

# BUILD & PROTECT



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## 2016 Has Come And Gone

It was a year of surprises, defying odds and a lot of volatility. In the first quarter the U.S. stock market declined more than 10%. Fears of recession and deflation dominated financial markets and investors were uneasy over the Fed's December 2015 rate hike. At the same time, oil prices were falling rapidly and the U.S. dollar was climbing, both suppressing S&P 500 earnings. By early Spring, it rebounded back to even. In mid-summer, stocks experienced a sharp drop following the Brexit vote but quickly recovered. Then all eyes turned to the heated presidential race. The S&P 500 futures fell almost 5% following Donald Trump's election before rising on the following trading day.

The year ended with a strong rally--it is remarkable really considering the election outcome and how 2016 started with a bust. The markets have been positive based on the expectation that President Trump and the Republican-controlled Congress will put their words into action and implement policies that lead to lower tax rates, reduced regulation, infrastructure spending and repeal and replace Obamacare.

With all the economic and political happenings, we experienced many changes in leadership and market rotations. In the first half of 2016, we were focused on growth, defensive and yield generating equities. In the second half of the year, small cap, value, and cyclical sectors outperformed. Many of the changes accelerated sharply after the U.S. election. Among sectors, energy stocks led the way in 2016 as oil prices recovered. Oil prices bottomed at \$27 per barrel early in the year and doubled from that level by the end of 2016. Financials climbed sharply after the election thanks to a steeper yield curve and greater prospects for deregulation. Industrials rose on hopes for fiscal stimulus. Health care lagged due to a more uncertain policy environment. Bond proxies, such as real estate and consumer staples, reversed from leaders to laggards during the year's second-half rise in interest rates.

Outside of the United States, many markets continued to struggle. Relatively slower growth and very low (and, in some cases, negative) rates of inflation hampered many economies. European markets struggled to post gains in this environment

(and the Brexit vote didn't help matters). Chinese stocks plummeted dramatically at the start of the year, and while share prices rose between February and year-end, the initial drop caused Chinese equities to end the year in the red. In contrast to stocks, bond markets struggled in the closing months of 2016. The yield on the 10-year Treasury rose more than 100 basis points in the second half of the year and we believe the bull market in U.S. Treasuries that started in 1981 has ended.

It was our approach to remain conservative and not try to time the market, limit our risk exposure and volatility. To successfully time the market, you must be right twice--getting out near the top and getting back in somewhere near the bottom. The volatility and the unknowns were extremely high and we were confident that protection and mitigating risk were key.

We have just entered 2017 and markets are calm and near highs. The year is starting in an upbeat fashion. The economy is moving ahead at a modest pace, interest rates remain low, and odds of a recession are low. Consumer confidence is up sharply in wake of the election.

The main question being is this sustainable or euphoria? The late-year optimism that pushed the major indexes to new highs was aided by optimism that tax reform, regulatory relief, and infrastructure spending are on their way. There is a lot of subjectivity in the stock market right now, which makes it necessary to take a step back to see if the objective facts in 2017 unfolds match the emotional hype that brought 2016 to an end. Compromises will be needed and major new spending, if it passes the Republican Congress, could have huge lead times.

Like 2016, we assume that 2017 will also likely produce a high degree of uncertainty.

The stock market is relying on good things happening without knowing specifics or costs of policies to be enacted. With the Fed slowly retreating from its policy of emergency rates, interest rates will likely rise. On one hand, this should positively effect some sectors like financials and real estate but could negatively affect the consumers' mindset like in beginning of 2016. There

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## Preparing for Divorce Late in Life.

Article courtesy of Broder & Orland

Divorcing later in life used to be considered taboo, but in 2017 the divorce rate among people in their 50s and 60s is growing dramatically and is becoming more socially acceptable. *US News & World Report*, the divorce rate doubled among those aged 50 and up between 1990 and 2010. Perhaps even more surprising is the fact that nearly half of these divorces involved first marriages. Ending a long-term marriage later in life requires a number of important considerations.



### Alimony and Support

One of the biggest financial considerations for those ending a long-term marriage will be alimony. Alimony payments, including "lifetime" alimony, tend to be much more common when a long-term marriage is coming to an end, especially if one spouse makes considerably less than the other spouse. At the same time, however, because most people who are divorcing in their 50s and 60s will no longer have any dependent children to raise, child support tends to be much less of a factor.

### Pensions and Retirement Funds

*Forbes* points out, divorcing close to or even during retirement often leads to serious reconsideration of retirement plans. It is important to understand that most pensions and other retirement funds can be divided between both spouses after a divorce, regardless of whose name those pensions are actually in. While this could provide a much needed source of financial support for some people, for others it could see their retirement savings diminished substantially. In many cases, divorcing spouses may agree to trade pensions for alimony or vice versa, but this should only be done after understanding the important tax differences between these two sources of income.

### Downsizing

Being single later in life will likely require some form of downsizing, especially in regards to the family home. Because a couple may have shared a home for decades, one or both spouses may feel an emotional attachment to the house. While it can be difficult to let go of the family home, it is also often dangerous to try to hold onto it no matter the cost. Not only is the house likely to be a serious financial burden for a single person to maintain, but the assets discussed above, such as alimony and pensions, may provide a more stable and beneficial source of income during retirement.

Divorce is never an easy experience and it can feel all the more difficult for those who are approaching the end of their careers and preparing for retirement. It is important to put together a team of experts to help you through this process.

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is a presumption that both consumers and businesses will have the capacity to spend more in 2017 during faster growth in the economy by way of personal spending and business investment, only time will tell.

As always, corporate earnings are key. If we get only minimal increases in earnings then 2017 will be more difficult. The stock market got propped up by the Fed early in 2016 which kept interest rates low and kept the market stable. In November, the Trump victory made the thinking that economic growth driven by pro-growth policies overshadowed any negative news. The market is currently high, we will follow the news to see if high valuations are warranted. Unlike 2016, 2017 and beyond, analysts are indicating it will be crucial to focus on individual security selection to generate performance in all asset classes than indexing the markets.

We have ended many updates in the past years with "patience is key." We can't emphasize it enough. A new recession and bear market are inevitable, as is an eventual economic recovery and new bull market. We have new political leadership that only time will tell the implications on the markets and global economy. Rest assured, we are monitoring the markets and will make the appropriate adjustments to protect and grow the portfolio. As always, please reach out with any questions. Have a safe and healthy winter.

