SIENA
WEALTH MANAGEMENT, INC.

What's Driving Stocks And How It Affects Portfolios

The new tax law is boosting the economy more than initially thought. After the election of November 2016, the Standard & Poor's 500 rose sharply, coinciding with the growing likelihood the law would be adopted. Then, in the weeks after the legislation was signed on December 22nd, Wall Street analysts sharply hiked their earnings estimates for the S&P 500, and stock prices soared to start the year.

Earnings expectations are surging and earnings are ultimately what drive stock prices. Since 2001, earnings on large-company stocks averaged a growth rate of 7.4%. But earnings are not expected to grow a mere 7.4% annually in 2017, 2018, and 2019 – they're expected to grow 12%, 15% and 10%, respectively.

After the new tax law was signed, the average company in the S&P 500 was expected to see profits of $131 a share in 2018. In January, however, expectations were revised upward to about $152, and that is likely to be revised higher still in February. By historical standards, earnings surges are unusual but not without precedent. Still, you have to wonder how much longer the good times can last.

The consensus of 68 economists surveyed in early January by *The Wall Street Journal* was for strong growth, averaging 2.7% quarterly through 2018. Meanwhile, the Conference Board's Leading Economic Indicators — a forward looking index — surged at the end of 2017 and the business group's economists cited the new tax law as a tailwind to the expansion. In addition, the International Monetary Fund also cited the new tax law in upping its latest quarterly projection for world growth in 2018 and 2019.

But the key to the sustainability of the virtuous economic cycle is the American consumer, and the data on gross domestic product released in late January showed consumer strength remained intact. GDP is comprised of four factors and consumer spending is by far the most important, accounting for 69% of U.S. economic activity. If consumers keeping spending, the good times could keep on rolling. In February, a lower rate of withholding federal taxes on paychecks kicks in, putting more money in consumers' pockets to spend.

While the future looks very bright, plenty could go wrong. A constitutional crisis looms larger, the nuclear standoff with North Korea is on a hair trigger, and

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Volatile Times-Should We Sell?

The first week of February turned volatile with the market down and losing the gains we saw in January. While most of our clients took this in stride, some investors felt the dramatic day-to day fluctuations were unsettling, and even wondering: **Is now the time to sell?**

Market timing is a seductive strategy. If we could sell stocks prior to a substantial decline and hold cash instead, then get back in near the bottom, our long-run returns could be exponentially higher. But successful market timing is a two-step process: determining when to sell stocks and then, when to buy them back again. A substantial proportion of the total return of stocks over long periods comes from just a handful of days. You don't want to be on the sidelines on days when returns happen to be strongly positive.

Contrary to the beliefs of some investors, dramatic changes in security prices are not a sign that the financial system is broken but rather what we would expect to see if markets are working properly. The world is an uncertain place. The role of securities markets is to reflect new developments— both positive and negative—in security prices as quickly as possible. Investors who accept dramatic price fluctuations as a characteristic of liquid markets may have a distinct advantage over those who are easily frightened or focused on day-to-day events, and are more likely to achieve long-run investing success.

While it may be difficult to remain calm during a substantial market decline, it is important to remember that volatility is a normal part of investing. And though it is not always easy to stay the course, it sure pays off in the long run.

Your team at Siena Wealth Management

Ron, Mike, Mike, Chris and Billy

Bitcoin, Chasing Your Tail, And Investing

Thinking about Bitcoin? Could be a good time to hop on, right? Wrong! Usually, by the time the average investor jumps on a gaudy, freewheeling bandwagon, it's too late. The price spike has already occurred. If the investment is a fad, a sickening plummet may well await you.

Bitcoin blasted to a record high at rocket speed, hitting $19,783 on December 17, 2017, before plunging 25% in the next 10 days. The crypt-currency may yet be destined for greatness over the long-term, but its supersonic ascent and subsequent nosedive look much like other notorious investment fads.

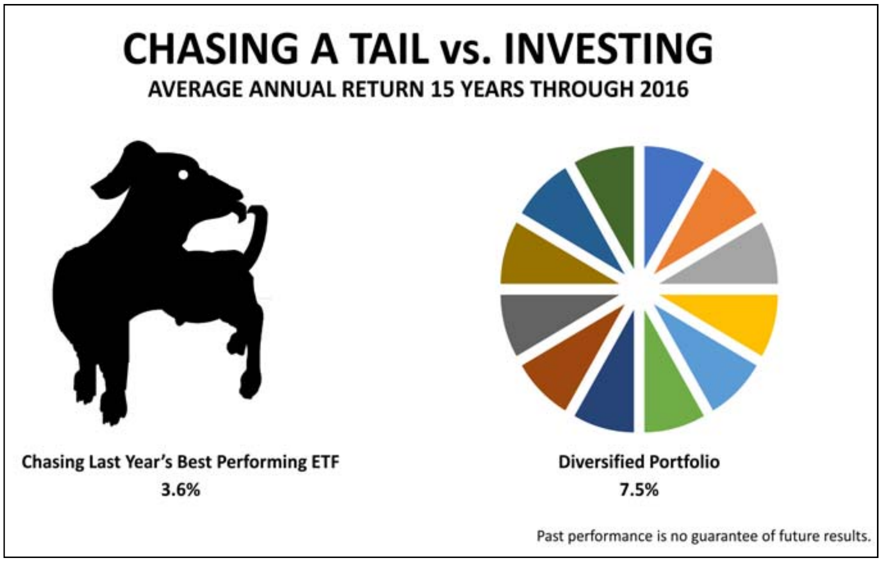
In 1637, Dutch investors lost their bloomers on tulip bulbs. During tulip-mania, prices for bulbs reportedly rose from November 1636 to February 1637 by 2000%, according to academic research published on Wikipedia.

These objects of desire were flowers. It made no sense. The crash of the bulbs shattered lives and has ever since served as a beacon in financial history, warning investors of the risk in chasing performance.

Investing in Bitcoin makes little sense considering that it is one of many crypto-currencies being mined on the Internet. The value of a crypto currency is set by supply and demand and supply is set by a software program that's not tied to a sovereign state. Transactions are easily hidden from tax authorities. Ultimately, crypto-currencies compete with sovereign nations, which is why some governments are starting to move to regulate them. In the time this was written, not only had the price of Bitcoin plunged 25%, but South Korea became the first nation to ban all anonymous crypto currencies and regulate the rest.

Bitcoin's ascent was easy to spot as a mania, but the modern-day danger inherent in chasing hot performing investments is often far less apparent. For example, say you bought the No. 1 performing Exchange Traded Fund annually for 15 years through 2016. Sound like it could be a strategy for success? Think again, according to Dr. Craig Israeslen, Ph.D., who teaches portfolio design techniques to financial professionals. Your average annual return was 3.6% — less than half the annual return of a broadly diversified portfolio invested across 12 different types of assets equally and rebalanced systematically every year over the same 15-year period through 2016.

Human nature makes people susceptible to investment manias, shiny bright objects like Bitcoin, and chasing last-year's winners. It's why people will always need investment professionals to stay focused on economic fundamentals, quantitative analysis, controlling fear and greed. ●



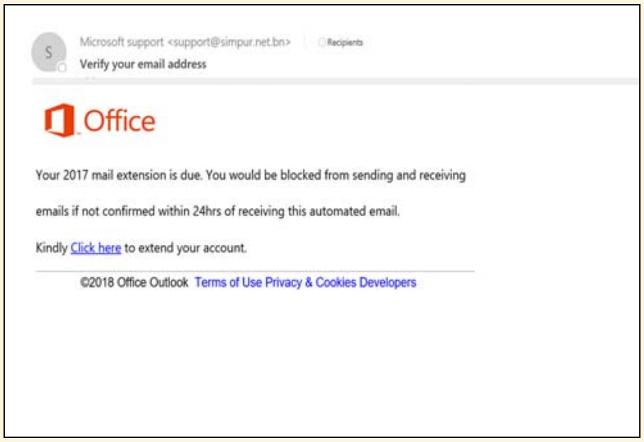
Six Tips To Avoid Phishing Scams

"Fake news" has exacted a high cost to American culture and political discourse, but the internet fakery that costs you time and money is phishing, emails diabolically aimed to trick even you into opening your personal data to crooks and miscreants.

Phishing is the practice of emailing people purporting to be a reputable company to fool people into revealing passwords, credit card numbers, contacts, emails, internet accounts, and your most personal digital data. It's rampant. Whether you're using a smartphone, tablet, and computer, here are some tips for protecting yourself:

Mistakes. Phishing emails often are generated by teens or crooks with weak skills in English punctuation, grammar, and spelling. The phishing email from Office use an improper style in "24hrs" and the capitalization of the phrase, "Kindly Click here" should arouse suspicion. When you look at this email's bottom line, the copyright is "Office Outlook." The logo is off. The product name is Office 365 and there is no mention of Microsoft in the copyright notice. Does the sentence Terms of Use Privacy & Cookies Developers make sense? It's a hint that this is a fake.

Reply email address. In this



Seven Security Steps After Major Data Breach

On September 7, 2017, one of the "big three" credit reporting agencies in the country dropped a bombshell. Equifax had been hacked, and almost 150 million Americans may have had their credit histories exposed. It was one of the largest cyber-breaches in history, and while it's difficult to get a handle on exact numbers, suffice to say that it's quite likely your information was compromised.

And it isn't just U.S. citizens who are at risk. The hackers also grabbed confidential data on residents of Canada and the United Kingdom. The other two major credit reporting agencies—Experian and TransUnion—weren't affected.

It took some time for Equifax to get the word out. According to media sources, unauthorized access to data occurred during a three-month stretch between May and July of 2017. The breach was reportedly discovered on July 29, 2017.

What were the hackers after? Again, details are spotty and Equifax has promised to follow up with additional information, but at the very least it's likely that names, addresses, dates of birth, Social Security numbers and in some cases, drivers' license numbers were exposed.

Equifax has claimed that there was no evidence of unauthorized activity on its core consumer or commercial credit reporting databases. But do you feel comfortable knowing that your personal information is in the hands of people who could do you considerable financial harm?

What's more, it's easy to be lulled into a false sense of security as time passes and you don't experience any problems related to the hack. But it could be many months or even years before criminals try to use your information, and it pays not to assume that you're immune.

Whether you believe your information was exposed or not, there are several steps you can take in the aftermath of the breach to protect your financial affairs. The Federal Trade Commission (FTC) has recommended the following actions:

1. Visit a special Equifax link at www.equifaxsecurity2017.com that the company set up to help consumers. (This link isn't monitored or controlled by the FTC.) To find out whether your information has been compromised, click on the "Potential Impact" tab and enter your last name and the last six digits of your Social Security number. Your Social Security number is sensitive information, so make sure you're on a secure computer and an encrypted network connection before you enter it. The site will tell you whether you're a victim of the breach.

2. Regardless of whether your information has been exposed or not, if you're a U.S. citizen you can get one year of free credit monitoring and other services. When you're ready to enroll, return to the site and click "Enroll." Currently, you have until January 31, 2018, to take advantage of this offer, but the deadline may be extended.

3. Check your credit reports from the big three credit reporting agencies by visiting annualcreditreport.com. Accounts or activity that you don't recognize may indicate identity theft. Another link provided at IdentityTheft.gov tells you what to do if you think there's a problem.

4. Consider a "freeze" on your credit files. With a freeze, it's hard for a criminal to open a new account in your name. However, a credit freeze won't prevent someone from making charges to your existing accounts.

5. Continue to monitor credit card and bank accounts closely for charges you don't recognize. Remember that it may take a while for such activity to occur.

6. If you decide against a credit freeze, you might instead place a "fraud alert" on your files. A fraud alert essentially warns creditors that you may be an identity theft victim and that they should verify that anyone seeking credit in your name really is you.

7. File your tax return early. If you're at risk, it helps to get your return into the IRS before a scammer has a chance to. Tax ID theft occurs when someone uses your Social Security number to seek a tax refund or a job. Also, be sure to respond immediately to any letters from the IRS.

Finally, visit Identitytheft.gov/data breach to learn more about protecting yourself after a data breach. In addition, your trusted financial advisors can provide you with more guidance. ●

phishing email, the reply address at the top left says "Microsoft support," but if you look closer, the reply email address is "support@simpur.net.bn" and that is not a Microsoft address. The "bn" suffix is the internet country code for Brunei, and that's another telltale sign of fraud. Clever phishing emails often fake reply addresses in other ways. The easiest way to verify a reply email address is to double click on it and look at its properties. If the email purports to be from Microsoft or Google, will hitting reply send an email to a Microsoft or Google email account? If not, it's fake.

Links. Don't click on links in a suspicious email without being deliberate. The link could be a malicious website. Right click on the link and check its properties and see if the link goes to the company.

Slow down. The grammar, misspelling, bad links, and other telltale signs are easily overlooked when you're in a rush, and that's perhaps the reason why people become ensnared by phishing emails.

Verify before you trust. Trust but verify works for some things but not with internet security. First verify and then you can trust.

Secure Software. Microsoft and Apple release updates to computer operating systems continually and those are essential to staying secure. Anti-virus and anti-malware programs are also essential and they need to be kept updated with the latest fixes. ●

Tax Relief For Disaster-Area Losses

If you reside in one of the areas recently devastated by a hurricane, wildfire or another natural disaster, or own investment property in one of those places, you may be able to salvage some tax relief. Federal tax laws allow victims of disasters to claim casualty losses of personal property on their tax returns, although the write-offs are limited. What's more, if you suffer a loss in a designated disaster area and you're due a tax refund, you may be able to speed up its arrival.

Generally, you're eligible to claim a casualty loss caused by an event that is "sudden, unusual, or unexpected." This, of course, includes natural disasters such as hurricanes, fires, tornados, floods, earthquakes, and the like. But no deduction is allowed for normal "wear and tear" of property over time. Your casualty losses for the year, including any losses due to theft or vandalism, are grouped on your tax return.

However, after you've subtracted any insurance reimbursements, the deduction for the remaining damages is subject to these two rules.

- You can deduct only the amount that exceeds 10% of your adjusted gross income (AGI), and that is after...
- You reduce the loss for each event by $100.

Suppose you own an apartment building in Houston that was destroyed by Hurricane Harvey and your unreimbursed loss was $50,000. If your AGI for 2017 is $100,000, your deductible loss is limited to the amount by which it exceeds 10% of AGI—$10,000—leaving you with $40,000 minus $100, or $39,900.

Because the IRS often challenges deductions that appear to be inflated, it's important to obtain an independent appraisal of damage to your real estate or other property by a reputable third party.

Compared with those who have suffered regular casualty and theft losses, people in federally designated disaster areas can obtain faster relief. Normally, you claim a casualty loss on the tax return for the tax year in which it occurred. However, a disaster-area loss may be deducted on a return for the year *preceding* the tax year of the event.

So, in the example involving Hurricane Harvey, instead of waiting to file your 2017 tax return—due by April 15, 2018—to claim your loss, you could file an amended tax return for 2016, and your refund would be sent to you within a matter of weeks.

Similarly, if you suffer a disaster-area loss early in 2018, you don't have to wait until you file your 2018 return in 2019 to claim the loss. You can opt to take it on the 2017 return you'll file in 2018.

These tax rules are designed to provide people who have casualty losses with a measure of relief to help them get back on their feet. Review these rules with your professional advisers if your personal property is damaged or destroyed. ●

What's Driving Stocks

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investors could suddenly turn their focus to the $19 trillion U.S. debt and the nation's unsustainable fiscal path. A 10% or 15% drop could occur in a flash at any time, and chances of a bear-market decline of 20% or more increase as the eight-and-a-half-year bull market grows older. In addition, the new tax law increases the chance that the Federal Reserve will make an interest-rate policy mistake — by quashing growth or allowing the economy to overheat and inflation to surge. Fed mistakes caused every recession in modern U.S. history.

Despite these risks, earnings are surging and that's what ultimately drives stocks. In addition, consumers are spending and that's what drives the economy. With no sign of a recession and all major economic indicators signaling growth, the bull market and expansion could continue for months and soar much higher.

Stocks are an important part of a diversified portfolio — they're the main growth engine in portfolios. But remember, stocks won't always appreciate and are only one part of a diversified portfolio. With stocks appreciating so much in the past year especially, be sure you are rebalancing properly and count on us for prudent portfolio management based on economic fundamentals and quantitative analysis. ●