[Three Things to Know Heading into 2018]

****The following blog post is taken from the Iron Gate Global quarterly client commentary. Some things have been removed as they are for clients eyes only.****

What a tremendous year we had in 2017! The S&P 500 finished the year up 21.83% (including dividends). The global markets all finished positive for the first time in years. Earnings are growing, optimism is rising, and interest rates continue to stay low. From over here in Salt Lake City, we are certainly happy with how we helped you build and preserve your wealth over the last 12 months.

As we start this new year, we would like to focus our quarterly newsletter on a few questions we are getting from clients in the wake of a record-breaking 2017:

1. What will the market do in 2018?
2. Why do some portfolios beat the S&P 500 while others don't?
3. With stock prices at all-time highs, is now the right time to get out of stocks and into something more stable before the bubble bursts?

1. What will the market do in 2018?

No idea. Next question.

Okay, okay, we're kidding…sort of. The bottom line about forecasting the market is to remember that it's impossible. NO ONE, no matter how smart they are, has any idea what the market will do in 2018. Here's what we do know:

- **Corporate earnings continue to grow**. A rising stock market is directly correlated to an expansion in earnings. We're still waiting on final 2017 earnings announcements, but estimates are expected to higher by 18-22% in 2018.
- **Interest rates remain low.** The lower the interest rate, the lower the cost of capital, which makes it easier for companies to grow and invest. If interest rates remain low, current growth conditions should continue. The reverse is also true: if interest rates rise quickly, we expect growth would slow. We trust that the Fed will stay true to their forecasts and not raise rates quickly. As a result, signs point to the market staying on its current trajectory.
- **The tax cut is business friendly**. Regardless of your political views, the fact is most businesses will benefit from the tax cut. Visa, Aflac, Southwest Airlines, Boeing, CVS, and FedEx are among the companies who have announced positive moves because of the tax cut. They are increasing their 401(k) match, giving raises, and hiring more employees. This fuels optimism and keeps investors bullish.

We think 2018 could be a good year, but we still don't know what that would mean for your rate of return. We are reminded of a favorite quote from legendary investor Sir John Templeton: "m*arkets are born on pessimism, grow on skepticism, mature on optimism, and die on euphoria."* We believe that the current market is optimistic and not euphoric, so hopefully there's a bit more left in this bull market.

What would cause a change to a bear market?

- If we suddenly find ourselves at war (with North Korea, for example), certainly the market would suffer.
- In any market, there is a possibility of a recession. With the economy as strong as it has been, and is forecasted to be, we see a recession as a low probability event in 2018.
- *A sudden rise in interest rates*. As we mentioned early, a sharp, sudden rise in interest rates would likely negatively impact the stock market. We believe all three of these scenarios are a low probability during 2018.

Here is what you can expect in 2018: More volatility. That's the one thing that is certain. In 2017, the largest pull back (or downward move) we saw in the market was 3%. That is insane! The average year normal pull back is 14%. Bottom line: **<u>you must expect more volatility in 2018</u>.** When it happens, we will reach out to reassure you and remind you that volatility is part of the process. We want to help you remain focused on the long-term goals of your plan and not to be scared off by short term losses.

2. Why do some portfolios outperform the S&P 500 while others underperform?

If your portfolio happened to underperform the S&P 500 in 2017, please understand two reasons why that might be the case.

1. **Risk Tolerance**. No risk means no reward. If you are conservative in your investments and have a risk tolerance that is less than the average market risk level of the S&P 500, then you will underperform the S&P in years like 2017. Of course, this also means you will lose less in years like 2008. It's critical for us to know which of these goals is more important to you.
2. **Time**. For new clients, it takes several months to build your portfolio into the shape we want it and to adjust it according to your risk tolerance. This may lead to a lag in returns during the quarter or two. After that, time shouldn't be much of a factor in the performance of your portfolio.

Of those two factors, the more important one is your risk tolerance. All our clients take a risk assessment from a company called Riskalyze, which assigns you a personal risk number. This risk number helps us understand how to invest your hard-earned money at a risk level that is both comfortable for you and geared towards your long-term financial goals. If you want to review your personal risk number, email brett@igga.com. **<u>Your risk tolerance is crucial to how we put your money to work,</u>** so let's get your portfolio exactly where you need it.

Those clients with portfolios that are at (or higher than) the S&P 500 risk level should be happy after 2017! They likely saw their portfolios outperform the S&P by a several points or more (after fees). Outperforming the market isn't easy, and we're proud that we have been able to do it this past year!

3. Should I get out of stocks now while prices are high and before a bubble bursts?

Nope. We think you should stay put in stocks. We'll get into this topic in more depth in our podcasts and newsletters, but for now, we'll stay with the big picture and hope that we can convince you.

Usually when someone asks us this question, they are considering moving out of stocks and into bonds. There are very few scenarios in which we think this makes sense, but especially not now when interest rates are so low and growth is forecasting up. Yes, stock prices are at record highs, but they are still a rational economic choice relative to interest rates. They don't feel expensive or irrational given other economic conditions, so if there's a bubble that's going to pop, we think it's still a way off. Furthermore, bubbles popping is the absolute best moment to throw everything you can at the stock market! Buy stocks like you buy electronics on Black Friday: when they're on sale.

One important point about bonds. If you pull out of stocks and invest right now in the 10-year treasury bond, you will get a guaranteed 2.5% rate of return on your investment. When you get your money back after 10 years and then factor in inflation, your investment basically will have kept you flat. There's no growth in this scenario. In the ten years that your money will sit in bonds, the stock market (statistically and historically speaking) will have outpaced you. Why lose out on 10 years of growth?

If we haven't convinced you yet, call or email us right now! Expect to hear more from us on this topic.

Two Other Important Things to Know

New services and talent coming soon! Iron Gate Global Advisors continues to grow and expand as a business. Over the next month, you will be hearing from us about some new services we will offer and some tremendous new people who will join our team. We are honored that more clients are trusting us with building, growing, and protecting their wealth, and for that reason, we are extremely bullish on IGGA!

Options. As a lot you know, we trade options for clients, which is not something most portfolio managers do. In fact, one of our technical service providers recently told us that only 1% of their clients (who are all advisors) use options in portfolios. In 2017 our options trading did very well; we were 42-1 in winning trades vs. losing.

If you have interest in discussing options as a potential investment for your portfolio, please let us know. Options strategies are more conservative in nature, focusing mainly on income. Implementing options in portfolios is something we believe can be a game changer! The amount and types of strategies we implement is based on risk, type of account, and account size, but we’re always happy to discuss it with you if you’re interested!

Summary

We are extremely grateful for you! We couldn’t build and expand this business without you as our clients and our friends. While we don’t know what 2018 brings for the market, we do know that 2018 will bring more (and better!) services to you. Stay tuned!

Thanks again for your business,

Iron Gate Global Advisors