RBC Wealth Management

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November 2017

3rd Quarter 2017 Market Commentary

The Quarter in Review

The third quarter saw outperformance in the NASDAQ Composite Index, which is comprised largely of technology company stocks. Strong earnings reports by the likes of Amazon, Apple, and Netflix helped lead the way last quarter for the index. In general, the equity markets continue the bull run that began all the way back in March of 2009. The markets haven't experienced a 10% correction since January of 2016, where historically, we average at least a 10% correction once every twelve months. If the markets were to experience a pullback in the coming months, we would view that as a "normal" correction within the context of the continued bull market.

Period Ending September 30, 2017

		Annualized Total Returns					Calendar Period Total Returns						
	YTD	1 year	3 year	5 year	7 year	10 year	2016	2015	2014	2013	2012	2011	2010
Dow Jones Industrial Average	15.45%	25.45%	12.35%	13.57%	13.87%	7.72%	16.50%	0.21%	10.04%	29.65%	10.24%	8.38%	14.06%
NASDAQ Composite Index	21.67%	23.68%	14.41%	17.27%	16.88%	10.38%	8.87%	6.96%	14.75%	40.12%	17.45%	-0.83%	18.02%
S&P 500	14.24%	18.61%	10.81%	14.22%	14.38%	7.44%	11.96%	1.38%	13.69%	32.39%	16.00%	2.11%	15.06%
Russell 2000	10.94%	20.74%	12.18%	13.79%	13.51%	7.85%	21.31%	-4.41%	4.89%	38.82%	16.35%	-4.18%	26.85%
MSCI EAFE	19.96%	19.10%	5.04%	8.38%	6.38%	1.34%	1.00%	-0.81%	-4.90%	22.78%	17.32%	-12.14%	7.75%
Barclays US Aggregate	3.14%	0.07%	2.71%	2.06%	2.95%	4.27%	2.65%	0.55%	5.97%	-2.02%	4.21%	7.84%	6.54%
Barclays Global Agg. Ex-US	8.74%	-2.42%	0.20%	-0.73%	0.62%	2.57%	1.49%	-6.02%	-3.08%	-3.08%	4.09%	4.36%	4.95%

Based on U.S. dollars

Source: RBC Wealth Management
as of 09/30/2017

Portfolio Focus Changes

In our mutual fund model, we continue to hold overweight positions in international markets which we increased exposure to in the 2nd quarter. We feel that international markets continue to offer lower valuations and stronger projected growth rates than domestic markets. A large part of this is due to the fact that it has taken the international community longer to recover from the 2008-2009 financial crisis, and may now be positioned to outperform over a period of months to years.

In our individual stock model, we have continued the practice of selling covered call options on partial positions. Recently, we sold covered calls on approximately one-third of our shares in Bank of America Corp (BAC) and Microsoft Inc. (MSFT), two positions that have appreciated nicely in recent years. If those, and similar positions, continue to appreciate, we would be open to trimming further at higher price levels in line with this strategy. Attached you will find a two-paged fact sheet that does a nice job of illustrating this strategy more clearly.

Year-End Projects

As we near year-end, the team will be tackling a number of year-end projects. Among them include monitoring accounts for any tax loss selling opportunities, reaching out to individuals who have yet to satisfy their 2017 Required Minimum Distributions (RMDs), and strategically rebalancing portfolios in an effort to realign accounts that have drifted substantially from their target asset allocations.

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Social Security At-A-Glance

Social Security continues to be a topic we're asked about seemingly weekly, which is why we're here to help! As you may have heard, congress passed new regulations surrounding a couple of filing strategies two years ago. For those born on January 2, 1954, and later, the ability to utilize the 'file and suspend' or the 'file a restricted application' strategies has been disallowed. Spousal, survivor, and ex-spouse benefit options remain available, meaning that Social Security planning is still vital.

As a refresher, your Social Security benefit is based on the highest 35 years of Indexed Earnings, meaning working an extra year or two can help to increase your personal benefit. You will need to accumulate 40 credits, or 10 full working years, to qualify for your full retirement benefit. When you take your benefit can also have a meaningful impact on your benefit. Depending on your year of birth, taking Social Security early, at age 62, can mean a permanent reduction of your full benefit between 25%-30%. Conversely, every year you wait to take your benefit past your full retirement age, your benefit amount grows at 8% annually, until age 70. There is no additional benefit increase past age 70.

If you're nearing retirement and have questions surrounding your Social Security strategy, please be sure to reach out at your convenience.

Future Newsletters

When we started producing our quarterly newsletter two years ago, we did so with the goal of keeping our clients informed about what our personal thoughts were surrounding the markets and economy in general, as well as to provide some educational material on timely and popular financial topics. We hope you've enjoyed receiving these periodical insights and would welcome any feedback you have relating to these newsletters. If there is a particular topic or question you would like to see addressed in future releases, please give us a call or send us an email and we'd be happy to comment!

What's New with Us?

Dana recently celebrated a milestone anniversary with RBC: 25 years! The branch helped her celebrate at Eatery A in Des Moines. Colby made sure to inform Dana that he was 6 when she started her first day with the firm…

Kirk and Dianna's weekends and the occasional evening were filled with golf this summer. Many of you might remember Jerry Abrahamson, Kirk's dad, from his days at Piper Jaffray. Jerry and Kirk played together in a tournament back in July, and if the son had played a bit better, the team might have fared more positively.

Colby's annual stag getaway landed him in Boston this August. Each year, a small group of friends pick a city to explore for a few days. This year was an extra-special engagement as one of the entourage exchanged nuptials with his fiancée at the end of the trip. Next summer, the group will head to Portland, Oregon.

Mike's trip to Atlanta was a success. In addition to catching two Braves baseball games, he and his dad also got the chance to tour the College Football Hall of Fame, CNN World Headquarters, and Sun Trust Park. Next fall, the family will be heading to South Bend, Indiana, to watch the Notre Dame Fighting Irish.

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We hope you enjoyed this quarter's newsletter and are enjoying your fall! It's hard to believe that Thanksgiving is less than two weeks away and the holidays will be in full effect. If there is anything we can help to provide or questions we can help to answer, please don't hesitate to reach out.

Warmest Regards,

-The Abrahamson Investment Group
Kirk, Mike, Dana, & Colby

Option strategies – selling covered calls

Bullish/neutral strategies

The covered call strategy involves the selling of call options against a long stock position. The short call position is considered "covered," in the event of an assignment, by the long stock position. Investors may view covered call selling (writing) as leasing out the underlying stock with an option to buy.

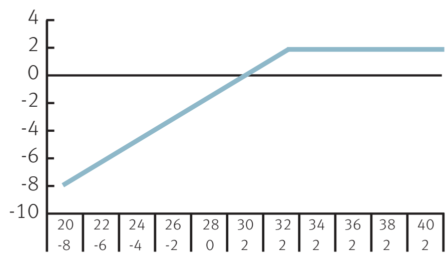
As a call writer, you obligate yourself to sell, at the strike price, the underlying shares of stock upon being assigned an exercise notice. For assuming this obligation, you are paid a premium at the time you sell the call.

Investors write covered calls primarily for the following two reasons:

- The potential to realize additional return on their underlying stock by earning premium income;
- To gain some protection (limited to the amount of the premium) from a decline in the underlying stock price.

If a writer is assigned, the profit or loss is determined by the amount of premium plus the difference, if any, between the strike price and the original stock price. If the stock price rises above the strike price of the option, the writer may have the stock called away (i.e., is assigned), and forgoes the opportunity to profit from further increases in the stock price.

If, however, the stock price decreases, the potential for loss on the stock position may be substantial; the hedging benefit is limited only to the amount of the premium income received.



Cover call P&L at expiration

Investors who use the covered call strategy should have a neutral to slightly bullish view of the underlying stock. Things to consider when choosing a covered write strategy:

- **Time frame —** The options expiration date will have an influence on its premium. While call sellers will want to focus on shorter-term options, they will have to balance this with the amount of premium they are looking to receive.
- **Strike price —** Typically, investors sell calls with strike prices that are greater than the stocks current price (out-of-the money). This allows for some appreciation of the underlying stock price before the stock may be called away. While an out-of-the money strike price allows for potential price appreciation on the stock, it will garner a smaller premium for the seller. The investor must balance their desire to receive a greater upfront premium from the sale of the call with the potential for additional price appreciation in the stock.
- **The underlying stock —** Understanding the fundamentals of the underlying stock and being comfortable owning the shares is the most important consideration in the covered write strategy! The rate of return generated from the strategy is secondary.

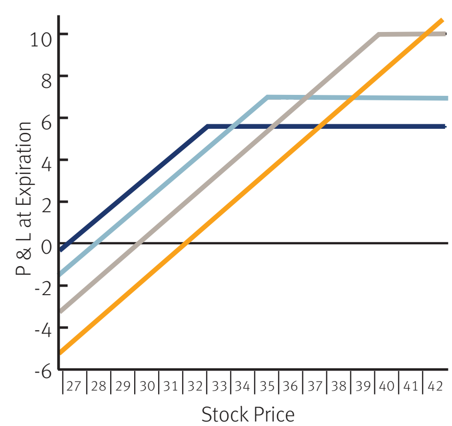
Covered call example

Stock XYZ is trading at $32/share.

Three month call options:

Strike price	Premium
32.5	$4.50
35	$3.50
40	$2.00

Assuming the stock is purchased at $32 and the calls are sold at the above prices, the results (at expiration) for each strike price are shown below.



32.5 Strike 35 Strike
40 Strike Stock

Non-deposit investment products: • Not FDIC insured • Not bank guaranteed • May lose value

An important concept of covered writing is the capping effect of the short call. The maximum profit in a covered call position is capped at the difference between the purchase price of the stock and the strike price of the call plus the premium of the option. The table below shows the expiration results for various strike prices over different stock levels. You can see the tradeoff between the option premium and the strike price. If premium income is the main objective you may choose to sell the $32.5 strike call. This option brings in the most upfront premium. It also, by virtue of the lower strike price, caps the upside potential at the lowest level. If additional appreciation potential is desired you may choose the $40 strike call. This allows the investor to participate in a move from $32 to $40 before they are capped from further upside gains. In this case the maximum potential gain would be (call strike price {$40} minus stock purchase price {$32} plus option premium {$2.00} = $10.

Stock price	Strike price		
	32.5	35	40
27	-.5	-1.5	-3
28	.5	-.5	-2
29	1.5	.5	-1
30	2.5	1.5	0
31	3.5	2.5	1
32	4.5	3.5	2
33	5	4.5	3
34	5	5.5	4
35	5	6.5	5
36	5	6.5	6
37	5	6.5	7
38	5	6.5	8
39	5	6.5	9
40	5	6.5	10
41	5	6.5	10
42	5	6.5	10