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Special Interest Articles:

Big Threat to Long Term Prosperity for the USA
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2016 Year in Review
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"The strength of a nation derives from the integrity of the home."

-Confucius: Philosopher

Big Threat to Long Term Prosperity for the USA

By Christopher W. Beale, CFP®

As the new year begins, and we start to write the first chapter of 2017, the United States of America is days away from swearing in a new President and administration. In my opinion, one of the least discussed problems facing the new administration and Congress is the increasing national debt.

By comparison, when George W. Bush was first sworn in to office, the national debt was $5.63 trillion. Eight years ago, when Barack Obama took office, the national debt almost doubled to $9.98 trillion[1]. Today as Donald Trump prepares to be sworn in, the national debt stands at $19.88 trillion.

This figure does not include the unfunded obligations we have made through Medicare, Medicaid and Social Security. The non-partisan Congressional Budget Office estimates that would bring total obligations of our government close to $200 trillion dollars!

I have typically considered myself to be socially liberal but fiscally conservative. I don't find those two viewpoints to be mutually exclusive. As a matter of fact, anyone who wants to maintain or even increase the social programs provided by the federal government, should understand that the federal government must be financially sound in order to continue to provide those programs. If our debt continues to climb, it follows that the interest to be paid on that debt will increase. The more we pay in interest, the less we can spend on social programs. Understand that a dollar spent by the government on interest is a dollar that can't be spent on feeding a poor child, can't be spent on medicine for the elderly, can't be spent to provide a college scholarship, or used to pay the salary for the men and women in the Armed Forces. Without reforms, paying interest on our national debt will continue to crowd out our ability to provide services to our citizens.

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2016 Year in Review

By Christopher M. Lee, CFP®

You know you're deep into a longstanding bull market when you see things like average pedestrians keeping one eye on the market tickers outside of brokerage houses to see when the Dow Jones Industrial Average has finally breached the 20,000 mark. Who would have imagined record market highs at this point last year, when the indices ended the year in negative territory? Or when new year 2016 got off to such a rocky start, tumbling 10% in the first two weeks—the worst start to a year since 1930?

The markets eventually bottomed in mid-February and began a long, slow recovery, turning positive by the end of March, suffering a setback when the U.K. decided to leave the Eurozone and endured another hard bump right after the elections. In the end, we were disappointed; the Dow finished at 19,762.60 for the year—as the bull market has continued for another year.

This was the second year in a row that the final quarter provided investors with solid gains. The Wilshire 5000--the broadest measure of U.S. stocks—was up 4.54% in the fourth quarter of 2016, ending the year up 13.37%. The comparable Russell 3000 index gained 4.21% in the final quarter, to finish up 12.74% for the year.

Large cap stocks were up as well. The Wilshire U.S. Large Cap index gained 4.14% in the fourth quarter, and finished the year up 12.49%. The Russell 1000 large-cap index closed with a 3.83% fourth quarter performance, and finished the year up 12.05%, while the widely-quoted S&P 500 index of large company stocks was up 3.25% in the fourth quarter, finishing up 9.54% for calendar 2016.

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Big Threat to Long Term Prosperity for the USA

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Obviously, we can't continue with this "business as usual" approach. We must bring spending and revenues in line.

A quick reference note may be needed to understand the difference between our debt and our deficits. A deficit occurs annually within a one year timeframe if we spend more than we make (expenses are more than revenues). The opposite of a deficit is a surplus. A debt is the longer-term accumulation of the money we owe as a country. To take this example to a personal level: if you have more expenses than income this month due to excess Christmas bills, you might have to charge the difference on your credit card to cover that deficit. If you don't pay off the credit card completely, your on-going credit card balance is your debt.

The solution to our deficit is simple, albeit not easy. We must reduce our spending or increase our revenues. I will defer offering deficit solutions at this time and only comment on a debt solution. Again, paralleling the national debt to personal finance, one solution to reducing interest payments for the individuals is to refinance.

I suggest we consider refinancing our national debt at historically low rates now before interest rates rise. We can lock in these low rates for a longer timeframe. This will cause less of our tax money to be used for interest and more can be used for services for our citizens or reducing our national debt. I propose the United States issue a 100-year bond, not unlike what Ireland and Belgium have already done. Other countries are considering the same at this time.

But we need to act fast because interest rates have already started to increase. If the new administration locks in the historically low borrowing costs now, they can reduce the interest we are paying on our debt for years to come. This could also reduce our annual deficits. Of course, this would only be part of the solution and more work needs to be done. No person or country ever borrowed their way to greater prosperity and we as citizens can't be so naïve as to think we would be the first country to do so.

As former President Bill Clinton once said, "We've got to deal with this big, long term debt problem, or it will deal with us". The 100-year bond refinance idea is one solution that could help us to reach the fiscal responsibility needed to provide us with greater long term prosperity.

1. *Monthly Statement of the Public Debt of The United States, November 30, 2016*

"I never considered a difference of opinion in politics, in religion, in philosophy, as cause for withdrawing from a friend."

-Thomas Jefferson: American Founding Father and author of the *Declaration of Independence* who served as the 3rd President of the United States.

NECFA NEWS…..

Congratulations to Ann Marie Ocone!

Some of you may have had the pleasure of Ann sitting in on your meetings here at New England Capital or speaking with her on the phone. For the past two years she has been taking her education requirements to sit for the Certified Financial Planner Exam, having completed the education, examination, experience requirements and obviously passing the background and ethics requirements. We are proud to announce that she sat for the exam in November and she is now a Certified Financial Planner ®! Congratulations to the newest CFP® on our team.

2016 Year in Review

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The Wilshire U.S. Mid-Cap index gained 5.31% in the final quarter, finishing the year with a gain of 17.22%. The Russell Midcap Index gained 3.21% in the fourth quarter, and was up 13.80% in calendar 2016.

This was a year to remember for investors in small company stocks. As measured by the Wilshire U.S. Small-Cap index, investors posted an 8.30% gain over the last three months of the year, for a total return of 22.41% over the entire 12 months. The comparable Russell 2000 Small-Cap Index finished the year up 21.31%, while the technology-heavy Nasdaq Composite Index rose 1.34% in the fourth quarter, to finish the year up 7.50%.

International investments contributed a slight decline to overall portfolio returns. The broad-based EAFE index of companies in developed foreign economies lost 1.04% in the fourth quarter of the year, finishing the year down 1.88% in dollar terms. In aggregate, European stocks lost 3.39% for the year, while EAFE's Far East Index gained just 0.14%. Emerging markets stocks of less developed countries, as represented by the EAFE EM index, gained 8.58% for the year.

"Sometimes the questions are complicated and the answers are simple."

-Dr. Seuss: Children's author

Looking over the other investment categories, real estate investments, as measured by the Wilshire U.S. REIT index, lost 2.28% during the year's final quarter, but managed to finish up 7.24% for calendar 2016.

Last year, investors were wondering why they owned commodities in their portfolios, when their statements showed that the index delivered a whopping 32.86% loss. This year, they may be wondering why they weren't more committed to the asset class, as the S&P GSCI index gained 27.77%, fueled in part by a 45.03% rise in the S&P crude oil index. Gold prices shot up 8.63% for the year and silver gained 15.84%.

In the bond markets, it's possible that the decades-long bull market—which basically means declining interest rates—has ended, and the fixed-income world is experiencing rate rises. But despite the nudge by the Federal Reserve Board, the moves have not exactly been dramatic. Over the past year, rates on 10-year Treasury bonds have risen from 2.25% to 2.44%, while 30-year government bond yields have risen from 3.00% to 3.07%. According to Barclay's Bank indices, U.S. liquid corporate bonds with a 1-5 year maturity have seen yields rise incrementally from 2.4% to 2.8% on average.

As always, there were many unpredictable anomalies in the investment world. In the international markets, anyone lucky enough to have speculated on the Brazilian Bovespa index—comparable to the U.S. S&P 500—would have reaped a gain of 68.9% this year, despite all the headline drama around the Zika virus and political uncertainties that were reported on during the Olympic games. Russian stocks were up 51% for the year, despite the recent sanctions from the U.S. government and the lingering international sanctions related to the invasion of the Crimean peninsula.

What's going to happen in 2017? Short-term market traders seem to be expecting a robust economic stimulus combined with lower taxes and deregulatory policies that would boost the short-term profits of American corporations. But it is helpful to remember that we are entering the ninth year of economic expansion, making this the fourth longest since 1900. In addition, growth has not exactly been robust; the U.S. GDP has averaged just 2.1% yearly increases since the Great Recession, making this the most sluggish of all post-World War II expansions.

Slow but steady has not been a terrible formula for workers or stock investors. The unemployment rate has slowly ticked down from a post-recession peak of 10% to less than 5% currently. U.S. stock indices are posting record highs with double-digit gains, and that Dow 20,000 level, while essentially meaningless, is still catching a lot of attention.

It's clear that the new President-elect wants to accelerate America's economic growth, but the policy prescription has not always been clear. Will we rip up longstanding trade agreements, cut back on immigration quotas and deport millions of workers who crossed the border without a visa? Will there be a wall built between the U.S. and Mexico? Will the government pay for huge infrastructure projects, at the same time reducing taxes and thus raising the national debt? Will Congress raise the debt ceiling without protest if that happens? Will the Fed raise rates more aggressively in the coming year, or cooperate with the President-elect in his efforts to drive the economy into a faster lane?

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2016 Year in Review

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At the same time, there are many unknowns around the globe. China's economic growth has stalled for the second consecutive year, and you will soon be reading about a banking crisis in Italy that could force the country to leave the Eurozone—potentially a much bigger blow to European economic unity than Brexit or a still-possible Greek exit. Russian hackers may have ushered in an era of unfettered global intrusions into our Internet infrastructure, and there will surely be a continuation of ISIS-sponsored terrorism in Europe and elsewhere.

Every year of this longstanding bull market, we have to look over our shoulders and wonder when and how it will end. With the January downturn and so much uncertainty at this time last year, nobody could have predicted double-digit returns on U.S. stocks at year-end. Next year could bring more of the same, or it could fulfill the dire predictions many have made during the election cycle, including both Democrats and Republicans who believe the country is in worse shape than the numbers would indicate.

What we have learned over the past few years is that the markets have a way of surprising us, and that trying to time the market, and get out in anticipation of a downturn, is a loser's game. At the county fair, when we get on the roller coaster, we don't bail out and jump over the side at some scary point on the track; we hang on for the ride. The history of the markets has been a general upward trend that benefits long-term investors, and looking out over the long-term, that—and a few hard bumps along the way--is probably the best outcome to expect.

The greatness of a man is not how much money wealth he acquires, but in his integrity and his ability to affect those around him positively ."

-Bob Marley: Musician

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