MARKETTREND[SM] ADVISORS

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Dear Valued Clients and Friends,

Last year, despite tempered expectations and sluggish economic growth forecasts, the stock market again showed investors a wild ride. At finish line, the S&P500 ended the 2016 up 9.5%. However, the market was in negative territory for much of the early part of the year and even fell back to a year-to-date loss at the end of June. Markets moved slightly higher in the summer and fall but really only rallied in the last 2 months of the year, with a total November + December gain of 5.3% (S&P500), accounting for over half the gains for the year. The NASDAQ Composite followed a similar pattern checking in with a mid-year loss of over 3% before rallying in the back half of the year to finish up 7.5%.

The 4th quarter saw a dramatic turn in the markets with the post-election rally. Prior to the election, markets appeared as though they might set up for a correction. With a Trump victory, the bulls took charge, giddy at the prospect of a large financial stimulus package, lower corporate and personal tax rates, and repatriations of billions of dollars in offshore cash on company balance sheets. Traders' zeal was most evident in the behavior of smaller company stocks whose revenues are more concentrated domestically. The Russell 2000 index of small company stocks had a post-election rally of 20% in the weeks immediately after the election.

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Looking into 2017 however, analysts and economists have mixed views on the markets. On the negative side, a huge rally in the US dollar would challenge US exports while a Trump administration has talked up anti free trade rhetoric, even threatening to slap tariffs on some imported goods. Some analysts are concerned that the post-election rally simply borrowed the potential gains from 2017, already bringing stocks back to being fully valued (if not overvalued). If a reduction in the capital gains tax rate takes effect, undoubtedly some investors will take the opportunity finally sell their bull market winners.

On the positive side, the US economy does finally appear to be 'not too hot, not too cold,' with employment, wage growth, and GDP growth all trending positively but not excessively so. Corporate profits have resumed growth after almost two years of being depressed by declines in the fortunes of energy companies. With Republicans now controlling the Senate, House, and the Executive branch, some level of new stimulus is sure to be enacted. Markets will be watching the policy-making process closely as Trump has no experience in this area and the Senate in particular is unlikely to rubber stamp the Trump wish list. One area to watch on the policy side is a potential fractious split in Congress between the "no increasing the national debt" faction of House Republicans and those eager to push through tax cuts and stimulus spending.

Interest rates have jumped with the Fed finally raising rates and signaling intentions to increase rates further in 2017. Still, rates are near historic lows and increases seem unlikely to dampen the long slow recovery in home prices.

While we don't delve into tax advising we are not blind to the economic impacts of taxes on personal investing. Trump's proposed tax plan collapses the existing 7 marginal tax brackets into just 3 and may result in tax increases for a significant portion of investors that fall into these two income groups:

- Individual tax filers: Between $112,500 and $190,150
- Married or joint filers: Between $225,000 and $231,450

TABLE A-1

Ordinary Rate Brackets under Trump's Plan and Current Law

Trump Plan	Single	Head of Household	Married Filing Jointly
12%	$0 to $37,500	N/A (single filer rates)	$0 to $75,000
25%	$37,500 to $112,500	N/A (single filer rates)	$75,000 to $225,000
33%	$112,500+	N/A (single filer rates)	$225,500+

Current Law	Single	Head of Household	Married Filing Jointly
10%	$0 to $9,275	$0 to $13,250	$0 to $18,550
15%	$9,275 to $37,650	$13,250 to $50,400	$18,550 to $75,300
25%	$37,650 to $91,150	$50,400 to $130,150	$75,300 to $151,900
28%	$91,150 to $190,150	$130,150 to $210,800	$151,900 to $231,450
33%	$190,150 to $413,350	$210,800 to $413,350	$231,450 to $413,350
35%	$413,350 to $415,050	$413,350 to $441,000	$413,350 to $466,950
40%	$415,050+	$441,000+	$466,950+

While it is too early to know how the personal income tax laws will change, changes are most certain to occur and this is a policy area where all of us will certainly be affected.

Source: http://www.taxpolicycenter.org/publications/families-facing-tax-increases-under-trumps-tax-plan-0/full

To future profits,

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