Vector
WEALTH MANAGEMENT

Dear Client,

Normally at year end there is much to talk about and recap on the year. 2017 came to an end following the quiet and steady theme during which financial markets pushed forward without looking back. There is one statistic that brings to light just what type of year it was. According to Ned Davis Research, the U.S. stock market has rallied for more than 400 days without registering as little as a 3% decline, the longest such streak in 90 years of market history.

Year-End 2017 notables:

- The fourth quarter capped yet another stellar year for U.S. stocks. Larger-cap U.S. stocks gained 6.6% for the quarter. 2017 was the ninth consecutive year of positive returns for the index—tying the historic 1990s market and continuing a truly remarkable run from the depths of the 2008 financial crisis.
- The broad driver of the market's rise for the year was rebounding corporate earnings growth, which was supported by solid economic data, synchronized global growth, still dormant inflation, and accommodative monetary policy. U.S. stocks got an additional catalyst in the fourth quarter with the passage of the Republican tax plan, presumably reflecting investors' optimism about its potential to further boost corporate after-tax profits, at least over the shorter term.
- Foreign stock returns were even stronger, with developed international markets gaining 25% and emerging markets up 37.3% for the year.
- Moving on to bonds, the US bond market was +3.5% in 2017. Although the Federal Reserve raised short-term rates three times, yields at the long end of the Treasury curve declined and the yield curve flattened.

What we know from history is that positive markets can go on longer than expected. Many of our recent internal investment discussions have revolved around portfolio "levers". Levers provide the option to take action in various markets. Many of these available actions result from dividing your assets into time periods for the reason of knowing where to accept risk in your portfolio. Core aspects to our method of segmenting your assets into time periods:

- Investing the longer term segments (Accumulation and Legacy) to participate meaningfully in stock market advances by utilizing higher growth asset classes. We expect these segments to produce the highest returns during strong markets, which is what occurred in 2017.
- Within the intermediate segment (Preservation), we emphasize generating income/yield while limiting downside risks.
- For clients in the distribution phase, we have been adding to the conservatively invested short term segment (Assured Income), nearly every six months for much of the past seven years. Additions to the short term segment have been primarily funded by rising stock investments. At some point, markets will decline and we may allow this segment to be consumed down to a greater extent. The most important lever here is creating a cushion so that we are not required to sell stock investments for income needs in a down market.

During 2017, every month produced positive returns for US and foreign stock markets – it is now being known as the perfect year. Perfection can't last forever and that's ok. Imperfection is what can create new opportunities, which we stand ready to act…with levers in place.

Thank you for your trust and confidence.

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1st Quarter 2018

How does the 2018 Tax Reform Bill impact me?

Like everyone else, Vector is trying to digest the impact the 2018 Tax Reform Bill will have on tax returns. At this time, we simply don't know the total impact on your return but we will learn more in the coming months. We are aware that many deductions have been either reduced or eliminated but, in lieu of that, the marginal tax brackets have been reduced.

New Individual Tax Brackets and Rates:

Tax Rate	Single Income Range	Married Filing Joint Range
10%	$0-9,525	$0-19,050
12%	$9,525-38,700	$19,500-77,400
22%	$38,700-82,522	$77,400-165,000
24%	$82,500-157,500	$165,000-315,000
32%	$157,500-200,000	$315,000-400,000
35%	$200,000-500,000	$400,000-600,000
37%	OVER $500,000	OVER $600,000

Standard Deduction –

1. Joint Return - $24,000
2. Head of Household - $18,000
3. Single - $12,000

We have spent time analyzing various scenarios to see how losing some of the Miscellaneous Itemized Deductions and Exemptions compare to the newly released Standard Deduction of $12,000 (filing Single) and $24,000 (Married Filing Joint) will play out. Surprisingly, many of the new scenarios we looked at were actually favorable for the tax filer because of the new lower tax brackets.

Form 5498 Coming in May– IRA Contribution Information

Form 5498 is required to be filed by financial institutions reporting contributions to IRAs and other tax-preferred saving's accounts. Contributions made up to April 17 for the previous tax year are included on this form, so it is normally mailed in May. Should you receive one of these, it is for informational purposes only and can be filed in your records.

ADV Part 2A - Brochure

The Securities and Exchange Commission requires Registered Investment Advisory firms to update their ADV Part 2A "brochure" by March 31st of each year and Vector is required to mail you a copy. If you receive your Vector quarterly statements in hard copy, the brochure will be enclosed. If you receive your statements via the client portal, we are required to mail you a hard copy under separate cover in the next few days.

Referrals

We are fortunate to have grown over the years primarily through referrals from you, our clients. Thank you! If you know of other individuals you think could benefit from our services, we would love the opportunity to speak with them.