FULCRUM
WEALTH ADVISORS

LOOKING AHEAD / INSIGHTS FOR 2018

Happy New Year!

Our favorite part of the year is at an end; It is time to reflect on the long-held relationships and stories of the people and institutions whom we have dedicated our advisory service.

We also take inventory of our successes in the previous year. We have been privileged to welcome new advisors to our office and will continue to invest in technologies and systems to streamline our full-service, financial planning and investment platforms.

We look ahead as we further build intellectual capital provided by thoughtful and diligent strategic thinking and confident money management. We continue our dedication to individualized service for new friends, and of course, old ones. Here at Fulcrum Wealth Advisors we are gratified to team with great people, and to help them gain insight and success regarding their individualized wealth management.

As a team our, collective time in this industry, over a century, gives us conviction in a few simple truths that drive the core of our business model: a *Consistent Approach* to investing through times of uncertainty will put you on a direct path toward achieving your goals, lower fees are better than higher fees, and combining both active and passive investment methodologies goes further in helping clients achieve better risk adjust returns over full market cycles. This is the boilerplate to a healthy, successful, and holistic financial planning methodology. This is the Fulcrum Formula.

We welcome your insights and concerns as the New Year unfolds, we also welcome the opportunity to continue to hear your stories and support the financial planning and advice to help you attain and as life's wants, needs and desires.

On the following pages, some of our key thought leaders offer they're thoughts to many of the most common questions we hear while serving our clients. But because change is inevitable, the conversation does not pause here. We will continue to listen to your thoughts, concerns and dreams throughout the year. Together we will utilize our global insights to craft strategies for your specific needs.

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Co-Founder & Managing Director

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With 2017 now on the books, investors are hoping for a repeat performance in 2018. Most major market indices posted returns in excess of 20% for the year. Robust global economic growth coupled with strong corporate earnings fueled the global equity markets. Amazingly, the S&P500 index went the entire year without delivery a single monthly lass to investors.

As the New Year rises, both advisors and investors inquire about the longevity of current financial bull market, general market speculation, interest rates and inflation, politics, transitional wealth, taxes, and coming opportunities in business and consumer markets specifically driven by rapid technological growth. Rarely is there a simple answer to any of these; however, we feel that worthy questions deserve worthy answers. As firm we have taken the opportunity to discuss the opportunities and challenges we expect from global financial markets in 2018.

Politic & Taxes

Politics, in our opinion, will continue to be a force in 2018. Nationally we will experience the mid-term elections in November and the market will have to digest the rhetoric coming from both national party's as they seek to enhance their positions in both the House and the Senate. One should expect that as we are exposed to candidate's speechmaking the Stock markets maybe influenced, either positively or negatively as it becomes clearer.

Not much to say here, the new tax code should be a positive driver for the domestic equity market as the action should lead to higher earnings and earing drive markets.

Interest Rates & Inflation:

The Federal Reserve raised interest rates three times in 2017 and hinted at 3 more for 2018. We suspect that the incoming Fed Chair will continue slowly raising rates to what has previously been considered neutral, that being 3% on the two-year treasury. Inflationary pressure (rising commodity prices & wage growth) is something that we are very focused on at Fulcrum Wealth Advisors. Inflation should remain modest around 1.9% to 2.1%.

Lower interest rates marked the financial instability coming out of 2008-2009 financial demise. Now that rates are heading higher why aren't we more optimistic? It is easy to forget that interest rates being artificially low is not a sign of economic strength. Conversely, now that interest rates are moving toward what some call "normal" we hear the fear of a flat yield curve as if it is a forgone conclusion that rates on the short end will go up according to the Federal Reserve outlook, and the longer-term rates such as the 10-year Treasury will not go up but rather down. This is one possible scenario. However, if we are looking back to 1960 on, we can see this isn't necessarily true. Here we find the Fed Rate went up and the stock market went up and no recession (at least not for a while). Please see chart, below:

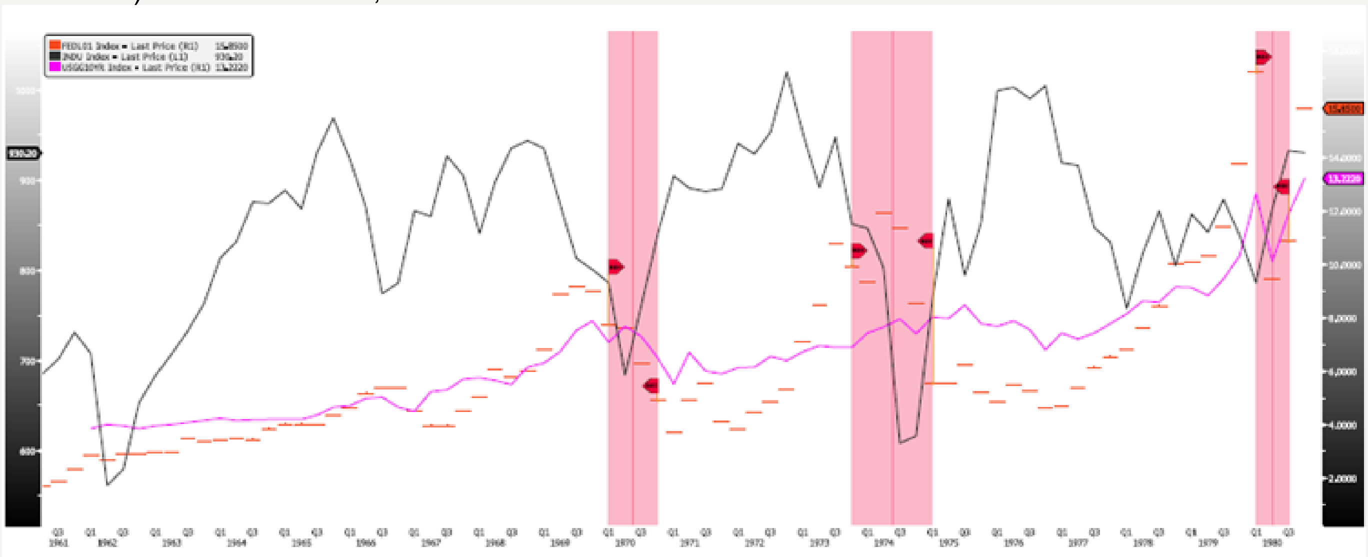

Chart Source: Bloomberg

Outside of a major disruption, it looks as if the bond market will have a head wind for the foreseeable future. Having shorter duration bonds in a rising interest rate environment is prudent. Modest Inflation, a strong ISM number, positive S&P earnings growth, possible tax cuts and accommodating central banks, should bode well for the US and Global equity markets.

So, what may be a coincidental cause for concern to change our bullish opinion? The chart below illustrates the Fed Fund target rate to the 5-year treasury yield. Here we find when the Fed target rate gets above the 5-year treasury yield, within a year there has been a recession unless the 5-year yield goes higher. Should this inversion occur then a reduction in risk would be prudent. Please see chart:

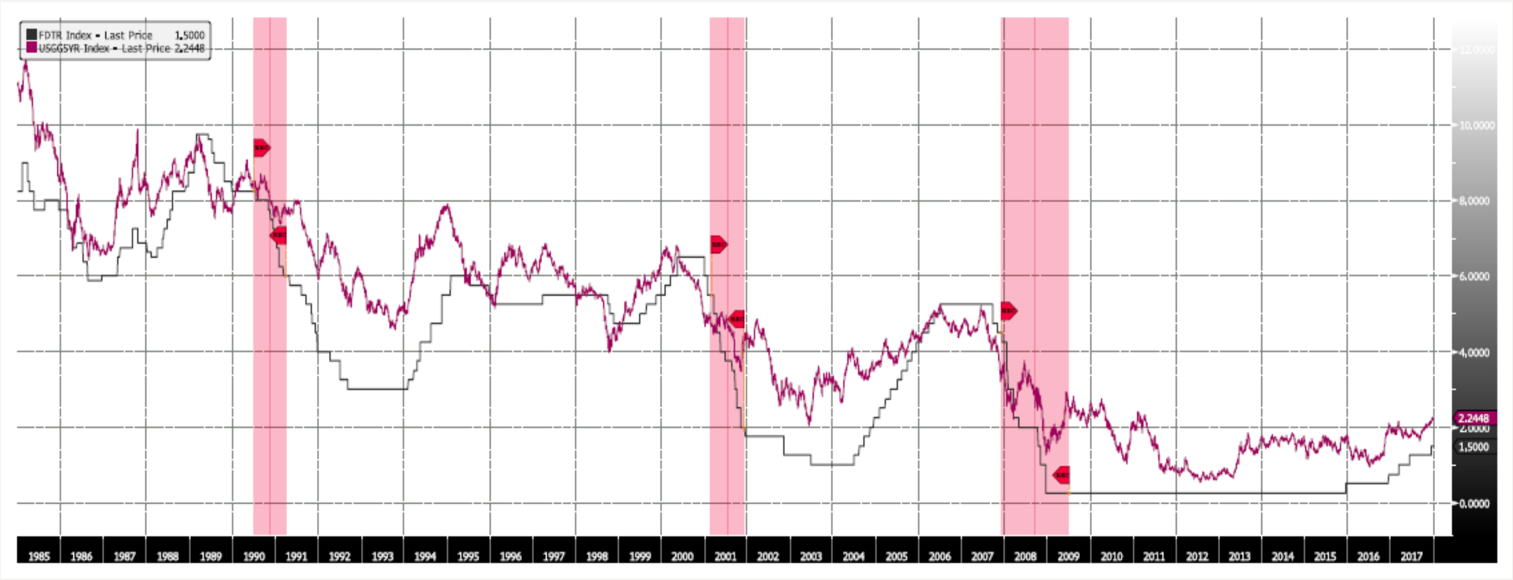

Chart Source: Bloomberg

Transitional Wealth

Here at home, the front edge of the baby boom generation turns 72 in 2018.

Transitional wealth continues to play a significant economic role as assets and wealth move to future generations. In the next 20 years, this transition is measured in Trillions of dollars. The transition and selling of large assets such as businesses, and commercial real estate and large personal assets will continue to be shadowed by the simple question of “how much tax is owed and how much do I actually get to put in my pocket”?

Unfortunately, many asset sellers are simply unaware of all the options available to them. For those sellers simply knowing the rudimentary advantages of the core options can result in a significant financial reward. As a short primer, the core selling options are as follows.

- CASH SALE
  - Result: Seller receives proceeds at closing. Pays all resulting taxes the year of the sale.
- A 1031 EXCHANGE PROGRAM
  - Result: Seller defers capital gains tax for an open-ended time frame by means of swapping like properties.
- INSTALLMENT SALE
  - Result: Seller and buyer agree to spread sale over several tax periods. Seller pays tax as buyer pays the seller.
- INSTALLMENT SALE WITH A MONETIZATION LOAN
  - Result: Seller receives a tax-free non-recourse loan at closing. Invests tax dollars and defers tax cost for up to 30 years.

While these do not begin to cover all the options a seller has when incorporating expert tax and estate planning these are important cornerstones. The seller must determine which of the options best suits their needs. I specialize in helping the business, commercial real estate, and large personal asset seller understand what is available to them.

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Overall 2018 looks to have all the characteristics of an exciting and dynamic year. The key for every investor, business owner, and the taxpayer will be to keep a close eye on the change in the business and consumer market driven by rapid technological growth.

The economy is humming along with low unemployment and the tax reform bill about to take hold, lowering corporate tax rates. However, the Federal Reserve (Fed) and other central banks around the world are not blind to this momentum. The Fed started to reduce its $4.5 trillion dollar balance sheet in October and raised short-term interest rates three times in 2017. Other central banks, like the European Central Bank (ECB), will likely begin tapering in the coming year, buying fewer bonds and decreasing the pace at which they expand their balance sheets. As central banks withdraw their supportive influence, volatility is likely to increase as markets learn to stand on their own again.

Moderating growth, credit tightening, earnings pressure and central banks reversing their accommodative stance are all typical attributes of the late cycle phase of economic growth, but a number of potential catalysts may provide another leg to the current expansion. Based on GDP growth, inflation expectations and dividend yields, our baseline 2018 market expectations are for mid- to upper single-digit returns from large cap U.S. stocks. Although we would typically expect large caps to outperform in the late cycle phase, we anticipate that small caps may benefit disproportionately from tax reform legislation and deregulation. In the fixed income market, based on current yields with some potential yield curve flattening, we expect returns for intermediate-term bonds to be in the very low single digits.

- US Interest Rates: Upward Bias
- US Currency Valuation Downward Bias
- Domestic Equity Market Weight
- Domestic Fixed Income Under Weight
- Foreign Equity Slight Over-weight
- Foreign Fixed Income Neutral
- Alternatives Sight Over-weight