Cambridge ADVISORS inc.
INVESTMENT MANAGERS

INVESTMENT PERSPECTIVE — JUNE 2017

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MARKET COMMENTARY

Stocks continued to climb in the second quarter but at a slower pace. Large cap US stocks in the S&P 500 are up 3.1% for the quarter and 9.3% year-to-date. Small cap stocks were not up as much but matched their first quarter return of 2.5% to bring their year-to-date gain to 5.0%. International stocks in the MSCI EAFE continued to outperform domestic stocks and gained 6.1% for the quarter and 13.8% for the year. Emerging market stocks had a 5.5% return for the quarter bringing their year-to-date total gain to 17.2%. Meanwhile, longer-term yields continued to retreat resulting in a 1.5% return for the quarter for the Barclays US Aggregate Bond Index. It's year-to-date return was 2.3%.

Growth oriented stocks are significantly outperforming value oriented stocks. Technology continues as a leading industry and is now joined by healthcare. Energy continues to struggle with negative returns as oil prices have fallen and are expected to remain below $60 per barrel for at least the next couple of years. Telecom was the only other sector to have negative returns year-to-date. Financial stock returns have been below the S&P 500 Index returns but are expected to perform better as yields increase.

Corporate profits had strong growth in the first quarter. The S&P 500 had 12 month year over year earnings growth of 5.1%. JPMorgan's models also are showing the highest percentage of companies exceeding their revenue estimates since fourth quarter 2013. This means that companies have been generating their earnings growth from revenue growth and not just cost-cutting.

The final estimate for first quarter GDP growth was 1.4% which was double the initial estimate but below the 2.4% growth in the previous quarter. First quarter growth is historically a difficult quarter to calculate because of seasonal adjustments and is often lower than the full year growth.

The media has been flush with stories about dismal retail store sales and Amazon taking over but the US consumer remains healthy and consumer confidence remains elevated. Business confidence is also high and CEOs are indicating that they are planning to increase capital spending and hiring.

Much of the consumer and business confidence is based on the President's goals of tax reform and deregulation stimulating economic growth. Stock valuations also seem to have priced in an expectation that these policies will be achieved. However, if the political turmoil continues and people lose faith that tax reform can be achieved, investors may begin to feel that valuations are too lofty and CEOs may cut back their spending and hiring plans.

Growth outside the US has been strengthening. Global Purchasing Manager Indexes (PMI) have also been stronger over the past 12 months in most developed countries. The European Stoxx 600 Index had 20.2% year-over year trailing 12 months earnings growth for the period ending March 30. The Japanese Nikkei 225 Index had 25% year-over year trailing 12 months earnings growth for the same period. In Europe and Japan, retail sales are growing as are auto sales and confidence.

Treasury yields initially surged after the election with the expectation that economic growth would pick up under the new administration resulting in more rate hikes by the Federal Reserve. The Federal Reserve raised rates for the second time this year in June. They also announced plans for reversing asset purchases by decreasing its reinvestments and instead letting assets roll off the balance sheet. Even with the rate hike, the yield on the 10-year Treasury bond continued to fall. Its yield started the year at 2.51%, fell to 2.4% at the end of first quarter, and ended second quarter at 2.3%. Inflation indicators fell in May making some wonder if the Fed will continue to raise rates.

The momentum continues to be positive for stocks and Strategas Research believes "the intermediate to long-term risks lie with market bears more than they do with market bulls." We may see short-term pull-backs in stock valuations which could create more attractive opportunities to increase stock positions. We still expect bond yields to rise rather than continue to fall so bond valuations may come under pressure in future months. A diversified approach continues to be our recommended strategy.

2017 BENCHMARK RATES of RETURN

INDEX	SECOND QUARTER	YTD
S&P 500	3.1%	9.3%
DJIA	4.0%	9.4%
NASDAQ	3.9%	14.1%
Russell 2000	2.5%	5.0%
International	6.1%	13.8%
Fixed Income	1.5%	2.3%

We value our relationship with you, and we are always available to meet with you in person or by phone. Please do not hesitate to call or email us with any questions that you may have.

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FINANCIAL PLANNING

Charitable Gifts

The different proposals for tax reform still seem to preserve the tax deduction for charitable gifts. When making charitable gifts, many people write a check. However, there could be a better way that could benefit your situation even more.

When you write a check to a charitable organization, you get a tax deduction for the amount of the check if you itemize your deductions. If you don't itemize, there is not a tax benefit.

However, if you make a gift from a taxable account of appreciated stock that you have held more than a year, you get a tax deduction for the value of the stock if you itemize. You also avoid paying any tax on the gain you have on the stock. You can continue to hold onto the stock you gifted and take part in future gains by repurchasing the shares you just gifted using the cash you would have given had you written a check instead. Even if you don't itemize your deductions, this method can still be better than giving cash because you avoided paying tax in the future on the appreciation.

There are limits on the amount of tax deduction you can take on cash and stock gifts. The tax deduction on gifts of cash from your checking account are limited to 1/2 of your Adjusted Gross Income (AGI). The tax deduction on gifts of appreciated stock are limited to 1/3 of your AGI.

f you are over age 70 1/2, you have another option that can be even more beneficial: you could make your cash gift up to \$100,000 from your IRA instead of from your checking account. There are several benefits to this method. First, your gift is not limited to 50% of your taxable income.

Second, this is the only way to take money from your IRA without incurring taxes. Since all other distributions from an IRA are taxed as ordinary income, reducing the balance of your IRA through gifting results in less tax paid. Furthermore, gifting from your IRA allows you to keep more money invested in your taxable accounts. Taxable accounts receive preferential tax treatment through a lower capital gains tax rate when securities held more than one year are sold or through a stepped up cost basis upon death.

Third, extra benefits can arise since the gift is not included in adjusted gross income (AGI). Below are some tax considerations that are sensitive to AGI:

- Medical expenses for seniors are limited to the excess over 10% of AGI
- Miscellaneous itemized deductions are limited to the excess over 2% of AGI
- Itemized deductions are generally reduced by 3% of AGI above a threshold
- Personal exemptions begin to phase out as AGI exceeds a threshold
- Up to 85% of social security benefits become taxable as AGI increases
- The 3.8% tax on net investment income applies to AGI above a threshold

In addition, the cost of Medicare Part B premiums and prescription drug premiums rise as AGI rises.

There are additional strategies available when you want to leave bequests upon your passing or if you want to accelerate gifts of appreciated stock in a tax year but spread out the distributions to the charitable organization over a longer time horizon. Please contact your advisor with any questions or for help when making charitable gifts.

CAMBRIDGE ADVISORS NEWS

Cambridge Advisors is committed to providing our clients the high quality services they need and the personal attention they desire. As a fiduciary, we always put your interests first. We believe our services and approach are not just beneficial but truly necessary in this ever-changing environment.

We want to take a moment to thank our clients and associates for the important role you've played in our growth and success over the years. You have recognized the value Cambridge Advisors provides and have appreciated our client-centered approach. As a result, you've introduced us to your friends, family, and business associates. We appreciate the trust and confidence you place in Cambridge Advisors and want to continue to help the people who are important to you. If you know someone who has retired recently or has changed jobs, we can help them rollover their retirement plan to an IRA and develop an investment strategy. We can also help those who are nearing retirement age and need help figuring out how much they can spend or how they should structure their retirement assets. We can also help young families with their financial planning needs so that they get started on the right path and have a resource for their questions Studies show that 84% of people want to be introduced to an advisor by someone they know.

When we receive an introduction, we keep your financial information private. Our meetings are in a relaxed setting where we can share information and learn about each other to see if a relationship would be a good fit. There is no obligation from a discovery meeting so please don't keep us a secret!

If you are in our office this summer, you might see a new face. **Matt Bridgman** is our intern. He helped us out over Christmas break and we were happy that he wanted to come back this summer. We have several special projects that he is working on. If his name looks familiar it's because Matt is the son of one of our advisors and owners, Mike Bridgman. Matt attends Notre Dame where he is studying business. He's finished his first year and is looking forward to the fall when he will again be part of the Men's Glee Club and on the leadership team for his dorm.