QUARTERLY PERSPECTIVE
October 4, 2017

"Even if something is left undone, everyone must take time to sit still and watch the leaves turn."

- Elizabeth Lawrence

Welcome Autumn!

In this letter, in addition to our third quarter recap, we have included information on steps you can take to protect yourself against the Equifax Breach and a short list of tax-related actions to consider before year-end.

Thank you for the trust you have placed in us; it is our sincere pleasure to serve you.

Karen, Joe, Brooke, & Noel

The Equifax Breach — Steps to Take to Protect Yourself

With all the media coverage, you no doubt know that Equifax, one the of nation's three main credit reporting agencies, was a victim of a major hack that exposed personal information on about two-thirds of all Americans with credit reports.

Anyone impacted by the breach is at increased risk of identify theft and fraud. The hackers accessed people's names, social security numbers, birth dates, addresses and, in some instances, driver's license numbers. They also stole credit card numbers for about 209,000 people and dispute documents with personal identifying information for about 182,000 people. There is no reason to think that data is not for sale to criminals who can use this information to open new lines of credit or file phony tax refund requests in peoples' names.

To find out if your information was exposed, Equifax is providing a self-service portal on their website to quickly determine whether your information may have been compromised. You will need to enter your last name and the last six digits of your social security number. This process takes only a couple of minutes. Your social security number is sensitive information, so make sure you're on a secure computer with an encrypted network connection any time you enter it. To determine if the website is encrypted, look for **https** at the start of the web address (the "s" is for secure).

What you can do NOW to protect your information—and this goes for anyone, not just those impacted directly by this breach—place a **credit freeze** on your account with all the major credit bureaus. Please note that when you place a credit freeze, it is important that you freeze your credit with all three bureaus.

There may be a fee to freeze your account and it varies by state. Fees commonly range from $0 to $15 per bureau. You can sometimes get this service for free if you supply a copy of a police report (which you can file and obtain online) or affidavit stating that you believe you are likely to be the victim of identity theft.

A credit freeze seals your credit reports and provides a personal identification number (PIN) that only you know and can use to temporarily "thaw" your credit when legitimate applications for credit and services need to be processed. So even if criminals try to use your information, you'll have additional protection. For anyone worried about protecting the social security numbers of your minor children, residents of various states (including Washington as of April 2016) may also freeze the credit reports of minor children under the age of 16.

Freezing your credit files has no impact on your existing lines of credit or credit cards. You can continue to use them as you regularly would even when your credit is frozen.

In most states, including Washington, your credit freeze remains permanently on your files until you request removal. However, you can always “thaw” your reports for one creditor, or for a specific period of time, for a fee that ranges from $0 to $10.

When shouldn’t you freeze your credit? If you are currently applying for credit and/or creating new accounts with various financial institutions or if your credit reports are accessed often for work, it is not recommended that you freeze your accounts. The costs to regularly “thaw” your reports would be prohibitive.

You can freeze your credit online, by phone, or by mail. When news of the breach first broke, the bureaus were overloaded and unable to handle the volume of online requests; however, now you can complete the freeze online in a matter of minutes. You will need to be prepared to answer a few security questions to prove you are you. After completing the transaction, you’ll be given a secret code or PIN to keep in a safe place.

Contact Information for each credit bureau:

TransUnion

- Online: https://freeze.transunion.com/sf/securityFreeze/landingPage.jsp
- By phone: 1-888-909-8872
- By mail: TransUnion LLC, P.O. Box 2000, Chester, PA 19016

Equifax

- Online: https://www.freeze.equifax.com/Freeze/jsp/SFF_PersonalIDInfo.jsp
- By phone: 1-800-685-1111
- By mail: Equifax Security Freeze, P.O. Box 105788, Atlanta, GA 30348

Experian

- Online: https://www.experian.com/ncaconline/freeze
- By phone: 1-888-397-3742 (When calling, press 2 and then follow prompts for security freeze.)
- My mail: Experian Security Freeze, P.O. Box 9554, Allen, TX 75013

What you can do going forward—regularly monitor your accounts for suspicious activity. Under federal law you’re allowed to request a free copy of your credit report once a year from each of the three credit reporting agencies at **www.annualcreditreport.com** . You can do this every 122 days by rotating among the agencies. Look for suspicious accounts or activity that you don’t recognize—such as someone trying to open a new credit card or apply for a loan in your name. If you **DO** see something, visit **http://www.identitytheft.gov/databreach** to find out how to mitigate the damage.

Monitor your online statements. The credit report will not tell you if there’s been money stolen from a bank account or suspicious activity on your credit card. Unfortunately, you’ll have to turn this into a habit. In most cases, theft happens over time, starting with small amounts stolen from across your accounts.

Many have opted to sign up for a credit monitoring service, which won’t prevent fraud from happening, but **WILL** alert you when your personal information is being used or requested. In most cases, there is a cost involved, but Equifax is offering a free year of credit monitoring through its TrustedID Premier business, whether or not you’ve been affected by the hack. It includes identity theft insurance, and it will also scan the Internet for use of your Social Security number—assuming you trust Equifax with this information after the breach.

Identity thieves like to intercept offers of new credit sent via postal mail. If you don’t want to receive prescreened offers of credit and insurance, you have two choices: You can opt out of receiving them for five years by calling toll-free 1-888-5-OPT-OUT (1-888-567-8688) or visiting **www.optoutprescreen.com**. Or you can opt out permanently online at **www.optoutprescreen.com**. To complete your request, you must return a signed Permanent Opt-Out Election form, which will be provided after you initiate your online request.

There is one last way you can protect yourself. Use secure passwords on all accounts, including your online shopping accounts. Data security experts tell us secure passwords are a necessity. Every site you use should have a different password, and it shouldn't be easy to guess.

Keeping track of a random string of 15 letters and numbers is basically impossible, so by using a password manager you can have a unique and strong password for every site. While no system can be 100% secure, it is better than storing all your login information on the notepad app of your iPhone. If you find it helpful, *PC* did a recent evaluation titled "The Best Password managers of 2017"at https://www.pcmag.com/article2/0,2817,2407168,00.asp.

Last but not least, if you have any additional questions or concerns or believe you have been directly impacted by this breach, please don't hesitate to contact us.

Checklist of 'Tax' Things to Do Before Year-End

As we roll into October and the upcoming holiday season, year-end will be here before you know it. Below is a short list of must dos before year-end if you want the deduction, the credit, or to avoid a penalty. We will be happy to discuss or help you with any of the items listed.

- Make gift(s) to take advantage of the annual gift tax exclusion.
- Make gift(s) of appreciated stock to charity.
- Make donations qualifying as non-cash contributions.
- Make expenditures that create tax credits such as education credit, child care credit, electric vehicle or clean-fuel vehicles, or energy credit.
- Set up a self-employed retirement plan.
- Make an IRA contribution *(can be made by April 15 of next year)* but additional tax deferred income can be made if the contribution is made earlier.
- Consider converting all or a portion on your IRA to a Roth IRA.
- Take your required minimum distribution (RMD) from your traditional IRA and/or inherited IRA. (If you're over 70½ you can have all or part of your RMD made directly from your IRA to a qualified charity (QCD). QCDs are not subject to federal income taxes.

2017 Third Quarter Report

The last few years of a bull market are always a bit of a mystery to professional investors; the market rises faster than it did in the early, cautious years when nobody believed there WAS a bull market, even though there appear to be fewer fundamental or economic reasons for it. The current bull market powers forward, even if nobody can explain it, and people who bail out in anticipation of a downturn do so at the risk of missing out on an untold number of months or years of (still somewhat inexplicable) gains.

A breakdown shows that just about everything gained at least modestly in value these last three months. The Wilshire 5000 Total Market Index—the broadest measure of U.S. stocks—rose 4.59% for the most recent quarter, finishing the first three-fourths of the year up 13.72%. The comparable Russell 3000 index is up 13.91% for the year so far.

Looking at large cap stocks, the Wilshire U.S. Large Cap index gained 4.50% in the third quarter, to stand at a 14.19% gain so far this year. The Russell 1000 large-cap index finished the first three-quarters with a similar 14.17% gain, while the widely-quoted S&P 500 index of large company stocks gained 3.96% for the quarter and is up 12.53% in calendar 2017.

Meanwhile, the Russell Midcap Index has gained 11.74% so far this year.

As measured by the Wilshire U.S. Small-Cap index, investors in smaller companies posted a 5.39% gain over the third three months of the year, to stand at a 9.55% return for 2017 so far. The comparable Russell 2000 Small-Cap Index is up 10.94% this year, while the technology-heavy Nasdaq Composite Index rose 5.79% for the quarter and is up 20.67% in the first three quarters of the year.
As nice as the returns have been domestically, international stocks this year have been even kinder to investment portfolios. The broad-based EAFE index of companies in developed foreign economies gained 4.81% in the recent quarter, and is now up 17.21% in dollar terms for the first nine months of calendar 2017. In aggregate, European stocks have gone up 19.87% so far this year, while EAFE's Far East Index has gained 12.31%. Emerging market stocks of less developed countries, as represented by the EAFE EM index, rose 7.02% in the third quarter, giving these very small components of most investment portfolios a remarkable 25.45% gain for the year to date.

Looking over the other investment categories, real estate, as measured by the Wilshire U.S. REIT index, posted a meager 0.61% gain during the year's third quarter, and is now up 2.44% for the year. The S&P GSCI index, which measures commodities returns, gained 7.22% for the quarter but is still down 3.76% for the year. By far the biggest component is the ever-unpredictable price of oil. Since the bottom on February 11, 2016, crude oil prices have actually risen by 50%, but the trajectory has been choppy and unpredictable.

In the bond markets, you know the story—coupon rates on 10-year Treasury bonds have risen incrementally from 2.30% at this point three months ago to a roaring 2.33%, while 30-year government bond yields have also risen incrementally, from 2.83% to 2.86%.

One might imagine that the uncertainties around government policy and fundamental economic issues (failed attempts to repeal the Affordable Care Act and a new promise to write a new tax code, for example) would spook investors, and if those weren't scary enough, there's the nuclear sabre rattling sound coming from North Korea. Hurricanes have disrupted economic activity in Houston and large swaths of Florida, while Puerto Rico lies in ruins. Yet the bull market sails on unperturbed.

How can this be? If you look past the headlines, the underlying fundamentals of our economy are still remarkably solid this deep into our long, slow economic expansion. Corporations reported a better-than-expected second quarter earnings season, with adjusted pretax profits reaching an annualized $2.12 trillion—which means that American business is still on sound footing. Unemployment continues to trend slowly downward and wages even more slowly upward. The economy, as a whole, grew at a 3.1% annualized rate in the second quarter, which is at least a percentage point higher than the recent averages and marks the fastest quarterly growth in two years. There is hope that the new tax package will prove as business-friendly as the Trump Administration is promising.

Economists tell us that the multiple whack of hurricane damage will slow down economic growth figures for the third quarter, although the building boom fueled by the destruction will mitigate that somewhat. There are no economic indicators that would signal a recession on the near horizon, and one of the potential panic triggers—a Federal Reserve Board decision to recklessly raise interest rates—seems unlikely given the Fed's extremely cautious approach so far.

There are still potential speed-bumps down the road. The Trump Administration has threatened multiple trade wars with America's major trading partners: the NAFTA members Canada and Mexico, and with China. Tight immigration rules could lead to limited labor supply.

But it's hard to be pessimistic when the market seems to grow incrementally every quarter. The current 12-year stretch of slow economic growth (below 3% a year) is America's longest on record. But if the U.S. charts a prudent economic course, it's possible that the current expansion could at least set new records for longevity. This current expansion just turned 99 months old. The all-time record is 120 months, from 1991 to 2001. We may have to wait two more years for the next great buying opportunity in U.S. stocks.