



James H. Fydroski CFP®
President,
Haas Financial Services, Inc.

Look Back—3rd Quarter 2017 & Black Monday

Despite multiple natural disasters, domestic political tension, a threat of war with North Korea and a reputation as the worst seasonal period for stocks- most global stock markets rallied in the third quarter 2017. With an impressive 7.4% gain, emerging-market stocks led both U.S. and global markets over the July, August, September quarterly time frame. Close behind were European markets tallying returns averaging 6.1% and international stocks at 5.9%. Many markets outside of the U.S. look very attractive relative to our domestic markets and should continue to offer solid investment opportunities in the months to come.

While not quite matching its world counterparts, the U.S. stock market also delivered strong returns in the third quarter 2017. The U.S. market extended its positive return streak to eight consecutive quarters and a truly remarkable long term positive winning streak stretching to 18 out of the last 19 quarters.

In addition to the win streak on returns, markets have been almost eerily calm this year. The largest decline was only 2.8% and that occurred from March 1 to April 13. According to Ned Davis Research, there has been only one calendar year when the largest drawdown was smaller than that.

A snapshot of the U.S. stock market in the third quarter 2017 saw the following returns: The Dow Jones Industrial Average was up +5.6%. The S&P 500 came in slightly less than the DOW with a return of +4.5%. And, although not by much, the tech heavy NASDAQ won top honors among the "big three" domestic markets with a gain of +6%.

Historically, in most quarters that show market gains, mutual fund returns follow in kind – and this quarter was no exception. The average diversified U.S. stock mutual fund returned +4.2% in the three months ending in September. If you are wondering why the average diversified U.S. mutual fund returned less than the "big three" market indexes, there are a couple of reasons. The market indexes, as reported, are the raw returns of their stock components and do not have any fees associated with them. It is highly unlikely that any individual would be able to own all five hundred stocks of the S&P or even all thirty stocks that make up the DOW. Mutual funds as well as exchange traded funds have a management fee associated with them which, in turn, lowers the percentage return to retail buyers. Another reason is that the +4.2% return for the third quarter is an average of all funds in that particular category as well as an average of the 17 funds listed in the Wall Street Journal Mutual-Fund Yardsticks table. Some funds in the table will be higher (best was Large-Cap growth at +5.5%) and some will be lower (worse was Specialty Diversified Equity at +1.7%). They all make up the average.

There are always some sectors that do better than others and this quarter honors went to the Science & Technology sector with an average return of +7.9%. Although still positive, the Real Estate sector only gained +0.7% for the quarter. The Average Taxable Bond Fund saw a quarterly gain of +1.1% but they also showed a fairly wide divergence in category returns. World Bond Funds were up +2.0% on average while the Long-Term U.S. category was only up +0.4%. In many instances, High-Yield Municipal Funds produce lower returns due to their tax-exempt status, but in the third quarter they were up +1.6% on average (Source: Wall Street Journal 10-9-17).

In summary, the stock market has ignored the weak seasonal tendencies of summer and especially of September (and October so far) for a correction. Overvaluations, disasters, politics and a threat of war have not mattered as markets have moved grindingly higher. We are currently in the second longest bull market in history so the odds of its continuation become less likely every day. There are no crystal balls out there to give us an exact answer but some of the analysts I read on a regular basis seem to think a major top will be reached in mid-2018 and then a significant correction after that. Only time will tell. Stay tuned!!!

Before ending, a final note in financial history from 30 years ago. On Oct. 19, 1987, the Dow Jones Industrial Average went into a freefall. At the close of this horrific trading day, the DOW lost 508 points - an unimaginable drop of 22.6%. The S&P 500 fell 20% as well. It was the DOW's largest-ever, one-day drop and will forever be remembered as Black Monday. It was twice the size of any daily fall during the 1929 market crash and far outstripped declines experienced during the 2008 global financial crisis.

There has never been any one agreed-upon explanation that caused Black Monday. Multiple factors such as globalization, computerization, increasing complexity of financial instruments and PANIC all played a part. It has also been speculated that structural flaws in the markets were to blame.

Could it happen again? Many market experts say that there are currently enough barriers to prevent a run on the markets of that magnitude. The largest market drop since Black Monday was an intra-day drop of 9.2% on May 6, 2010 in an event known as the "flash crash". Was that a comparable event? There would likely be different opinions on that. As mentioned in previous newsletters, investing should be based upon your individual goals, time frame and risk tolerance as well as whether you are in the accumulation phase of your investment life or in the distribution phase such as pre-retirement or retirement. If you desire market returns on your investments, you are also accepting the inherent market risks that go along with it whether you are aware of them or not. Great returns with no risk do not exist so go into any investment with open eyes.

Page 2 is a fact sheet from the Social Security Administration listing changes for 2018. The good news is that recipients will receive a 2% increase in their benefits. Enjoy the splendors of Fall, for we know what comes next. Take good care!!!

2018 SOCIAL SECURITY CHANGES

Cost-of-Living Adjustment (COLA):

Based on the increase in the Consumer Price Index (CPI-W) from the third quarter of 2016 through the third quarter of 2017, Social Security and Supplemental Security Income (SSE) beneficiaries will receive a 2.0 percent COLA for 2018. Other important 2018 Social Security information is as follows:

| Tax Rate | 2017 | 2018 |
|---------------|--------|--------|
| Employee | 7.65% | 7.65% |
| Self-Employed | 15.30% | 15.30% |

NOTE: The 7.65% tax rate is the combined rate for Social Security and Medicare. The Social Security portion (OASDI) is 67.20% on earnings up to the applicable taxable maximum amount (see below). The Medicare portion (HI) is 1.45% on all earnings. Also, as of January 2013, individuals with earned income of more than \$200,000 (\$250,000 for married couples filing jointly) pay an additional 0.9 percent in Medicare taxes. The tax rates shown above do not include the 0.9 percent.

| | 2017 | 2018 |
|--|---------------------------|---------------------------|
| Maximum Taxable Earnings | | |
| Social Security (OASDI only) | \$127,200 | \$128,700 |
| Medicare (HI only) | No Limit | |
| Quarter of Coverage | | |
| | \$1,300 | \$1,320 |
| Retirement Earnings Test Exempt Amounts | | |
| Under full retirement age | \$16,920/yr.(\$1,410/mo.) | \$17,040/yr.(\$1,420/mo.) |
| NOTE: one dollar in benefits will be withheld for every \$2 in earnings above the limit. | | |
| The year an individual reaches full retirement age | \$44,880/yr.(\$3,740/mo.) | \$45,360/yr.(\$3,780/mo.) |
| NOTE: Applies only to earnings for months prior to attaining full retirement age. One dollar in benefits will be withheld for every \$3 in earnings above the limit. | | |
| Beginning the month an individual attains full retirement age | None | |

| | 2017 | 2018 |
|---|-------------------|-------------------|
| Social Security Disability Thresholds | | |
| Substantial Gainful Activity (SGA) | | |
| Non-Blind | \$1,170/mo. | \$1,180/mo. |
| Blind | \$1,950/mo. | \$1,970/mo. |
| Trial Work Period (TWP) | \$ 840/mo. | \$850/mo. |
| Maximum Social Security Benefit: Worker Retiring at Full Retirement Age | | |
| | \$2,687/mo. | \$2,788/mo. |
| SSI Federal Payment Standard | | |
| Individual/Couple | \$735/\$1,103/mo. | \$750/\$1,125/mo. |
| SSI Resource Limits | | |
| Individual/Couple | \$2,000/\$3,000 | \$2,000/\$3,000 |
| SSI Student Exclusion | | |
| Monthly Limit/Annual Limit | \$1,790/\$7,200 | \$1,820/\$7,350 |
| Estimated Average Monthly Social Security Benefits Payable in January 2018 | | |
| | Before 2.0% COLA | After 2.0% COLA |
| All Retired Workers | \$1,377 | \$1,404 |
| Aged Couple, Both Receiving Benefits | \$2,294 | \$2,340 |
| Widowed Mother and Two Children | \$2,717 | \$2,771 |
| Aged Widow(er) Alone | \$1,310 | \$1,336 |
| Disabled Worker, Spouse & One or More Children | \$2,011 | \$2,051 |
| All Disabled Workers | \$1,173 | \$1,197 |

ADVISORY SERVICES OFFERED THROUGH HAAS FINANCIAL SERVICES, INC.

21415 CIVIC CENTER DRIVE, SUITE 210A, SOUTHFIELD, MI 48076
 HTTP://WWW.HAASFSI.COM/ PH 248-728-0028 Fax 248-499-1972 Jim@haasfsi.com