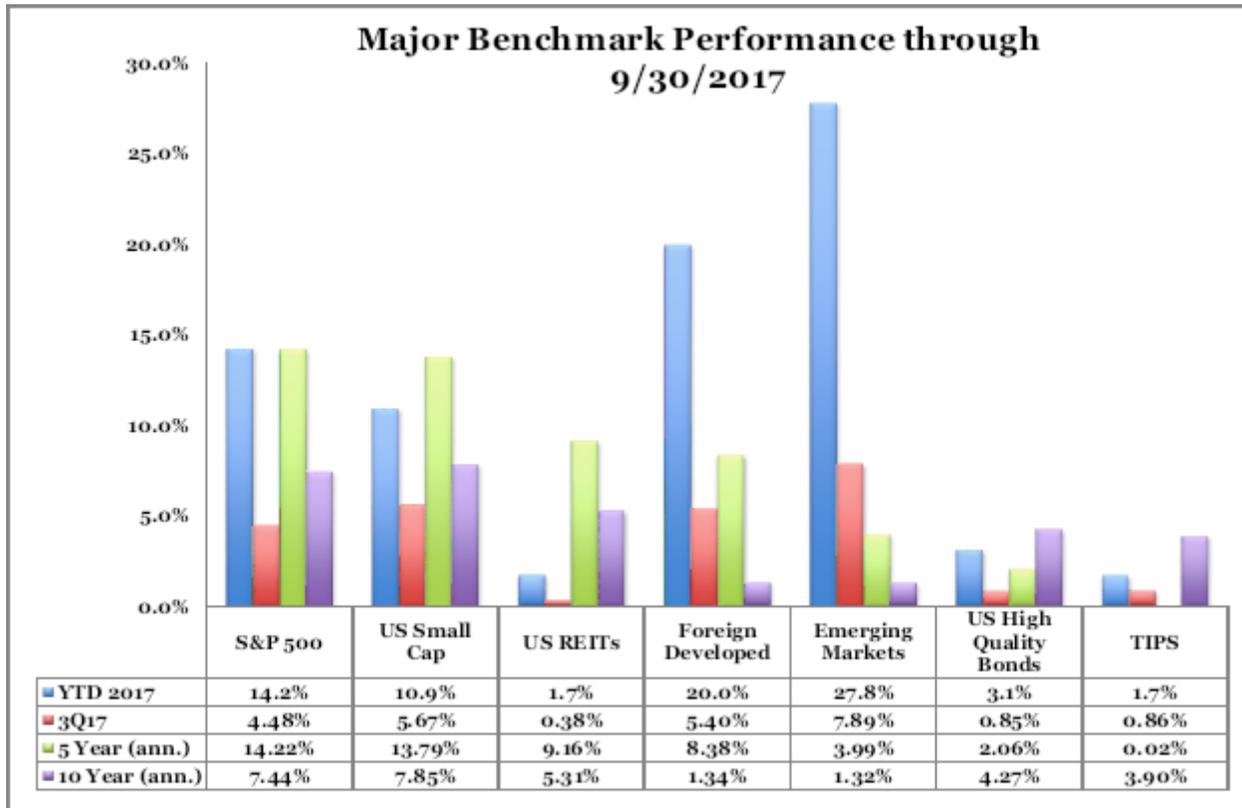


# Integral Financial Solutions

## Market Summary and Outlook Third Quarter 2017

The markets continued their upward trend for the 3<sup>rd</sup> quarter. For both the year and the quarter, returns for all major markets as shown in the table below were positive.



Source: DFA

### Strong Economic Data

In a reversal of recent years, international equities are outperforming the S&P 500, which is at a very respectable 14% year to date through 9/30/17. Specifically, developed markets are up 20% and emerging markets about double the US at 28%.

There are a couple of reasons for the outsized performance - in part it indicates an improving world economy (in the second quarter global GDP grew at its fastest pace since 2010). A weakening US dollar, which makes our exports more competitive, has also contributed. The USD is down 9% so far in 2017 after appreciating over 30% in the previous 5 years.

The growth rate of the US economy has not materially changed in recent quarters. It is still growing steadily, though somewhat slowly. Other reasons for solid US performance are continued strong earnings growth and the expectation that Washington, D.C. will

push through significant tax reform for the first time since 1986 (discussed in more detail below).

The consensus of economists and financial institutions is that the Federal Reserve will raise rates once more in 2017 and three times in 2018 (.25% each time). This is only if the economy continues to grow (4Q GDP expected range is between 2.5% - 3%). Manufacturing continues to be strong worldwide.

Unemployment is currently at 4.4% and is still trending downward. JP Morgan thinks it could be as low as 3.5% by mid-2018. We are well below the 50-year average of 6.2%. Inflation, currently below the Fed's target of 2%, also points to the above-mentioned increases in rates in the next year.

We are 8 years into this economic expansion, which is very long by historical standards. We don't see any data that indicates a recession in the near term, though there are many events that could derail the economy and financial markets, from a debt crisis in China or an American-led trade war to an outbreak of fighting on the Korean peninsula.

### **Tax Reform**

As we mentioned earlier, we believe the expectation of tax reform is also contributing to the strong US market growth.

Early details on the tax reform plan indicate lower corporate and personal tax rates at a cost in government revenue ranging from \$1.5T to over \$5T. We are closely watching proposals to eliminate the mortgage interest and state income tax deductions, provisions that would very adversely affect states like California. Other provisions of interest are elimination of the estate tax and alternative minimum tax (AMT).

### **What to do with all this information**

A client recently commented on the fact that our advice remains fairly constant; "build a well-diversified portfolio to take advantage of growth whenever and wherever it occurs and to minimize risk whenever and wherever it occurs." We will continue to manage your diversified portfolio based on the designed allocations, in a disciplined manner with a long-term outlook. It's a lot safer than trying to figure out how to profit on the latest economic projection.

Having us manage your investment opportunities and risks on your behalf let you focus on the strategies and activities that you can control to help ensure you attain your financial goals.

### **Equifax Data Breach**

We recently sent out some recommendations on securing your credit and personal data. If you haven't taken action, we strongly recommend you do so. As with building diversified investment portfolios to reduce your market risks, you can take specific steps

to reduce identify theft risks. Please refer to our previous commentaries. [Equifax](#) and [Schwab](#)

### **Wildfires**

Our thoughts go out to our friends in the counties affected by wildfires. Here are some resources that could use our help.

Red Cross

<https://www.redcross.org/donate/donation>

Community Foundation of Sonoma County

<http://www.sonomacf.org/>

Napa County Community Foundation

<http://www.napavalleycf.org/>

Sonoma Humane Society

<http://sonomahumane.org/>

Napa Humane Society

<https://napahumane.org/>