



January 2018

**4<sup>th</sup> Quarter 2017 Market Commentary**

**The Quarter in Review**

The last quarter of calendar year 2017 finished much like it started, with a strong finish to end the year. All domestic equity indices finished the year in positive fashion, most with double digit returns. The NASDAQ led the major domestic equity indices returning just shy of 30%, led in large part by an outperformance of the technology sector. Large cap stocks largely outperformed their small and mid-cap counterparts, and domestic stocks generally outperformed international stocks.

**Period Ending December 31, 2017**

	YTD	Annualized Total Returns					Calendar Period Total Returns						
		1 year	3 year	5 year	7 year	10 year	2017	2016	2015	2014	2013	2012	2011
Dow Jones Industrial Average	28.11%	28.11%	14.36%	16.37%	14.30%	9.28%	28.11%	16.50%	0.21%	10.04%	29.65%	10.24%	8.38%
NASDAQ Composite Index	29.64%	29.64%	14.72%	19.40%	16.01%	11.26%	29.64%	8.87%	6.96%	14.75%	40.12%	14.45%	-0.83%
S&P 500	21.83%	21.83%	11.41%	15.79%	13.76%	8.50%	21.83%	11.96%	1.38%	13.69%	32.39%	16.00%	2.11%
Russell 2000	14.65%	14.65%	9.96%	14.12%	11.62%	8.71%	14.65%	21.31%	-4.41%	4.89%	38.82%	16.35%	-4.18%
MSCI EAFE	25.03%	25.03%	7.80%	7.90%	6.04%	1.94%	25.03%	1.00%	-0.81%	-4.90%	22.78%	17.32%	-12.14%
Barclays US Aggregate	3.54%	3.54%	2.24%	2.10%	3.20%	4.01%	3.54%	2.65%	0.55%	5.97%	-2.02%	4.21%	7.84%
Barclays Global Agg. Ex-US	10.51%	10.51%	1.77%	-0.20%	1.05%	2.40%	10.51%	1.49%	-6.02%	-3.08%	-3.08%	4.09%	4.36%

Based on U.S. dollars

Source: RBC Wealth Management as of December 31, 2017

**Portfolio Focus**

In our mutual fund, ETF, and tactical stock models, we sold our position in the iPath/Bloomberg Coffee Sub-index ETF (JO). Though the story had been compelling, coffee crops are now showing a surplus, and the anticipated price movement in the commodity has not materialized to this point. And in our core stock model, Chicago Bridge & Iron (CBI) recently announced a merger with McDermott International. We'll continue to monitor this merger and its potential intermediate-to-long term impact on the stock.

**Market Valuation & Sector Rotation**

The strength of the stock market in 2017 has some investors worried about a correction or pullback. In fact, it's been over a year since our last 10% correction. Historically, we average at least a 10% correction once every twelve months. Over the last few months, the rate at which equity markets have been rising has increased. We think that this trend may be moving "too much too fast" and could see a potential pull back in the 8-10% range at some point. We continue to view any such pull back as a buying opportunity, as the strength of the secular bull market is still intact.

This ebb and flow in the markets creates opportunities for investment. One way in which we try and capitalize on these opportunities is through sector and asset class rotation and weighting those areas appropriately. Currently, our mutual fund investment model is overweight large cap stocks versus small and mid-cap stocks, as well as overweight from a neutral weighting in international stocks. Our view is that the international markets have generally lagged domestic markets over the last 8 years prior to 2017 and may now be positioned for a period of relative outperformance.



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#### Tax Reform

As you all have likely heard, congress passed sweeping tax reforms last month that President Trump signed into law. These changes will go into effect for the 2018 tax year and will not have an impact on 2017 tax filing.

One of the major highlights of the tax reform package was a reduction in the top corporate tax rate from 35% to 21%, which may help investors through potential stock buybacks, increased dividend rates, mergers and acquisitions, capital improvements, and/or expand by other means. Further, individual income tax rates were also reduced, which could help to spur the economy further, as consumers spend more with the extra savings. Below you will find a chart showing the new individual tax rates for individuals and married couples filing jointly.

Though we are not qualified to offer tax advice, if you have specific questions surrounding the Tax Cuts and Jobs Act and how it may impact you, please contact us to further discuss. When appropriate, we'll conference with your tax preparer to ensure that your questions are answered.

Rate	Married filing joint	Individual
10% tax rate	\$0 to \$19,050	\$0 to \$9,525
12% tax rate	\$19,050 to \$77,400	\$9,525 to \$38,700
22% tax rate	\$77,400 to \$165,000	\$38,700 to \$82,500
24% tax rate	\$165,000 to \$315,000	\$82,500 to \$157,500
32% tax rate	\$315,000 to \$400,000	\$157,500 to \$200,000
35% tax rate	\$400,000 to \$600,000	\$200,000 to \$500,000
37% tax rate	\$600,000 or more	\$500,000 or more

Source: RBC Wealth Management

#### Fixed Income

Our fixed income allocation continues to be positioned for a flat-to-rising interest rate environment. The Fed is forecasting as many as three rate hikes in 2018, while RBC analysts are slightly more conservative and are forecasting just two rate hikes in the new year. We continue to monitor fixed income for opportunities appropriate given interest rate environments and general economic factors.



**Wealth  
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#### **What's New with Us?**

Dana and her husband, Chad, will be traveling to Minneapolis to watch the Vikings take on the Saints in the divisional round of the NFL Playoffs. As long-time fans, they couldn't be more excited to cheer on the Vikings in their new stadium.

Kirk and Dianna traveled to Palm Desert, California for Christmas this year and spent the holidays with their two daughters, Kylie and Laney, as well as Kirk's mother, Sharon. There, they enjoyed plenty of golf, sun, and time with family. This followed a trip to Bella Vista, Arkansas, where Kirk & Dianna visited Kirk's father, Jerry, and uncle, Jim. They spent two and a half days playing golf together.

Colby and his wife, Abby, took their first European trip in October for an Italian wedding. A college friend, who now lives abroad, was married in the Marche region of Italy, near the Adriatic Sea. Both indulged on wine, pasta, and prosciutto for a week.

Mike and his family had a relaxing holiday season. His dad's side of the family visited for Thanksgiving, as the group of 25 took over the local Village Inn for lunch. Christmas was a much smaller affair, spent with his wife, Gina, daughter, Allie, and grandson, Jameson.

We hope you all enjoyed the holidays surrounded by family and those closest to you. Please feel free to reach out to any of us with questions you might have regarding your accounts or the markets in general.

Warmest Regards,

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

The views presented herein are solely those of the Abrahamson Investment Group and do not necessarily represent the views of RBC Wealth Management. Current status of issues discussed in this letter is subject to change based upon market conditions and industry fundamentals. Clients should work with their Financial Advisor to develop investment strategies tailored to their own financial circumstances. Past performance is no guarantee of future results.