continue to discuss these bond changes in the upcoming client review meetings. If your portfolio has customized bond investments, we will continue to 'work around' these custom investments as always. As we have done in the past, we will send a trade notification letter to clients once the trades are complete.

## **Market Recap – Jim Stoutenborough, CFP®**

Let's do the numbers:

- The U.S. stock markets maintained their upward movement in September with the S&P 500 gaining 2.1%, the Dow Jones Industrial Average up 2.2% and the Russell 2000 fueled by the possibility of tax reform skyrocketed up with a 6.2% gain. International markets carried on with a 2.6% gain and bonds were down a bit (-0.5%).
- Year-to-date returns for 2017 through September 30<sup>th</sup> - Large U.S. companies, the S&P 500 Index and Dow continued to prove bigger is better with 14.2% and 15.5% gains respectively and the Russell 2000 Index (small U.S. companies) trying to close the gap with its larger comrades with a 10.9% gain. The international index, the MSCI World ex US remained the year-to-date leader up 19.2%. The Barclays U.S. Aggregate Bond Index (quality U.S. corporate and gov't bonds) was up 3.1%.

Asset Class	Index/Category	YTD 2017	2016	2015
Cash and cash alternatives	Average 1-yr CD Rate	0.41%	0.32%	0.27%
U.S. Bonds	Barclays US Aggregate Bond Index	3.1%	2.7%	0.6%
U.S. Large Companies	S&P 500 Index	14.2%	12.0%	1.4%
U.S Small Companies	Russell 2000 Index	10.9%	21.3%	-4.4%
International Markets	MSCI EAFE NR USD	19.2%	1.0%	-0.8%

*Numbers come from Morningstar.com and Bankrate.com*

*Inclusion of these indexes and other information herein is for illustrative purposes only and should not be considered indicative of future results. Individual investor's results will vary. Information included herein has been obtained from sources considered to be reliable, but we do not guarantee that such material is accurate or complete. Expressions of opinion are as of this date and are subject to change. Nothing contained herein should be considered an investment recommendation. You should consider any tax or legal matters with the appropriate professional.*

## **The Equifax Hack – Should You Place a Credit Freeze on Your Accounts? – Sandi Weaver, CPA, CFP®, CFA®**

By now, we're all aware that 143 million of us have had our personal financial data leaked out to hackers, thanks to Equifax, which is one of the three major credit bureaus. The other two are Experian and TransUnion.

As noted in our email last month to all clients, you can check if your data was exposed on Equifax's website, and sign up for ID protection services they are offering on their website.

In addition, you might want to place a credit freeze on your files. That ensures that no other institutions can access your credit reports; those other institutions would normally do that when opening credit in your name. That is what happens when you apply for a new credit card, or buy furniture on credit at a retail store, for example. This step goes a long way in thwarting a hacker from using your data, pretending they're you, to rack up debt in your name to buy things.

**Why do this?** It can cost you \$10 to place a credit freeze. It is important to do so with all three major bureaus. You can thaw your credit reports and ID later (for another set of small fees). It gives you another layer of protection, in addition to the ID theft package Equifax is offering. It is not for the accounts and credit cards you have now regardless of how closely you monitor those; it is for those you do not know about!

**Why bother?** It takes time. It costs money. If you think you'll be opening accounts – for whatever reason – at stores and other institutions, it will take time and more red tape to thaw and re-freeze.

**What to consider?** Do you get your annual credit report now, to review all new accounts opened in your name? Have you signed up for ID theft prevention services whenever your data is hacked? Does your bank automatically provide any ID protection services? Do you personally purchase such a service already?

If you want to cap the effort you spend protecting your data, setting up two-step authentication on your financial accounts may be time better spent. There's no single correct answer for everyone, but consider what's right for your circumstance.

Equifax 1.800.349.9960  
Experian 1.888.397.3742  
TransUnion 1.888.909.8872

## **Insurance for Worldwide Travel -** **Marsy Gordon, Financial Planning Associate**

Whether it's for frequent business trips, occasional travel to see family in distant places, or the once-in-a-lifetime dream vacation to a far-away land, a number of our clients travel internationally.

Regardless of the reason, if you are planning a trip out of the country, it is important to check with your insurance company or agent before you leave. Is emergency medical evacuation back to the United States included? Does your umbrella insurance have broad scope coverage?



Be sure to ask if your umbrella liability policy covers damage (to people or things) that you might cause while not at home or in your car. If you trip and accidentally knock someone or something off a ledge, will your insurance cover damages caused by you? Know before you go.

Your current policy may include international coverage, but it may not. If it does, be sure to carry your insurance cards with you. If it does not, you should consider a short-term supplemental policy to cover the time you will be travelling.

Some Medicare supplement plans cover international travel, but some do not. Check with your carrier to be sure.

There are three basic kinds of insurance that international travelers should consider. 1) Travel insurance to cover things like lost baggage and cancelled flights. 2) Travel health insurance that covers various levels of overseas medical treatment. 3) Medical evacuation service to get you home.

If your policy does not cover these things, your insurance company may offer a short-term travel policy. You also could check the U.S. State Department's website: [www.travel.state.gov](http://www.travel.state.gov) / Passports & International Travel / Before You Go. They have some good suggestions.

Don't forget the umbrella! And.....have a great trip! We'll be anxious to hear about it at your next meeting.

## **Want To Steer Your Adult Child Onto The Right Path?** **Sandi Weaver, CPA, CFP®, CFA®**

We can help! As a client at PWFS, you can tactfully send in your fully-launched adult child for a free consultation. We will review smart financial planning moves, and answer their questions on their finances.

Here's a recap of one of our recent meetings. A client's oldest boy, a young man, works as a website developer for an IT company. We'll use "Jake" to keep this confidential. We reviewed our "5 Steps to Sound Financial Planning". Jake already had an emergency fund in his bank savings account, few debts, and medical insurance through his employer. He had homeowner's insurance on the small house he had recently purchased with a 2.75% 30-year fixed mortgage (a smart move). We advised him that he didn't yet need life insurance (not married, no kids). But we did recommend he sign up for his employer's disability coverage. If something happens to Jake's ability to work for 6 months, who will bring in a paycheck to make those mortgage payments?

Next, we talked about saving for retirement. Jake's a smart guy, and had already started contributions into his 401k at work. We advised

### **Play Parent One More Time**

Has your child recently gotten their first job?  
Bought their first house? Gotten married? Had their first child?

Set them up with a phone or office meeting with us. We will review the financial planning steps to take to get started on the right foot.

No charge.

him to change that some: deposit enough to snare the employer's company match on the first 3% of salary, but put the rest in a Roth IRA account (tax free forever!) since there was no Roth 401k option at work. We reviewed the investment choices inside his 401k, and suggested changes. Jake is young, has an emergency fund, has good earning capacity, and is comfortable with an above-average risk level of 70% high risk/30% low risk. We spelled out how those investment selections would map into that asset allocation. We discussed specific investments to use in his new Roth IRA account.

Finally, we turned to estate planning. We suggested an inexpensive resource for Jake to set up a will and powers of attorney forms for health care and for financial decisions. (Yes, young people do die young occasionally, and it's important for their assets to go to the loved ones they choose.) We showed Jake how best to complete the beneficiary forms for his 401k plan and his new Roth IRA account. We showed him how he could add transfer-on-death designations cheaply to his house and to his car. All of those steps save probate and attorney fees.

Then we wished Jake "happy spending!" with the rest of his paycheck, and congratulated him on having so many steps already implemented. That's unusual to see in someone starting out.

If we can assist your young man or woman with sound steps to financial planning, just call.

### **Alex Petrovic III and Sandi Weaver Attended Wealth Managers Conference in Florida**

Raymond James hosted this conference to provide advanced education on investment management, financial planning, and practice management. We attended three days (and nights!) full of sessions; the following are just a few:

- Financial market updates from Chief Investment Strategist, Jeff Saut, and CEO of First Trust Portfolios, James Bowen. They were bullish about America and the stock market.
- Cyber security – hackers' current practices – ways that we as advisors can help protect our clients' privacy. We left feeling good about what PWFS and RJ have in place.
- Technology – Raymond James technology improvements for Advisors' Access and upgrades to RJ Investor Access user interface. Raymond James recently added mobile check deposit within the RJ Investor Access phone application.



### **Inside & Outside of PWFS**

**Alex Petrovic III** – The past few months have flown by as summer has finally turned into fall. September and October are full of birthdays in our family. My nephews Aiden and Charlie, brother John, mother Marilyn, grandmother Doris, wife Dasha and I all have birthdays during these two months. Over Labor Day weekend, my mother's side of the family gathered at a house we rented in southern Missouri at Table Rock Lake to celebrate my grandmother Doris' 90<sup>th</sup> birthday! My cousins and aunt and uncle came in from Atlanta and St. Petersburg, Florida. My Aunt Beatriz made black 90<sup>th</sup> birthday t-shirts, with a margarita glass on it, for the whole celebratory crew!

Dasha, Benny and I also spent a day at Silver Dollar City. I hadn't been to Silver Dollar City in about 3 decades, and it was fun to return with Benny and my nephews Aiden and Jack! My only complaint was getting hit in the eye by a ball from ball pit play area. We rented a 14-person pontoon boat another day and explored Table Rock Lake with the entire family. This was my first time to Table Rock Lake, and I didn't realize how relaxed it is compared to Lake of the Ozarks.

In late September and early October, Dasha visited Charleston, South Carolina with a girlfriend of hers from work. Dasha then met me in Boca Raton, Florida for the Raymond James 10th Annual Wealth Managers conference. We thought hurricane Irma might cancel the conference, but much of Florida on both east and west coasts were spared the full brunt of the storm.

Sandi and I attended the conference for 4 days. Two of the evenings Dasha and I traveled south to Fort Lauderdale where one of my wife's childhood friends, Zhana, now lives with her husband and two daughters. Dasha and Zhana grew up in the same condo building in Yalta, Ukraine. They also shared an apartment together before Zhana decided to head to the U.S. for work many years ago. We met up with Zhana last September in Destin, Florida when we traveled south for my step-sister Sarah's wedding. Zhana and Eber, who is from Honduras, cooked two tasty meals, and we enjoyed catching up and sharing stories about our kids, surviving the recent hurricane and thoughts for the future.



The same week we returned from Florida, I left on Friday for Minneapolis with some guy friends to attend a Sporting Kansas City away soccer game. I traveled to Portland two years ago with the same group for the same purpose. Over the years, I have become more of a soccer fan, and the last few years I have had Sporting KC season tickets. Visiting a road game is a fun experience, and visiting a new city with good friends was a great way to relax.

Our son Benny is doing well. He is almost 2 and just transitioned to the 2-year-old room at school. He is very attached to his old teacher, Miss Nancy. Since two of his friends from his old room, Mila and James, moved a few months ago to his new room, we hope his transition will be relatively easy. Benny seems to be a bright kid, at least that is what his teachers say. We are lucky to have such a happy kid who enjoys reading, singing with mama and papa, running (in that cute toddler run) around the house playing with his toy train and yellow school bus. His favorite possession is his little stuffed rabbit, whom we affectionately call "Bun Bun". Bun Bun is a small white (now somewhat grey) Easter bunny my mom bought for Benny at Walgreens when he was about 5 months old. Little did we know that a Walgreens' bunny would become so coveted. Benny sleeps with Bun Bun and his blanky every night.

As I close my section this quarter, I am writing this exactly 8 months since my father's passing. So many loving, happy memories. I am fortunate to have had 40 years with him, but I miss him.

**Sandi Weaver** – I spent a week in Vienna biking with a few members of the Kansas City Bike Club, as we visited friends (former KC bikers) who work for the United Nations there.

One day we biked from Austria to Czechoslovakia and stayed overnight. The picture shows part of our group on the border, denoted only by a little sign.



**Jim Stoutenborough** – My kids and I experimented in September with mail order meal plans using Green Chef. We chose every other week so we did this for three weekends. There were 3 meals in each shipment so the extra meal we did during the week or held it for the next weekend. I liked it since I didn't have to worry about what to fix on those Saturdays and Sundays and it gave us a lot of variety.

To be even more experimental we went with the vegan option (they also have Omnivore, Carnivore, Gluten-Free, Paleo and Vegetarian). The meals were supposed to take 35-45 minutes to prepare but for me, it took an hour plus since I don't multitask in the kitchen very well. The vegan option received great reviews from my kids even though they are dedicated carnivores.

We are trying Blue Apron this month to see how that works and the first installment went well.

**Marsy Gordon** – It's hard to believe that fall is here, and that Thanksgiving and Christmas will be here soon. The last few months have been busy, including helping a couple of grandsons celebrate their fourth and first birthdays. We also had a visit from an out-of-town daughter and grandson.

A highlight of the last few months for me was hosting a luncheon for my sister and three cousins. The occasion was what would have been our grandmother's 120<sup>th</sup> birthday. We don't live terribly far apart, but busy lives keep us from getting together often. It was nice to spend an afternoon just visiting to catch up, and to recall memories from our childhoods.

I hope life is treating you well. All of us look forward to seeing many of you at our upcoming holiday open house. The rest of you will be missed.

**Ann Kloster** – As last reported, my husband went to Ireland several weeks ago and had a wonderful time seeing family. He said the weather was great, but they spent an inordinate amount of time watching “The Great British Baking Show.”

Back home, we repainted the outside of our home for the final time. We are too old for jaunts up a 25-foot ladder or balancing precariously off the roof, so next time is siding or we are moving. Looking forward to fall weather so I have an excuse to spend time reading instead of doing.

**LaDonna Parker** – Several weeks ago, I was invited to go with a group of friends to a ranch owned by one of the friends. It was so nice. The 40-acre farm is about an hour from Kansas City so I had the feeling of being “away.”

We hiked the trails, had lunch, and caught up with each other's lives. It was a wonderful day!

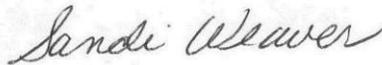
**Jeannine Shaffer** – Our family is very excited to be anticipating the arrival of our 1<sup>st</sup> grandchild in early November.

Since I am a sentimental horder, our children's childhoods are stored in the attic. However, our daughter does not want to use any of the baby stuff so far, so I am wondering why I saved it. Nonetheless, I am anxious to bring down her favorite toys and books to share with her child.

Soon we will be using the bassinet and rocking chair again to snuggle the new addition to our family at our house.



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Senior Advisor