A quarterly, financial planning newsletter for the clients of Liberty Financial Group, Inc.

4th Quarter, 2016

THE $TRATEGIST

Investment Outlook

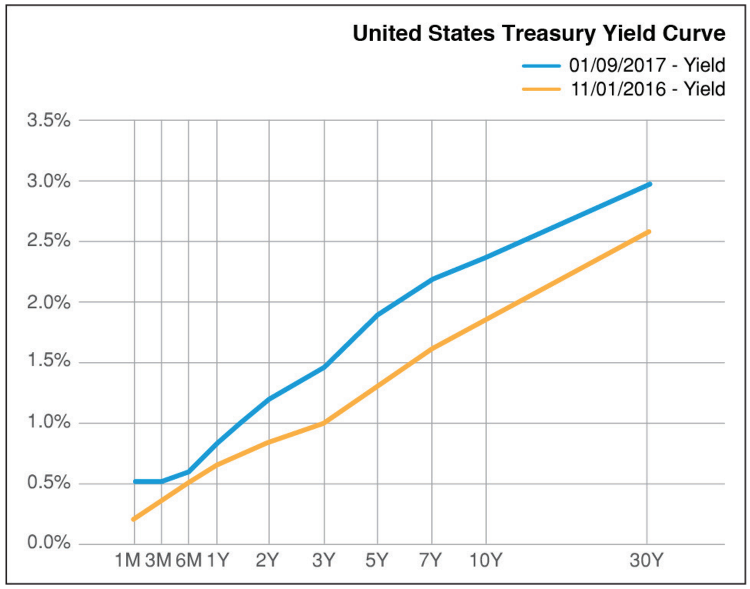
By Kirk Hackbarth, CFP®, CPA/PFS, MS

Although 2016 was a year of considerable financial and political uncertainty, the seven-year global expansion continued. While 2017 brings a new US president with an unknown governing style, there is optimism that positive economic outcomes are on the horizon. Therefore, we expect continued, but probably volatile, market advances driven by consumer spending, a pick-up in manufacturing, tax reform, infrastructure spending, and also a reduction in the regulatory burden for companies.

One impact of the Trump win, along with a Republican Congress, is an increase in interest rates (a steepening of the yield curve). The yield on benchmark U.S. Treasury note jumped to 2.38% on January 9 from 1.88% on election day. Higher yields have helped drive the financial sector higher.

Other sectors of the economy that are positioned to do well in 2017 in addition to financials are industrials, consumer discretionary, and energy. The outperformance of cyclical areas of the economy indicates greater investor confidence in economic growth. We will continue to rebalance portfolios as necessary in order to capitalize on our sector views.

Of course, there are always headwinds that could temper the improving economic outlook. One byproduct of a stronger economy is currency risk due to a strengthening US dollar along with rising interest rates. A stronger US dollar is bad for large-cap multinationals because it makes American goods more expensive overseas. When the dollar rises, local currencies become cheaper, as do the securities denominated in those currencies. That means international fund's holdings will lose value when the fund calculates its daily share price.



As long-term investors, we continue to favor stocks over bonds but are mindful of the fact that stock valuations are not cheap. We also favor US over international stocks due to better economic growth prospects and the outlook for a continued strong dollar as well as rising interest rates as noted above. As valuations become more compelling in international markets, we likely will move to overweight those areas, but we prefer to wait until US dollar strength subsides. In the fixed income sector, we will continue to focus on shorter-term maturities to avoid the negative effect of rising interest rates.

In summary, we expect the current pattern of slow and steady economic growth to continue. There is also a high probability of 2017 being a volatile year due to a new presidential administration, interest rate hikes, and protectionist trade and immigration policies, along with the potential for continued global instability. The global impact of Brexit still is in the future and, while China has been quiet, its leadership's focus on growth over structural reform remains a risk to future global economic growth. The positive factors continue to outweigh the negatives at this point in the economic cycle and therefore equity markets appear positioned to stay the course and continue to move higher.

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Health Update

By Tom Wargin CFP®, CFA

Thank you to everyone who offered encouragement and insight to me during my recent health issue. I just completed my radiation treatments – 38 of them over 7½ weeks – and everything looks good according to my radiation oncologist. Thankfully, I had very few side effects and am feeling pretty good. I am planning to continue working for several years, although I may be cutting back hours later this year or next year as my wife will be retiring in June of this year.

Planning Notes

By June A. Schroeder, RN, CFP®

Financial Identity

Periodically, clients ask us how they can teach their children about money management. Often the question arises as college years approach and parents worry that they have not done enough early enough. The National Endowment for Financial Education has developed a tool, intended for 16-24 year-olds, to help determine where they are on the path to financial independence. Parents might find it useful in beginning the conversation about transferring financial responsibilities. Find that tool and other useful information for you and your child at www.financialidentityquiz.org.

HSA & Medicare

You cannot make contributions to an HSA after you go on Medicare, but you should spend it down by the end of your life and your spouses since non-spouse beneficiaries don't inherit the tax benefits.

Social Security Diet COLA

2017 checks rise 0.3%, barely enough to cover the Medicare Part B premium increase for those already receiving SS benefits.

Featured Artist: Joyce Foy

A self-taught watercolor artist with pen and ink touches, Joyce has been interested in art her entire life. Until recently, she only painted sporadically for friends, family and the occasional commissioned project. After a 25-year career in sales, she decided to take a leap of faith and pursue her passion full-time. She expanded into using alcohol inks on ceramic tile and fired up a 35-year interest in pottery.

Much of Joyce's art is inspired by scenes she sees on nature hikes with her dogs on the Ice Age Trails. Be sure to admire her creativity when you visit our office and see more at www.cooljoyce.com.

Client Alerts

By Shannon Nook, RP®

2017 Winter Hours

Monday through Friday
8:30 a.m.-5:30 p.m.
Others by appointment only.
CLOSED: Good Friday (4/14), Memorial Day (5/29), Independence Day (7/4), Labor Day (9/4), Thanksgiving & Friday after (11/23 & 11/24), Christmas Day (12/25)

Tax Deadline is April 18!

Tax Day is usually April 15, a date that is well known by many people. However, April 15, 2017, falls on a Saturday, and Monday, April 17, is the date of observance for a Washington, D.C., holiday known as Emancipation Day. So the tax deadline is the next day after that – April 18.

Don't Forget to Maximize Your IRA

The 2016 contributions for IRAs, including Roth IRAs, must be in by 4/18/17. Maximum is $5,500 per individual or earned income whichever is more. Those age 50+ may add an additional $1,000 catch-up. We hope to contact you in late February to see if you want to maximize this contribution for your retirement or your heirs.

Tax appointments with Joe Jester, Keith Helm's successor, can be scheduled to meet with mutual clients at our office on February 15 & March 15. Give Joe a call directly at 414-352-2100 to schedule an appointment.

Our tax appointments can be scheduled in conjunction with your review meeting if you wish. Our tax team includes Richard, Kirk and David. Your final return will be filed electronically and your copy mailed to you when completed. Tax organizers containing your numbers from last year will be sent to help you get ready soon.