Market Overview

There is a renewed sense of hope and optimism that comes with the New Year. While the change from one day to the next may be arbitrary, the closure of one year makes it feel like so much more. 2016 had more plot twists, highlights and heartbreak than a Hollywood blockbuster. Political turmoil around the globe started early on and never let up. Here in the US we suffered through a brutal political primary that led to, against all odds, an even uglier general election campaign. And of course, the Trump victory shocked many at home and abroad.

Overseas, nobody believed that Great Britain would actually vote to leave the E.U. The good people of Chicago got one of the emotional highlights of the year when their Cubs, the lovable losers, took home the World Series Title for the first time since 1908. There were a lot of emotional lows as well, including the loss of a number of prolific individuals from the arts, sports, and political world. Across the board, 2016 was not for the faint of heart. Financial markets were not left off the rollercoaster ride either.

We also took the opportunity to look back on market predictions that were made for 2016. How did they fair? No surprise - they were about as accurate as a New England weather forecast.
While researching these "predictions" we learned that the famed Nostradamus issued 6,338 prophecies - if we keep these headlines up long enough, someone will be right. After all, a broken clock is right twice a day.

From an investment standpoint, we had four markets all rolled into one exciting year. In January and February the S&P 500 declined by 9.1% and we were met with fear and panic. Then, just as quickly as it dropped, the market went up by 15.8% from the bottom\(^1\). From here we saw a sideways market through the summer, with the occasional implosion and recovery (IE Brexit), until the presidential election results were counted and called at 2:30am on November 9th. Surprising to some, the market has not looked back since - moving up just shy of 6% since the election.

Since we last wrote the Fall Commentary many things have changed, and yet many also remain the same. There is a new incoming president, the Fed has increased short term interest rates, and longer term interest rates have moved up considerably. Some things that have not changed, the US economy is still in growth mode, earnings have continued to go up and so has GDP\(^2\). Unemployment remains low and declining and inflation has begun to pick up.

Some of the bright spots for 2016 include high yield bonds. The Barclays High Yield index finished the year up 17.13% - this was an area we highlighted in the Spring 2016 commentary. We also pointed out that an overweighting to US stock markets and underweighting to international markets may make sense. The S&P 500 was up 11.96% for the year while the MCSI EAFE was only up 1.51%. Also worth noting, US large cap stocks (i.e. the S&P 500) have begun to underperform small and mid-sized companies\(^3\).

In addition to High Yield bonds, corporate bonds had a solid year, the Barclays Corporate Credit Index finished 2016 up 6.11% for the year.\(^4\)

**Outlook**

As we discussed our outlook we couldn't help but think about those predictions that started off 2016. We can't stress enough that our job is to help filter out all of the noise and help clients invest appropriately to reach their personal financial goals. Granted, this is getting harder in our 24 hour news/social media dominated world. We take pride in the relationships we have with our clients and the direct, easy access they have to us. As always, we will stick to an asset allocation that is tailored to our clients’ goals. We pay close attention to events as they unfold in the capital markets and adjust portfolios accordingly. We also spend hours weekly evaluating managers and investments that we currently own, as well as those that we are considering adding to the portfolio to help ensure that all investments meet our high standards for our clients. The key to long term investing is, and always will be, having a plan and sticking to it.

\(^1\) Google Finance Charts  
\(^2\) Morgan Stanley GIC Chartbook  
\(^3\) JP Morgan Insights 1/3/2017  
\(^4\) JP Morgan Insights 1/3/2017
We believe it makes sense to overweight US based stocks versus international ones. We still do not see the reform needed in Europe and while valuations are cheap, there is significant geopolitical risk in the Euro Zone. We also believe that having a weighting in large, mid and small size companies domestically that is in-line with the broad domestic market makes sense. We will look to reduce our large company bias in 2017.

US Stocks may benefit from corporate tax reform that is planned under the incoming Trump administration. Our view is that this reform can add up to 8% to S&P 500 company earnings\(^5\) this year. This coupled with the fiscal spending plan that we will likely see in the first half of the year should keep the US economy on a positive track for most of 2017.

On the bond side of things, we are not as worried about rising interest rates as many of our contemporaries. While we do believe rates will increase, we believe the pace of increase will be manageable and the risk of owning bonds in a rising rate world appears overblown. In the last rising rate period from 1940-1980, the Barclays Intermediate Bond index had only five negative years. The worst of these five years was a loss of 3.2%\(^6\).

**Topics in Personal Finance**

The New Year is a great time to make sure that your financial house is in order. Tax season allows us to recap what we have done in the previous year and where our personal finances stand. We have included (Chart Top of page 4) the retirement account contribution limits for 2017, which are largely unchanged from 2016. If possible, make sure you are deferring as much as you can into your workplace plan and also into an IRA.

\(^5\) Morgan Stanley “On the Market” January 2017

\(^6\) Morgan Stanley Chartbooks
For those of you receiving Social Security benefits there was a small "cost of living" increase of 0.3% for 2017. This will be partially offset by the modest increase in the base Medicare premiums from $105/month to $109/month. It is important to note that Medicare premiums are means tested and those with higher incomes will pay more. For example if you are married filing jointly and your AGI is between $170,000 and $214,000, your Medicare payment will be $187.50 and you will be subject to a Part D surcharge of $13.30. We recommend that you take time to review not just your asset allocation, but also the location of your assets to make sure that you are investing tax efficiently. For example, do you hold taxable bonds in a non-retirement account?

You may also be wondering what Trump’s tax plan may mean for you. There is a good chance that the new administration will implement three income tax rates of 12%, 25%, and 33% this year. There has been a lot of discussion around the impact to charitable deductions as well. President-Elect Trump has proposed leaving itemized deductions in place, but capping them. It is still too early to tell what changes will be made here, but if you plan on making any large charitable deductions this year we recommend waiting to get clarity on this before you make an irrevocable gift. We do expect the qualified charitable distributions from IRAs to continue. Also, the annual gift tax exclusion will stay at $14,000 this year.

Individuals are changing jobs more frequently, and with unemployment rates low, we expect this rate of change to continue. There are thousands of questions to consider once someone makes the change from "what is the

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7 College For Financial Planning – Annual Limits
8 College For Financial Planning – Annual Limits
9 College For Financial Planning – Annual Limits
10 CNBC.com, Trump Tax Plan, December 8, 2016
policy on working remotely?" or "does my new employer offer an HSA?" to "what retirement plans are offered and what investment options are available?" People also need to make decisions on the benefits and accounts they had at their former employers, such as 401(k) plans and pension accounts. If you or someone you know is considering a change and wants to talk through questions around benefits, we are happy to help.

Parting Thoughts

We are excited to announce that Ben was a recipient of the 2017 Five Star Wealth Manager for the Boston area in 2016. He will be featured in the February issue of Boston Magazine. This honor is only awarded to approximately 20% of advisors in the area.

In addition, Todd has been invited to teach the Investment Management course for the Boston University Financial Planning program. This course is required for anyone seeking to become a Certified Financial Planner™.

Our team has been growing rapidly, and we are happy to have MJ Vasquez join us as a Financial Advisor. Most recently, MJ worked directly with the Morgan Stanley Private Bank team in our Boston office.

We continue to revamp and update our website. If you haven't been there recently, take a tour. There are great articles on Investing, Philanthropy, Retirement, and Business planning.

Finally, there is a great quote by the poet Edith Lovejoy Pierce that goes "We will open the book. Its pages are blank. We are going to put words on them ourselves. The book is called Opportunity and its first chapter is New Year’s Day."

We hope that 2017 is a fantastic year for all of you - full of opportunity, excitement, good health and frequent laughs. We do have one prediction that we will comfortably make: the market will undulate as it always does. Stay calm and focused – no one knows for sure if the next 10% move in the market will be up or down, however we all can be fairly certain which direction the next 100% move will be...

Please don’t hesitate to call or email us with any questions you may have. We look forward to hearing from you.
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Bonds are subject to interest rate risk. When interest rates rise, bond prices fall; generally the longer a bond's maturity, the more sensitive it is to this risk. Bonds may also be subject to call risk, which is the risk that the issuer will redeem the debt at its option, fully or partially, before the scheduled maturity date. The market value of debt instruments may fluctuate, and proceeds from sales prior to maturity may be more or less than the amount originally invested or the maturity value due to changes in market conditions or changes in the credit quality of the issuer. Bonds are subject to the credit risk of the issuer. This is the risk that the issuer might be unable to make interest and/or principal payments on a timely basis. Bonds are also subject to reinvestment risk, which is the risk that principal and/or interest payments from a given investment may be reinvested at a lower interest rate.

Bonds rated below investment grade may have speculative characteristics and present significant risks beyond those of other securities, including greater credit risk and price volatility in the secondary market. Investors should be careful to consider these risks alongside their individual circumstances, objectives and risk tolerance before investing in high-yield bonds. High yield bonds should comprise only a limited portion of a balanced portfolio.

S&P 500 Index is an unmanaged, market value-weighted index of 500 stocks generally representative of the broad stock market. An investment cannot be made directly in a market index.

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11 - The Five Star Wealth Manager award, administered by Crescendo Business Services, LLC (dba Five Star Professional), is based on 10 objective criteria. Eligibility criteria – required: 1. Credentialed as a registered investment adviser or a registered investment adviser representative; 2. Active as a credentialed professional in the financial services industry for a minimum of 5 years; 3. Favorable regulatory and complaint history review (As defined by Five Star Professional, the wealth manager has not: A. Been subject to a regulatory action that resulted in a license being suspended or revoked, or payment of a fine; B. Had more than a total of three customer complaints filed against them [settled or pending] with any regulatory authority or Five Star Professional’s consumer complaint process. Unfavorable feedback may have been discovered through a check of complaints registered with a regulatory authority or complaints registered through Five Star Professional’s consumer complaint process; feedback may not be representative of any one client’s experience; C. Individually contributed to a financial settlement of a customer complaint filed with a regulatory authority; D. Filed for personal bankruptcy; E. Been convicted of a felony); 4. Fulfilled their firm review based on internal standards; 5. Accepting new clients. Evaluation criteria – considered: 6. One-year client retention rate; 7. Five-year client retention rate; 8. Non-institutional discretion and/or non-discretionary client assets administered; 9. Number of client households served; 10. Education and professional designations. Wealth managers do not pay a fee to be considered or placed on the final list of Five Star Wealth Managers. Award does not evaluate quality of services provided to clients. Once awarded, wealth managers may purchase additional profile ad space or promotional products. The Five Star award is not indicative of the wealth manager’s future performance. Wealth managers may or may not use discretion in their practice and therefore may not manage their client’s assets. The inclusion of a wealth manager on the Five Star Wealth Manager list should not be construed as an endorsement of the wealth manager by Five Star Professional or this publication. Working with a Five Star Wealth Manager or any wealth manager is no guarantee as to future investment success, nor is there any guarantee that the selected wealth managers will be awarded this accomplishment by Five Star Professional in the future. For more information on the Five Star award and the research/selection methodology, go to fivestarprofessional.com.