ROUND TABLE
WEALTH MANAGEMENT

QUARTERLY REVIEW – FOURTH QUARTER 2017

Happy New Year! But to be honest, 2017 was pretty great! Nearly every asset class and global market was positive for the year. Looking forward, we don't think the clock has struck midnight on this market just yet, and that's not the champagne talking either! Corporate earnings in both the U.S. and abroad are expected to increase by double-digits, inflation remains relatively contained and global central banks appear to be communicating effectively regarding interest rate movements. In New Year's speak, no one is taking away the proverbial punch bowl (now *spiked* with Tax Reform), but as advisors we are monitoring the capital markets party closely. We remain cautiously optimistic because as most of us know, nothing really good ever happens after midnight and no one wants to be the last to leave the party.

Annualized Benchmark Returns through December 2017*

	1 Quarter	YTD	1 Year	2 Years	3 Years	5 Years	10 Years
S&P 500	6.6%	21.8%	21.8%	16.8%	11.4%	15.8%	8.5%
Russell 2000	3.3%	14.6%	14.6%	17.9%	10.0%	14.1%	8.7%
MSCI World Ex. US Index	4.3%	24.8%	24.8%	13.5%	7.9%	8.0%	2.4%
MSCI Emerging Markets	7.5%	37.8%	37.8%	24.0%	9.5%	4.7%	2.0%
Bloomberg Barclays U.S. Aggregate	0.4%	3.5%	3.5%	3.1%	2.2%	2.1%	4.0%
Bloomberg Barclays Municipal Bond	0.7%	5.4%	5.4%	2.8%	3.0%	3.0%	4.5%
Bloomberg Barclays U.S. High Yield	0.5%	7.5%	7.5%	12.2%	6.4%	5.8%	8.0%
FTSE Nareit All REITs	2.4%	9.3%	9.3%	9.3%	6.9%	9.9%	7.7%
Alerian MLP	-0.9%	-6.5%	-6.5%	5.2%	-9.3%	-0.1%	6.0%

Source: Bloomberg **Quarter return is not annualized.*

The Big Picture (for additional information, click HERE)

U.S. Real Gross Domestic Product increased at a 3.2% rate in the third quarter, and the expectation for fourth quarter U.S. Real GDP growth is around the same level.[1] For 2018, the Philadelphia Federal Reserve's Survey of Professional Forecasters is projecting U.S. Real GDP growth of 2.5%. Other non-U.S. regions such as Europe, Asia and broad Emerging Markets are also experiencing strong economic growth that is largely expected to continue in 2018. This ongoing dynamic is what market strategists are referring to as the "synchronous global growth story." In our view, as all economic regions are generally growing, lower equity valuations in non-U.S. markets relative to U.S. markets suggest there is greater return potential abroad in 2018.

The Tax Cuts and Jobs Act of 2017 was signed by President Trump on December 22. Capital markets have applauded the passage with higher equity index levels. A not-readily-apparent impact of the Act is that some companies with low tax rates may pay more in taxes, while other highly taxed companies may pay less in taxes. *With respect to this dynamic, active management may have an edge over passive investing when it comes to security selection*. The lower corporate tax rate is projected to increase S&P 500 earnings, thus alleviating some of the valuation risk inherent in the U.S. markets. Please see our U.S.

[1] Atlanta Federal Reserve GDP NOW estimate.

Large and SMID cap asset class summaries, both of which describe in greater detail the impact of the Tax Cuts and Jobs Act of 2017.

North Korea risks continue to be elevated despite low levels of market volatility. As 2018 unfolds, we expect this and other geo-political issues to influence market direction in the short-term, but this observation is an ongoing continuum and not a one-time risk. Another U.S. risk unfolding later in the year is the 2018 midterm elections, which has the potential to shift legislative control in Congress.

Summary of Allocation Recommendations

Asset Class	Recommendation	Comment	Asset Class Summary Link
U.S. Large Cap	Neutral/Underweight	Earnings remain strong, but YoY comparable growth will be challenged in 2018. Relative valuations high	*U.S. Large Cap Review*
U.S. Small & Mid Cap	Neutral	Tax reform expected to benefit SMID cap. M&A potential as multi-nationals repatriate cash	*U.S. Small Cap Review*
Non-U.S. Developed	Overweight	A continuing storyline…attractive relative valuations and improving macro and corporate fundamentals	*International Equity Review*
Emerging Markets	Overweight	Global synchronous growth in developed markets provide a continuing tailwind to EM. Economic and earnings growth continue to improve, focused on Asia	*International Equity Review*
Fixed Income	Neutral	Maintain safe haven assets for volatility, floating rate loans to alleviate interest rate risk, and shorter duration given flat yield curve. Tax Reform may provide pricing support as new issuance expected to slow	*Fixed Income Market Review*
Tactical	Neutral	Master limited partnerships, robotics and cyber security	*Tactical Investments Review*
Alternative	Hedge Funds & Private Equity	For appropriate allocations	Contact your Wealth Advisor

The Outlook

We continue to recommend a neutral/underweight allocation to U.S. Large Cap Equities, as upside is likely modest in the near-term. U.S. large cap earnings expectations are over 13% presently, but analysts usually reduce expectations throughout the year. We suspect earnings revisions will be more complicated given the Tax Reform passage and its positive and negative impacts on company earnings. Large cap company earnings are generally thought to have less lift from tax reform than SMID cap companies. Valuation remains our key U.S. large cap concern, which could be exacerbated by any change to consensus outlooks.

We recommend a neutral allocation to U.S. SMID Cap Equities, which is modestly higher than last quarter. As stated in our prior letter, SMID Cap companies on average pay a 32% tax rate and the Tax Reform Act reduces that rate, which should improve free cash flow. In addition, repatriated cash from large cap, multi-national firms may be used for acquisitions, and SMID cap companies have historically accounted for 91% of M&A targets.

Our positioning in non-U.S. developed markets remains an overweight allocation. Various economic surveys continue to point to sustained growth and in some cases suggest consumer demand will outstrip available supply. The European Central Bank and the Bank of Japan remain accommodative, which should be supportive for corporate earnings growth.

We are improving our recommendation of emerging markets from neutral to overweight. Economic fundamentals and corporate earnings remain upbeat. U.S. and non-U.S. developed economies are projected to experience strong growth in 2018, which should bode well for manufacturing-focused EM countries. Similarly, the potential European supply constraints mentioned above would seemingly be very helpful for export-oriented EM countries.

Regarding fixed income, our recommendation is for a neutral allocation to moderate portfolio risk. Higher-grade corporate credit provides little yield pickup in the near-term; however, municipals appear favorably priced in light of a strong 2017. Tax Reform may curtail 2018 municipal issuance, providing pricing support as new issue demand remains consistent. We continue to include floating rate loans in allocations to alleviate interest rate risk, in favor of credit risk.

Our Tactical recommendations include Master Limited Partnerships (MLPs) and specific sector ETFs. MLPs have been more "limited" than "masters" this past year. As 2017 closed out, however, the Alerian Index was up 4.7% in December and continues to climb in 2018. We continue to see upside from current levels and will look to liquidate the investment upon reaching our price target.

During the fourth quarter we recommended investments in a robotics ETF and a cybersecurity ETF. Both have performed well thus far and we maintain our recommendation. Please see our Tactical Investment Review for more information on this new recommendation.

Tax and Financial Planning News

It is possible that you missed the passing holidays during tax reform season, but in all seriousness, there were drastic tax reform changes that will have an impact on most U.S. income tax payers. The impact will vary based on the taxpayer's specific situation with the main driver being the state of domicile.

Starting January 1, 2018 there will remain seven federal income tax brackets ranging from 10% to 37%, which represent a reduction at most taxable income levels. The standard deduction for joint and single tax filers was doubled from the 2017 amounts to $24,000 & $12,000, respectively. Good news if we could stop there! Unfortunately, a reduction to the SALT (state and local income taxes) deduction overwhelmingly effects high income tax rate states (NJ, NY, CA, CT, MA). Additionally, the mortgage threshold for deduction of interest was reduced to $750,000 for loans incurred after December 31 (for joint filers) and is eliminated for home equity loans. Furthermore, the elimination of other commonly used tax-saving items such as personal exemptions and miscellaneous deductions (found on Schedule A of form 1040) could create a higher tax liability in 2018. Still breathing? If so, don't panic. your Wealth Advisor here at Round Table is knowledgeable on these changes and can help you navigate your 2018 financial planning. Additionally, our recent blog on the tax changes may provide some additional clarity to a very confusing subject.

Firm News

Please join us in welcoming Elizabeth Floyd and Alicia Wall to Round Table!

Respectfully submitted,

Round Table Wealth Management