Blue Bell
PRIVATE WEALTH MANAGEMENT
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Three Strikes but You're Not Out

The first strike occurred early in the year as all of the major equity indexes immediately encountered steep declines over fears of the first interest rate increase in many years. It was the worst January on record with the S&P 500 falling 12.78% and the more volatile small-cap Russell 2000 falling 15.62%. Anyone that followed the market undoubtedly heard, "as January goes so goes the market," a reference to the January Barometer. The January Barometer is a theory stating that the movement of the S&P 500 during the month of January sets the stock market's direction for the year. An article which appeared on January 22nd on CNBC.com titled, "Can January really predict market's full year?" claimed that since 1966 the Barometer is correct 87.9% of the time. Fears grew as the markets remained depressed through February, market analysts revised their year-end targets down and economists began predicting an imminent recession. The second strike was the Brexit vote that "everyone" got wrong, which led to the worst 2 day period ever in the international markets. The third strike came with the shocking result of our own presidential election which led to an immediate decline with market futures falling close to 5%. Prior to the election, the consensus view on the street was that a Trump win would lead to a market decline of at least 10%. 2016 will be remembered for three major market/world shocks; the worst January in history, Brexit, and the Trump presidential victory. It was thought amongst Wall Street and the media that all three of these events would cause steep declines in the market. Despite these predictions, the S&P 500 grew by 9.54%. This provided long-term investors very handsome returns even with the overwhelming reasons/sentiment to get out of the market.

It is believed that a large percentage of investors failed to capitalize on the 2016 returns. Listening to the media spell out all of the reasons why things are so bad was a negative influence for some. Headlines included: uncertain fed policy, falling oil prices, the Brexit vote, global growth concerns, major U.S. elections, two large stock market crashes, the worst January on record, unsustainable growth in government debt, trade wars, protectionism, foreign policy, Russian worries, and a very low employment participation rate of only 62.8% along with many others. Have things changed for 2017 and will these changes determine the path of investors' results for the coming year? It is imperative that investors maintain a realistic expectation for returns and look to the long term for achieving their desired investment results.

The new administration aims to enact policy which will stimulate economic growth with a lofty goal of 4% GDP growth versus a 1.6% expected 2016 result. The preliminary plan is to deliver these results through a combination of substantial increases in infrastructure and defense spending as well as other public outlays. Deregulation, currently being cheered by the banking and insurance sector, and several areas of the stock market, is another factor. Finally, tax cuts for individuals and businesses alike round out the administration's goals. Of course there is no certainty that these goals can be accomplished especially with ex-

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pected interest rate increases and rising inflation rates. We also face unfavorable demographic trends such as baby boomers retiring, the potential for higher oil prices, and substantial spending for social programs among other headwinds.

The major shift to fiscal stimulus and away from monetary stimulus may not be as easy as it sounds. Incremental economic growth and lower taxes will come with increases in interest rates, inflation rates, and possible deficits. Certainly for investors, understanding the negatives these trends will have on income investors is paramount. As interest rates rise, bond prices fall. In my opinion, long-term bonds pose the greatest risk to the overall economy in the year ahead.

While October 19, 1987 may not be a date you remember, it was one of the most significant days in my career. The Dow Jones Industrial Average (DJIA) fell 22.6% in one day. Think about it, a $1 million unhedged portfolio in the DJIA was now worth $774,000, a one day decline of $226,000. I mention this for two reasons. First, the DJIA was at 1,738.74 at the close of trading. Investors who went to all cash, missed one of the greatest investment opportunities in history. You must have some downside protection and have a long-term investment perspective in my opinion. Panic selling has never worked in the past as most who get out never get back in until significant market increases occur. The second and most important reason I mention this event is that the market fall resulted in a 30 year trend to lower interest rates. In my opinion, those days are over. The move away from negative interest rates in Japan and Europe, while occurring very slowly, may actually be a positive if combined with fiscal stimulus. It is widely expected that there will be three interest rate increases this year in the United States which may be a headwind for stocks, but patient investors in a diversified portfolio should still see satisfactory returns as companies' growth rates offset the interest rate increases. What is certain is that money left in the bank will lose purchasing power (value) over the long term. It is important to point out that in the past eight elections, the first one hundred days provided excellent results, but future returns are not necessarily as rosy as the post-election bounce.

For 2017, commodities seem to be emerging from a five year bear market, some emerging markets are looking attractive, U.S. large-cap multi-nationals may be hurt by the strong dollar, and small-cap equities are certainly not cheap compared to two years prior. European equities may surprise on the upside and the benefits from fiscal stimulus and tax cuts in the U.S. may be somewhat offset by rising inflation and interest rates along with a strong dollar. There could be some weakness in certain global and domestic markets especially if we follow a path of trade wars.

Overall, 2017 looks to be a year where the positives outweigh the negatives for equity investors. Again, as stated, not so for fixed income investors. We continue to employ strategies to offset some of the risks to investments. I encourage you to learn more about these strategies which are designed to provide tax-efficient investment results. We stayed invested during the three major market disruptions in 2016 due to our confidence in these downside protection hedges.

As always, we appreciate your questions and look forward to meeting and speaking with you throughout the year. Wishing you a very happy, healthy, and prosperous New Year. I remain grateful for the support and confidence you place in Blue Bell Private Wealth Management. You are always welcome to visit us for a meeting or to call with any questions you may have.

Stock Market Fun Facts

- According to Kiplinger, "In the two years following an election, Standard & Poor's 500-stock index gained 16.9%, on average, when one party controls the White House and both houses of Congress; 15.6% when one party controls both houses of Congress and the other party owns the White House; and just 5.5% when the House and Senate are divided."

- The "Super Bowl" indicator says that if the AFC wins, the market will decline for the year. If the NFC wins, it will end the year up. It has an 80% accuracy rate.

- Over the past 20 years, the countries that have won the most gold medals in the Olympics have seen their stock markets perform better than the MSCI World Index in the year after the Olympics ended. In 2008 China won the most gold medals, that following year the Shanghai Composite Index outperformed the MSCI World Index by 43%. In 2016, the US led all countries with 46 gold medals .

2017 Year End Projections

Firm	Strategist	Projection	2017 % Change
Societe Generale	Roland Kaloyan	2400	7.20%
Goldman Sachs	David Kostin	2300	2.73%
Jefferies	Sean Darby	2325	3.85%
BMO	Brian Belski	2350	4.97%
Credit Suisse	Andrew Garthwaite	2300	2.73%
Blackrock	Heidi Richardson	2400	7.20%
Morgan Stanley	Adam Parker	2300	2.73%
Barclays	Jonathan Glionna	2400	7.20%
Citigroup	Tobias Levkovich	2325	3.85%
Bank of America	Savita Subramanian	2300	2.73%
JP Morgan Chase	Dubravko Lakos-Bujas	2400	7.20%
Deutsche Bank	David Bianco	2350	4.97%
S&P Capital IQ	Sam Stovall	2335	4.30%
UBS	Julian Emanuel	2300	2.73%
Oppenheimer	John Stoltzfus	2300	2.73%
RBC Capital	Jonathan Golub	2500	11.67%
Piper Jaffray	Craig Johnson	2424	8.27%
Canaccord Genuity	Tony Dwyer	2340	4.52%

Citigroup — Tobias Levkovich — 2325

"Trumped up could trickle down (to EPS)…Tax cuts could be quite stimulative to S&P 500 EPS. If one assumes a 20% statutory tax rate with no deductions versus a current effective tax rate running at near 27%, that might add as much as $12 of 2017 EPS to Citi's current estimate of $129…A stronger US dollar is plausible if growth and inflation ensue, thereby limiting the earnings benefits. Higher rates from the Fed and possible "crowding out" plus inflation pushing bond yields upward are viewed as offsetting negatives especially if the dollar climbs and eats into earnings. Every 10% move in the greenback might shift EPS by around 2% on an annual basis and therefore must be tracked as well…"

Goldman Sachs — David Kostin — 2300

"In 2017, we expect the stock market will be animated by competing views of whether economic policies and actions of President Trump and a Republican Congress instill hope or fear…'Hope' will dominate through 1Q 2017 as S&P 500 climbs by 9% to 2400…'Fear' is likely to pervade during 2H and S&P 500 will end 2017 at 2300, roughly 5% above the current level."

JP Morgan Chase — Dubravko Lakos-Bujas — 2400

"Equity upside will be closely linked to improving earnings delivery. Prospects of expansionary fiscal policies under a relatively easy monetary backdrop are likely to help support further re-rating of the equity multiple…but both the passage and efficacy of these measures are far from certain at this moment. Stronger US dollar and higher rates are main sources of downside risk for corporate earnings and the equity multiple, especially if those trends are not supported by stronger growth."

Bank of America — Savita Subramanian — 2300

"…2017 could be anything but normal. We see fat tails and a binary set of outcomes. Against the backdrop of elevated valuations, slow growth and limited scope for credit expansion, our target and the recent rally are reliant on policymakers' ability to deliver growth next year. Trump's comments on trade and GOP comments on deficits/spending could drive big market swings in the coming months. Risk-reward will be more important than absolute targets. "

BBPWM Team

Scott Miller Sr.
Partner
jsmiller@bluebellpwm.com

Scott Miller Jr.
Partner
smiller@bluebellpwm.com

Justin Capetola
Partner
jcapetola@bluebellpwm.com

Jon Sobotkin
Partner
jsobotkin@bluebellpwm.com

Miguel Biamon
Senior Investment Advisor
mbiamon@bluebellpwm.com

Hank Fox
Investment Advisor Representative
hfox@bluebellpwm.com

Christopher Paleologus
Vice President
cpaleologus@bluebellpwm.com

Jim Behr
Investment Advisor Representative
jbehr@bluebellpwm.com

Susan Hughes
Executive Assistant
shughes@bluebellpwm.com

Dan Hanagan
Intern
La Salle University

George Zeng
Intern
University of California, Berkeley

Blue Bell Private Wealth Management

Blue Bell Executive Campus
Suite 305
470 Norristown Road
Blue Bell, PA 19422

Tel: 610.825.3540
Fax: 610.825.9690
Toll Free: 888.425.8323
www.bluebellpwm.com

Welcome to the Team!

Susan was born and raised in the Blue Bell, PA area. She attended Mount Saint Joseph Academy in Flourtown, PA and Kutztown University in Kutztown, PA. She graduated from Kutztown with a dual major in Management and Marketing. Since graduation she was employed at The Four Seasons Hotel in Philadelphia and the Gregg Conference Center at The American College in Bryn Mawr, PA. While raising three children she was employed at St. Helena School and did volunteer work for many charitable organizations.

Susan Hughes joined Blue Bell Private Wealth Management in 2016. She currently resides in Blue Bell with her husband, son and two daughters.

Reminders

- If you mail a check, please make the check payable to "Charles Schwab & Co, Inc." with your account number written on the check.
- Prior year (2016) IRA contributions must be made by April 17th, 2017.
- Talk to your children about the benefits of starting a Roth IRA.
- SAVE NOW! Please consider setting up online access to view your accounts online and to receive your statements and trade confirmations electronically.