Vector
WEALTH MANAGEMENT

Dear Client,

A broken record is often cited as a constant and annoying repetition of a statement. Our message over the past several quarters has probably started to sound like a broken record; however, it should be far from causing an annoyance! The S&P 500 (proxy for the US stock market) has produced a positive return in seventeen of the past eighteen calendar quarters. This stellar batting average has resulted in returns which have outpaced international stock markets as well as the broader bond markets. Important to note, the US stock market makes up about one half of the global stock market investment opportunities.

During the second quarter, the US stock market returned +3.09%. For the year, the US stock market is +9.34%, while international markets are +13.81% for developed markets and +18.43% for emerging markets. The broader bond market has returned +2.27%. Contrary to what many industry professionals have been predicting, the bond market continues to produce positive returns.

A bull market is not synonymous with a market bubble; the latter, can ultimately lead to a burst. Further, fear and greed do not drive markets, they accelerate markets (up or down). Emotions can cause market participants to move with a herd mentality. There are various ways to measure fear and greed, with no single measure being the one and only reliable indicator. Right now there does not appear to be signs of extreme fear or greed, which is a good thing. As we look back over the first half of the year, one of the most notable items is how steadily markets have risen, despite ongoing political uncertainty and geopolitical tumult. This serves as a good reminder that over the long term, financial assets are priced and valued based on their underlying economic fundamentals such as yields, earnings, and growth, not on transitory macroeconomic or political events.

Economic and corporate fundamentals still look healthy, and investors are pricing in expectations that the second quarter earnings season will demonstrate a continuation of the strong growth trends exhibited so far in 2017. Inflation is lower, but still in the ballpark of the Federal Reserve’s 2% target. Global central banks, including the Federal Reserve, are not seen as becoming aggressive in raising rates and tightening monetary policy any time soon.

Looking ahead, the likelihood of a global economic recession continues to appear low. We know there will inevitably be shorter-term market surprises, including negative ones. Within your portfolio we continue to focus on broad global market participation while selectively adding volatility-mitigating strategies to help defend in the event of a shorter-term negative surprise. While our recent messages may be repetitious, the economy and market have not resembled a broken record as they have continued to progress.

Thank you for your trust and confidence.

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**2nd Quarter 2017**

# Charitable Donation Strategies

Often times clients who are charitably inclined ask for assistance with gifting strategies. We want to help you make the biggest impact with your donations and are happy to work with you and your accountant to determine if any of these strategies may be beneficial for your specific situation.

## Donating Highly Appreciated Stock

Instead of making donations from your checking account, you may be able to give stock from your after-tax brokerage account, maximizing the amount the charity receives AND your charitable tax deduction.

If stock in an after-tax account has increased in value since it was purchased, it may be more beneficial for the charity and for you, to transfer the shares directly. The qualified charity receives your contribution for the full market value of the shares, you do not incur capital gains because you did not sell the stock, and if you itemize deductions you receive a tax deduction for the full market value.

## Qualified Charitable Distributions (QCDs)

If you have an IRA and are over age 70½, you can utilized Qualified Charitable Distributions (QCDs) to donate money directly from your IRA to eligible charities without being taxed on the IRA withdrawals. Distributions must be paid directly to the charity for up to $100,000 per year, and are counted toward meeting your annual Required Minimum Distribution (RMD).

QCDs are excluded from your Adjusted Gross Income (AGI) so if you itemize deductions, no charitable deduction is allowed on your Schedule A.

The impact of reducing your AGI varies greatly depending on your situation. It could reduce taxation of Social Security, or allow a greater benefit from Miscellaneous Itemized Deduction for expenses exceeding 2% of AGI, or prevent phase-out of deductions.

## Donor Advised Fund

A donor-advised fund is a charitable account that allows donors to take an immediate tax deduction for contributions made to it. You continue to retain control over *how* the account is invested and *when* funds are distributed to charities. An account can be opened with as little as $5,000 in cash or appreciated assets, and you can add to the account with contributions of $500 or more. Additional information can be found at *SchwabCharitable.org*

## Referrals

We are fortunate to have grown over the years primarily through referrals from you, our clients. Thank you! If you know of other individuals you think could benefit from our services, we would love the opportunity to speak with them.

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