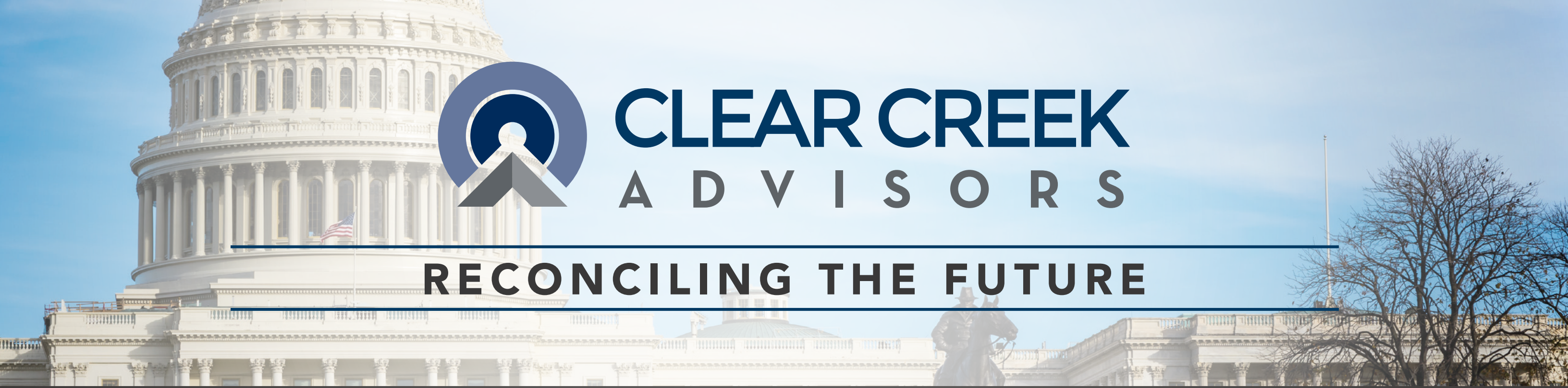

CLEAR CREEK ADVISORS

RECONCILING THE FUTURE

Market Review **DECEMBER 2017**

Possibly one of the biggest events to end the year may happen on Capitol Hill. Recently, the Senate secured enough votes to pass a tax-reform bill. Now, the House of Representatives and the Senate begin a period of reconciliation.

Whether a function of tax reform or rosy profits, stock prices continue to push higher. And why shouldn't they? Inflation and interest rates have gone nowhere this year. Jobs are growing above 140 thousand per month, which is in excess of the 100 thousand level benchmark. Finally, among large capitalization stocks, corporate profits are growing somewhere near 29% this year. Put new fiscal stimulus on top of all this, and that becomes one compelling stock market story.

"Whether a function of tax reform or rosy profits, stock prices continue to push higher. And why shouldn't they?"

The main allure of tax-reform is a corporate income tax rate reduction. The current rate is now 35%. Tax-reform may reduce it to 20%. In addition, individuals could gain with their own tax cuts on personal and business income. Unsurprisingly, a repeal of the individual mandate that forces Americans to purchase health insurance also appears in the Senate's bill. Oddly, there is a section that would open 800 acres for oil exploration and drilling in the Arctic National Wildlife Refuge, which is undoubtedly exciting to big oil companies.

Corporate beneficiaries predominantly include companies with large US operations; large capital spending requirements; low debt; and large stockpiles of overseas profits. Certain markets sectors would be affected in various ways. Telecom could benefit from an immediate tax reduction on all capital expenditures. Pharmaceuticals could unlock billions of overseas cash at a preferential tax-rate. That could allow big pharma to go on a spending spree as either an aggressive acquirer or buyer of its own shares. The demand for investment and loans could spike under a new tax law, which is important for the financial sector. Saving and loan institutions like regional banks would profit handsomely. Also, the border adjustment tax on imports was removed from the bill to the relief of many retailers. Coincidently, banking and some retail stocks ranked among the best performing industries last month. It is noteworthy to mention that any company with high interest expenses may be at a disadvantage. The tax deductibility on interest in its current form could be at jeopardy.

Tax-reform in the US is not a done deal yet. There are plenty of skeptics that remain in the lawmaking powers of Congress. Some are rightfully worried about the enlargements of future deficits and public debt. One non-partisan organization predicts the Senate bill will add as much as 1 trillion-dollars to the public debt balance over the next decade. Another economic assumption presents tax-cuts as non-simulative. It suggests that households and businesses will sock money away in anticipation of higher tax bills in the future. But, if people indeed become savers, arguably some of that money would flow into stocks.

Regardless, stock markets have been in praise mode and have rewarded those willing to invest. In the last three months, the industrial index is up double digits in percent terms. With such a hot domestic market, it is easy to lose sight of international stocks even though they are significant outperformers this year. European markets continue to benefit from even lower inflation and interest rates relative to the US. In fact, the International Monetary Fund recently raised its growth estimate for Europe from 1.6% to 2.1%. European economic surprise indicators are now at a 17-year high. Japanese stocks are benefiting from some of the same factors as Europe. One thing that could derail Japan, however, is US tax-reform. US tax-reform creates an incentive for Japanese firms to move and operate more business into the US. Surely, that would imperil an economy that must already overcome future demographic and fiscal challenges. With significant global market and economic implications at stake, tax-reform will surely be a major focus until a resolution is found.

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Market Movers

The asset allocation in the Core Allocation strategies put up another month of cumulative excess performance. These portfolios continue to offer strong results relative to their benchmarks; the Morningstar World Allocation and Tactical Allocation category averages. The over-weights assigned by the Investment Team to US stocks and emerging stocks has strengthened portfolio returns. Despite the importance of portfolio returns, our commitment to prudent risk management remains a top priority. We will soon be entering another round of allocation planning to prepare for the investment climate of next year. More detail will be made available in the coming weeks and these changes will be deployed in January. Although, the Core Allocation portfolios will remain extensively diversified in every market environment, we continue to recognize the bullish domestic and international equity market trends that are happening right now. Despite the uncertainty surrounding tax-reform, we expect further economic prosperity and market growth in the short-run due to growing corporate profits and the low interest rate environment.

Asset Categories	*Monthly*	*YTD*
US STOCKS	2.98%	15.59%
FOREIGN STOCKS	0.74%	27.06%
US BONDS	-0.10%	3.52%
FOREIGN BONDS	0.38%	8.02%
HARD ASSETS	2.07%	6.15%
HYBRIDS	0.25%	10.90%

*DATA USED IS SOURCED FROM MORNINGSTAR®

US STOCKS experienced another bullish month. All categories made meaningful gains in November. On the full year, Large Cap, Mid-Cap, and Small Cap performance ranks in respective order. Large Cap returns are near 20% since the beginning of the year. Large Caps stand to benefit a great deal from tax-reform and continued US dollar weakness.

FOREIGN STOCKS were positive for the month, but mostly muted in comparison to their US counterpart. Year-to-date, Foreign Stock performance is the best among all other types of asset classes. Year-to-date returns are now over 27%. Inside the category, higher risk allocations are performing the best. Our entire Foreign Stock allocation has added value to our portfolios. In addition, our increase to Emerging Stocks has been especially helpful.

US BONDS were generally flat in November. A dive into the category reveals rising interest rates among government bonds and widening spreads among credit risk bonds are the primary reasons for the negligible throwback. Given the stellar performance of corporate bonds in the recent past, a minor correction shouldn't come as any surprise. Relative to traditional US Bond allocations, our flexibility and extensive diversification has benefited our portfolios.

FOREIGN BONDS made small percentage gains in November. Bonds issued by developed countries surpassed those issued by emerging markets in performance gains. Emerging Market Bonds are leading the category higher this year with roughly 9% returns. On the full year, the Foreign Bond category is up approximately 8%. Prospects of rising interest rates in international lands doesn't appear to be spooking investors in this respective market. Our portfolios have participated in these returns through our Foreign Bond allocations.

HARD ASSETS rose across the board in November. Investors couldn't go wrong with either Energy or Real-Estate. Both categories rose above 2.5%. Precious Metals gained, but only marginally. Precious Metals is a leading asset class in this category this year. Year-to-date gains stand at roughly 11%. The excellent return by Precious Metals displays the impact low interest rates have on inflating real asset prices.

HYBRIDS had a mild month in November. Convertible Bonds etched out a small gain and Preferred Stocks stalled out ending the month flat. However, since the beginning of the year, Convertible Bonds and Preferred Stocks are up approximately 12% and 9%, respectively. Our Hybrid allocations have been a consistent portfolio driver this year, providing steady returns and inconsequential drawdowns.

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