

# HARBOR VIEWS

HARBOR ADVISORY QUARTERLY NEWSLETTER

Winter 2018



## THOUGHTS ON THE ECONOMY

### A LOOK INSIDE HARBOR VIEWS

- *Thoughts on the Economy – The big news for the economy out of Washington was the passage of a tax reform bill.*
- *Our View of the Financial Markets – There is no question this reform makes the U.S. more competitive internationally.*

### LATEST NEWS FROM HARBOR ADVISORY

- You can visit us at: [www.harboradvisory.com](http://www.harboradvisory.com). Take a look and let us know your feedback.
- Jack De Gan continues to make news with his regular guest appearances on CNBC's top rated financial shows "Squawk Box", "The Call", "Closing Bell" and on Bloomberg TV, Fox Business News and National Public Radio.

U.S. GDP growth for the 4th quarter was reported to be 2.6% in the first estimate, bringing full year 2017 growth to 2.5%, the highest since 2014. Underlying components were stronger than the headline figure. Consumer spending, representing 70% of GDP, grew a healthy 3.8%. Business investment in equipment and software grew 11.4% on an annualized basis. Weak spots were reduced inventories, which held down production, and trade where imports grew faster than exports.

Employment was a bright spot in 2017. 2.1 million net new jobs were created. The unemployment rate ended the year at 4.1% and the broader U-6 rate dropped to 8.1%. The labor force participation rate (the percentage of our population holding jobs) stayed at a very low 62.7%. Wage growth for the year was 2.5% which, along with the newly employed, provides greater consumer purchasing power.

The big news for the economy out of Washington was the passage of a tax reform bill. We view the corporate side of the tax reform package as positive for the economy and U.S. competitiveness. We are much less enthused about the individual tax changes. The largest improvements include lowering the maximum corporate tax rate to 21% from 35% and the change to a territorial tax system. This means our companies' profits are no longer taxed here in the U.S. after already paying taxes in another jurisdiction. A 5 year immediate expensing of 100% of capital investments is positive. We would hope to see this provision extended at the end of the initial 5 year period.

On the personal side, all seven tax brackets are lowered and the standard deduction has been doubled. At the same time, state and local tax deductions (SALT) are being capped at \$10,000 per year. You should speak to your tax advisor to see how these and many other changes will alter your tax bill.



WWW.HARBORADVISORY.COM

**Phone:**  
603-431-5740

**Fax:**  
603-431-2927

500 Market Street,  
Suite 11,  
P.O. Box 4520  
Portsmouth, NH  
03802-4520

[harboradvisory.com](http://harboradvisory.com)

Harbor Views is written and produced  
by Harbor Advisory.

**Jack De Gan**  
Editor

**Weld Butler**

**Jan Yeaman**

**Cheryl Crowley**

**Nod to the ubiquitous disclaimer:**  
While we're not infrequently, and  
always quite accurately, accused of  
being of strong opinion – we want to  
let the reader know we've been wrong  
before, we will be again, but please  
don't hold it against us. The forward  
looking parts of the letter are the best  
efforts of fallible humans working at  
Harbor Advisory.

## OUR VIEW OF THE FINANCIAL MARKETS

In 2017 equities finished the year on a strong note. The S&P 500 total return was over 21%, driven by strong 4<sup>th</sup> quarter earnings growth which may finish at 14%.

The corporate side of the tax reform package should add 5-7% to our initial expectation of 8% earnings growth for 2018, simply from the lower tax rate. We now think another double digit year for equity market total returns could be in store for investors. The stimulative effects of the tax bill could add .25-.50 percent to GDP growth which could add to corporate earnings growth further. There is no question this reform makes the U.S. more competitive internationally. It should incentivize foreign firms to invest here and disincentivize U.S. firms from investing or moving their domicile offshore.

The fixed income markets are showing negative total returns at the end of January as long-term interest rates rise with further anticipation of strong economic growth. Our expectations for fixed income returns for 2018 remain low single-digits.

## 529 PLANS

The tax bill contains some changes in the widely popular 529 education savings accounts. For the first time in 2018 \$10,000 per year can be spent on elementary and secondary private education. There is also a provision allowing 529 balances to be transferred to 529 ABLE accounts for children with disabilities without affecting eligibility for benefits such as Medicaid. Your tax advisor can provide you with further information.

## TELL A FRIEND

We have room at Harbor for a few new clients and would love to provide investment counsel to a friend of yours if you know someone who might benefit. If you know someone, say something.

**Published 2/2018**