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## NON-PROFIT INVESTMENT REPORT FOURTH QUARTER 2017

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### Attention Non-Profit CEOs and CFOs!

**This newsletter contains timely information for your non-profit organization. The table of investment asset class returns may help you assess the performance of your investment program and portfolio.**

### Market Commentary

Fourth quarter returns were positive in all the major equity asset classes. The final three months of the year saw each of the major U.S. equity market indices hit new all-time highs multiple times.

The S&P 500 also experienced historically low volatility. On October 23, the S&P 500 reached the longest period in its history of consecutive trading days without a 3 percent intraday drawdown. **[Source: LPL Research, FactSet: Oct 2017]**. The previous record was 241 days, set in 1996. That streak continued through the end of calendar 2017.

The combination of above-average returns and below-average volatility makes investors happy, but are not the normal results to be used for long-term planning.

Many investors are enjoying the benefits of 2017 composite portfolio gains and a growth of 378 percent in the S&P 500 since the bear market low on March 9, 2009, but also wonder when it will end and what will happen in 2018.

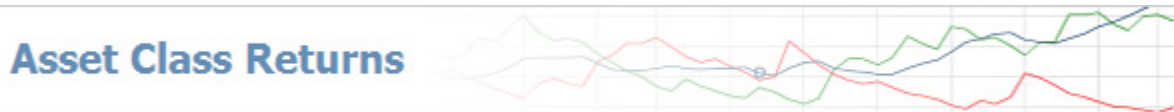
**[Source: BTN (By the numbers) Research; January 2, 2018]**

Looking at portfolio performance for the full year 2017, the chart below shows that most investors that had an allocation in International Large Cap Equity, the S&P 500, US Small Cap Equity and US Large Cap Value (as well as other equity asset classes) benefitted from the strong annual performance of these asset classes.

During 2017, the markets were exposed to rising interest rates, record breaking natural disasters in the US and around the globe, domestic political uncertainty (i.e., a new president), international tensions (i.e., North Korea), and the growing barrage of sexual harassment revelations. These events created a negative sentiment across our society, but all this noise did not distract the stock market.

These same issues could have impacted the fixed-income market as well, yet fixed-income delivered a modest overall total return. Keep in mind that the fixed-income allocation attempts to mitigate volatility and remains a desired component of portfolios.

We offer no predictions for 2018, but do agree with the broad-based view that the global economy seems to be on stable footing that could support modest sustained growth. Risk factors are always present and geo-political events could roil markets at any time. Yet there appear to be no obvious signs of fear or bubbles that would call for considering a change in long-term investment strategy.



Here are the fourth quarter 2017 returns and full year 2017 returns of typical benchmarks for selected asset classes. A diversified portfolio may include some investments in many (or all) of these asset classes. This table is sorted by (4th quarter 2017) percentage return.

<u>Asset Class</u>	<u>Q4 2017</u>	<u>2017</u>	<u>Benchmark Index</u>
Domestic Stock Large Cap Blend	6.64%	21.83%	S&P 500 Composite Total Return
International Stock Small Cap Blend	6.05%	33.01%	MSCI EAFE Small Cap Net Total Return
Real Estate International	5.71%	26.45%	FTSE EPRA/NAREIT Global Real Estate excl. US
Domestic Stock Large Cap Value	5.33%	13.66%	Russell 1000 Value
Commodities Natural Resources	5.17%	4.36%	Dow Jones UBS Commodity Total Return
International Stock Large Cap Blend	4.23%	25.03%	MSCI EAFE Net Total Return
Domestic Stock Small Cap Blend	3.34%	14.65%	Russell 2000 Index
Real Estate United States	2.48%	8.67%	FTSE EPRA/NAREIT Equity
Annual Inflation Rate	2.23%	2.23%	Consumer Price Index (1 Yr)
International Fixed Income Un-Hedged	1.58%	9.92%	J.P. Morgan Global Non-US Un-Hedged
Domestic Fixed Income Treasury Inflation Protected (TIPS)	1.26%	3.01%	Barclays TIPS Index
International Fixed Income Hedged	1.20%	2.03%	J.P. Morgan Global Non-US, Hedged
Domestic Fixed Income Intermediate Term Bond	-0.20%	2.14%	Barclays Intermediate US Government/Credit Bond
Domestic Fixed Income Short Term Bond	-0.30%	1.27%	Barclays 1-5 Year Government/Credit Bond

- Asset Class Returns in this table are represented by Benchmark Index performance numbers derived from Morningstar. Organizations cannot invest directly in an index. Index returns do not include investment advisory fees or trading expenses. An investment benchmark is a standard against which the performance of an individual security or group of securities is measured. For example, the average annual performance of a class of securities over time is a benchmark against which the current performance of members of that class and the class itself can be measured.
- Actual portfolios should be constructed based upon an individual or entity's specific financial resources, investment goals, risk tolerances, investing time horizons, tax situation, and other relevant factors. Not all recommendations will be suitable for all investors. Individual allocations and performance will vary.
- Performance results shown do not include a deduction for investment management fees or expenses. If management fees and expenses were included, the returns would likely be reduced by one percentage point or more for the annualized management fee, and there would also be additional trading commissions and expenses.
- Past performance is not a guarantee of future results. There is no guarantee that historical returns will be repeated, achieved, or met in the future. There is no guarantee that annual returns will be achieved or met in any year, especially during times of high market volatility.

## Additional Market Indicators



Interest rates, energy prices, unemployment rates, and major market benchmarks are some of the fundamental macro indicators about the health of the U.S. economy.

<u>2017 Market Indicators</u>	<u>Q3 2017</u>	<u>Q4 2017</u>	<u>Q4 2017 Change</u>
Federal Funds Rate	1.25%	1.50%	20.00%
Prime Rate	4.25%	4.50%	5.88%
Oil (Barrel)	\$51.67	\$60.42	16.93%
Gasoline (Gallon)	\$2.68	\$2.64	-1.49%
Unemployment Rate	4.40%	4.10%	-6.82%
Dow Jones Industrial Average	22405.09	24719.22	10.33%
S&P 500 (Price)	2519.36	2673.61	6.12%
NASDAQ Composite	6485.96	6903.39	6.44%

### Bitcoin for non-profits?

A short word about cryptocurrency (i.e., Bitcoin and others) in 2018. We note the following characteristics of Bitcoin. It has very few owners across the globe. It has a complex software technology that defines its value. The factors that may impact the change in its daily value are not obvious or transparent. It has a short history available to assist in judging its potential role in a long-term diversified portfolio.

We believe it is mainstream investment news, but not a mainstream investment option at this time. The board of your non-profit has a fiduciary duty to manage the organization's assets with reasonable care, skill and caution. It is unlikely all members of your board (or even a single member) could comfortably explain to the membership why Bitcoin is in the best interests of your organization.

### 2018 Retirement Plan Contribution Limits

The maximum elective participant deferral to a 401(k) or 403(b) qualified retirement plan for 2018 increases from \$18,000 to \$18,500. Additionally, if the participant is age 50 or older, they are allowed to defer an additional \$6,000 as a catch-up contribution.

If the plan allows for employer matches and/or profit sharing contributions, the maximum contribution from all sources in 2018 increases from \$54,000 to \$55,000.

We believe a good retirement planning guide is to target saving at least 15 percent of your gross income each year in some combination of your elective deferrals, employer contributions, and other (non-retirement) savings.

### **Disclosures**

*The discussion of investment strategy and philosophy found in this newsletter is not intended as any form of substitute for individualized investment advice. The discussion is general in nature, and therefore not intended to recommend or endorse any asset class, security, or technical aspect of any security for the purpose of allowing a reader to use the approach on their own. Before participating in any investment program or making any investment, clients as well as all other readers are encouraged to consult with their own professional advisers, including investment advisers and tax advisers. Rembert Pendleton Jackson can assist in determining a suitable investment approach for a given individual, which may or may not closely resemble the strategies outlined herein.*

*The S&P 500 index is presented as a general representation of the behavior of the domestic equity markets. Historical performance results for investment indices and/or categories have been provided for general comparison purposes only, and generally do not reflect the deduction of transaction and/or custodial charges, the deduction of an investment management fee, nor the impact of taxes, the incurrance of which would have the effect of decreasing historical performance results. It should not be assumed that your account holdings correspond directly to any comparative indices. An investor may not directly invest in an index.*

*Information presented herein is based upon facts derived from publicly available information, and is also based on certain assumptions, including that there are no additional changes to current law, and that demographic information regarding retirement plan contributions also remains unchanged.*

*Some information in this presentation is gleaned from third party sources, and while believed to be reliable, is not independently verified.*

## **RPJ Investment Advisory Services**

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For more information about our firm and our services please [visit our website](#) or give us a call at 703-821-6655.

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