DECEMBER 2017

THE EXPRESS ADVISOR™

A NEWSLETTER FOR FEDERAL EXPRESS PILOTS

Leading Authority on Successfully Investing Your 401k Plan

CAPTAIN'S BRIEFING:

- **NO CHANGES** in the models.

Make sure you are keeping track of your trade dates for the 30-day hold period!

Captain's Table - Tax Reform

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"It's the most wonderful time of the year…" and that's not only because everyone is a little happier around the holidays. Historically, the S&P 500 has been up 19 of the last 25 Novembers and 20 of the last 25 Decembers, and that held true for this November as well. The S&P 500 is up 26.3% since Election Day, and there's one question that persists: "how much longer can this go on?" It's a great question, and like many finance-related questions, the answer is … "it depends."

There's a lot of data we'll cover to help answer this question, but there's no doubt that at this stage in the cycle future economic gains will be greatly influenced by deals. Some of the most significant deals currently being negotiated include trade deals like the North American Free Trade Agreement (NAFTA), the Trans-Pacific Partnership (TPP), and the U.K.'s divorce from the European Union (aka "Brexit"). President Trump is looking to shore up American business with deals that his administration thinks are fairer to the U.S.

The deal that is garnering the most attention in Washington D.C. is tax reform, and there are actually two bills being proposed, a version drafted by Republicans in the House of Representatives and a version drafted by Republicans in the Senate. The House bill passed in mid-November and the Senate bill is still working its way through that chamber after some last minute delays on the final day of the month. There's some variation between the two versions, but both would simplify marginal tax brackets, nearly double the standard deduction, repeal state and local tax deductions, expand the child tax credit, limit the mortgage interest deduction, repeal the Alternative Minimum Tax (AMT), preserve the estate tax (but the estate tax exemption amount would double), and cut the corporate tax rate from 35% to 20%. There's a lot to consider, but put simply tax cuts may act as the next phase of stimulus as monetary stimulus via the Fed is on the wane.

U.S. ECONOMY

All in all, economic readings are positive. The government revised its estimate of Q3 GDP growth up to 3.3% from 3%. That would be the fastest pace of quarterly growth in three years. An upward revision to business investment (up to 10.4% from 6.8%) was behind the bump higher. Consumer spending growth of 2.3% was little-changed from the initial estimate, and initial reports on Black Friday and Cyber Monday retail sales look positive. Consumer confidence came in at 125.9 for November while consumer sentiment dropped a couple of points to 98.5, which is still a very strong reading.

The unemployment rate fell to 4.1%, and employment gains usually contribute to about half of GDP. The lowest unemployment rate in the last 50 years was 3.8%, reached in April 2000. So we should probably understand that employment gains may have limited room to help GDP growth going forward. Inflation, both CPI and PCE headline inflation, still hovers near 2.0%.

"You're flying toward an unknown financial future— WE HAVE CHARTS!"

USPFA

INTERNATIONAL

News from the largest economies on the globe also suggests a positive outlook as we near 2018. Shinzo Abe was re-elected prime minister of Japan, which reinforced support for his economic reform, popularly known as Abenomics. Japan's GDP expanded at an annualized pace of 1.4% in Q3, marking the seventh straight period of quarterly growth and longest uninterrupted growth in more than a decade. German GDP grew at an annualized rate of 3.3%, although negotiations to form a new government collapsed recently. This uncertainty for Europe's economic heavyweight is something to monitor.

Argentina unveiled proposals for tax cuts, including lowering the corporate rate from 35% to 25% and reducing employer social security taxes. They, like the U.S., hope for GDP gains as a result of tax cuts. Negative news continues to come from Venezuela, a nation struggling with massive debt obligations. Its state-owned electric company defaulted on some of its debt, and the S&P downgraded Venezuela's sovereign credit rating to "selective default" after failing to make $200M on global bond payments. Venezuela holds an estimated $100B-150B in outstanding debt, which they hope to restructure as soon as possible.

STOCKS

FactSet reports the following: "For Q3 2017 (with 98% of the companies in the S&P 500 reporting actual results for the quarter), 74% of S&P 500 companies have reported positive earnings-per-share surprises and 66% have reported positive sales surprises," which is all good news. JP Morgan forecasts Q3 S&P 500 earnings growth of 9.5% compared to the previous year, the 5th straight quarter of earnings growth since the collapse in oil prices that began in 2014. Ironically, the Energy sector leads all sectors for Q3 earnings growth.

Concern regarding tax reform caused some downside pressure on small company stocks last month. The Russell 2000 declined -1.8% over the first half of November and then moved up 5.5% from that low. International stocks didn't keep up with domestic stocks in November, but they still lead by a few percentage points for the year. Emerging Market stocks outpaced S&P stocks for the month and continue to lead for the year.

BONDS and INTEREST RATES

High-quality bonds (as measured by the Barclays Capital Aggregate Bond Index, or "the Agg" for short) are having a pretty typical year in regard to returns. The Agg experienced a 4.6% rise in value over the first half of 2016, only to be followed by a 5.3% drop over the second half of the year. The Agg has not moved very much in price this year, showing that volatility has been markedly lower for bonds as well as stocks this year.

Economists look at the bond market's yield curve to help predict the future. When short-term yields rise, and long-term yields hold steady, that's called "yield curve flattening." Some economists infer a future slowdown in growth from this data, while others expect longer-dated bond yields to rise, getting us back to a yield curve that looks more "normal." Economic contraction is always a possibility, but it doesn't seem likely in the near term, which seems to suggest rising long-term yields is the more probable outcome for the yield curve.

Velocity Composite™ Fund Score Ranking

Symbol / #	Fund Name	Score	YTD	1MoPerf	3MoPerf
VSCIX	Vanguard Small-Cap Index Fund Inst	**1293**	15.80%	3.10%	9.32%
#6900	Vanguard Institutional 500 Index Trust	**1203**	20.49%	3.07%	7.65%
#6901	Vanguard Instl Extended Market Tr	**1171**	17.59%	2.87%	8.74%
VPMAX	Vanguard PrimeCap Fund Admiral	**1135**	28.03%	3.27%	9.99%
#6903	Vanguard Inst Tot Bond Market Index Tr	**1078**	3.13%	-0.16%	-0.57%
VWNEX	Vanguard Windsor Fund Admiral	**1073**	18.12%	2.81%	8.31%
VMCIX	Vanguard Mid-Cap Index Fund Inst	**995**	18.17%	3.19%	7.04%
#6904	Vanguard Inst Tot Intl St Mt Ix Tr	**989**	25.01%	0.78%	4.59%
VWENX	Vanguard Wellington Fund Admiral	**961**	13.39%	1.83%	5.34%
VSCGX	Vanguard LifeStrategy Consrv Grwth	**937**	10.08%	0.86%	2.42%
#1680	Vanguard Target Ret 2040 Tr Sel	**907**	19.31%	1.83%	5.60%
#6560	Janus Core Plus Fixed Inc CF	**796**	N/A	N/A	N/A
VIPIX	Vanguard Infla-Protected Sec Inst	**794**	2.02%	0.00%	-0.45%
VTRIX	Vanguard International Value Fund	**729**	25.57%	1.55%	6.04%
VSMGX	Vanguard LifeStrategy Mod Growth	**599**	13.90%	1.26%	3.77%
VWILX	Vanguard International Growth Adm	**557**	41.78%	0.77%	5.78%
#1686	Vanguard Target Ret Income Tr Select	**526**	7.88%	0.60%	1.78%

APPROXIMATE Future Publication Dates

1/4/18

2/5/18

3/5/18

4/4/18

5/3/18

6/5/18

*** **Target Date & International Fund Notes:** Vanguard is now limiting ownership of Target Date Funds to one at a time. After a review of our trading history, the system has used two maturities the most: 2040 and 2010. For this reason, we are keeping these and eliminating the rest from the system ranking. This makes the system easier to follow.

Definitions & Notes: The Velocity Composite Fund Score Ranking combines the Velocity (speed of advance of a fund compared to all other funds) with its Buy Point Score (how close the fund is to a recent bottom). This composite score is used to rank all available fund choices. In defined Bull Market advances, the system uses the Top 3 funds in the Aggressive model and the Top 4 in the Moderate and Conservative models. In Defined Bear Market periods, this ranking is provided for information purposes and for those who are "doing their own thing" and would like to know how the system views the funds. Rankings dates are the last business day of each month. The actual price history of each fund is used to calculate the score.

FedEX 401(k) Plan Conservative Model

Symbol/#	Fund Name	Allocate
VMRXX	Vanguard Prime Money Market Adm	60.00%
#6901	Vanguard Instl Extended Market Tr	10.00%
#6900	Vanguard Institutional 500 Index Trust	10.00%
VSCIX	Vanguard Small-Cap Index Fund Inst	10.00%
VPMAX	Vanguard PrimeCap Fund Admiral	10.00%
		100.00%

FedEx Pilots 401(k) Plan Moderate Model

Symbol	Fund Name	Allocate
VMRXX	Vanguard Prime Money Market Adm	36.00%
#6901	Vanguard Instl Extended Market Tr	16.00%
#6900	Vanguard Institutional 500 Index Trust	16.00%
VSCIX	Vanguard Small-Cap Index Fund Inst	16.00%
VPMAX	Vanguard PrimeCap Fund Admiral	16.00%
		100.00%

FedEx Pilots 401(k) Plan Aggressive Model

Symbol	Fund Name	Allocate
VMRXX	Vanguard Prime Money Market Adm	19.00%
#6901	Vanguard Instl Extended Market Tr	27.00%
#6900	Vanguard Institutional 500 Index Trust	27.00%
VPMAX	Vanguard PrimeCap Fund Admiral	27.00%
		100.00%

- **NO CHANGE in the models. .**
- **READ: If your 401k plan has *any* trading restrictions,**
- IN A MONTH WITH TRADES—

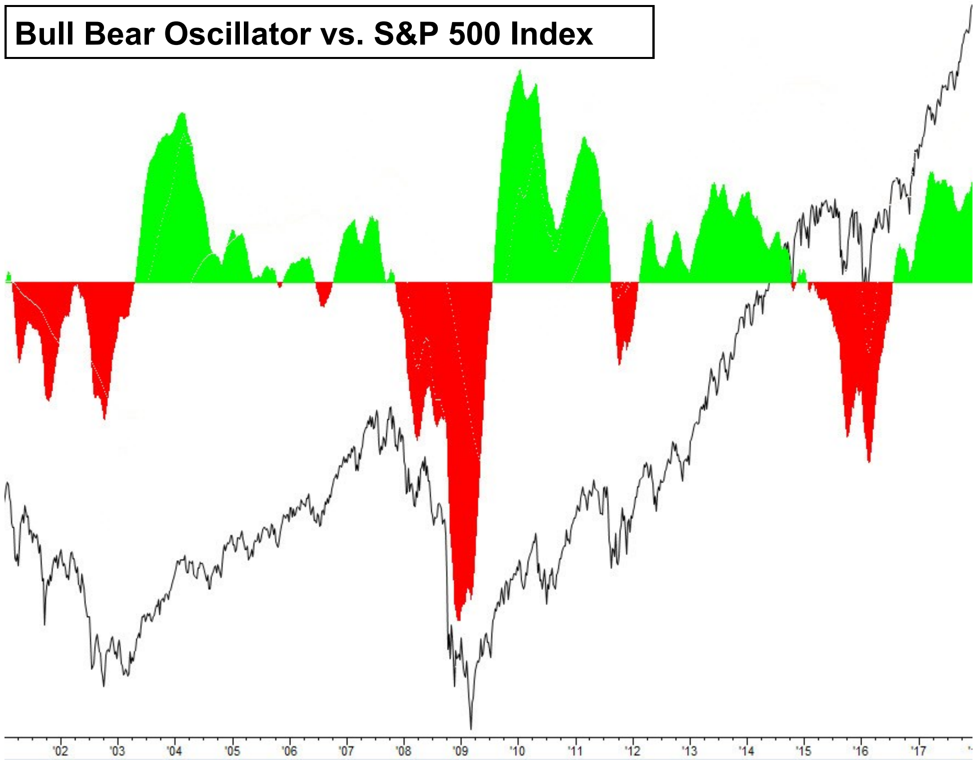
  THE NEW FUNDS WILL BE HIGHLIGHTED IN YELLOW

  you must keep track of your buy and sell orders.
- **Future Contributions:** The models work smoothly if you direct ALL future contributions into the money market account. Then, they will be automatically invested into the correct allocation when you make changes to follow a model.

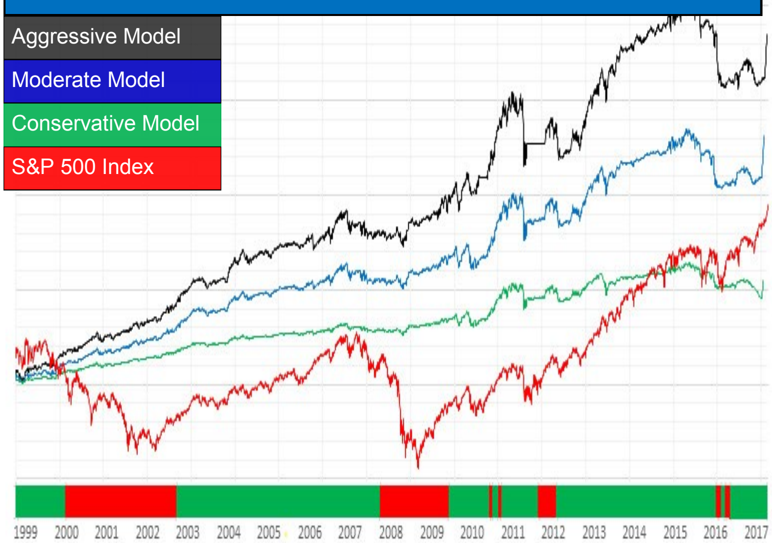
Fear & Greed

Investor attitudes fluctuated during November as stocks traded down early in the month. Concerns about the tax plan showed up in markets, but stocks still appear to be in favor as the Fear and Greed Index finished with a positive reading.

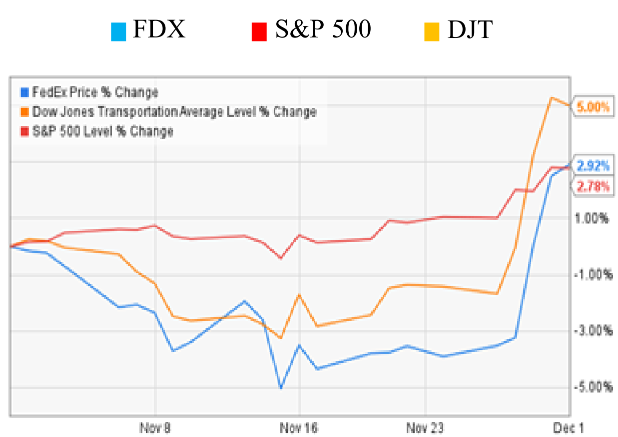
Bull Bear Oscillator vs. S&P 500 Index



Worry-Free 401k Flight Path Models™—FedEx



FDX continued its climb higher in November as investors look to holiday shipping to improve revenues.



FedEx Pilots 401k Plan (as of November 30, 2017)							
Performance Stats							
	YTD	1 Month	1 Year	3 Years	5 Years	10 Years	Inception
Conservative Model	7.61%	1.23%	10.05%	9.37%	22.18%	25.21%	74.11%
Annualized				3.03%	4.09%	2.27%	3.32%
Moderate Model	11.95%	1.97%	16.72%	19.32%	38.71%	45.36%	149.96%
Annualized				6.06%	6.76%	3.81%	5.54%
Aggressive Model	16.08%	2.50%	21.69%	34.49%	45.97%	67.58%	223.94%
Annualized				10.38%	7.86%	5.30%	7.16%
S&P 500	20.49%	3.07%	22.87%	36.42%	107.73%	121.99%	175.31%
Annualized				10.91%	15.74%	8.30%	6.14%

Tax Reform

With the Senate expected to vote on a tax reform package this week, we thought it would be useful to discuss some tax-policy-related questions we often hear when talking with clients. Everyone seems to have an opinion, but we are all still guessing regarding what the final bill will ultimately look like. Back in January, we consolidated many of the predictions that analysts and industry insiders were making for the new year and the new political backdrop we found ourselves in with a new President. At that time, the consensus view was that health care reform would be complete by Memorial Day and tax reform by Labor Day. We all know how that has gone so far. But a quick update on the status, and maybe even the possible effects, are always worth considering since in some way or another we will all be affected.

As of this writing, the House has currently passed their version of a reform bill, and the Senate Finance Committee passed its bill on to the full Senate for a likely vote during the week of November 27th. By the time you are reading this, indications are that the Senate will pass its bill, triggering the reconciliation process between the two Houses of Congress. Many expect this process will be difficult, but believe a compromise bill will be passed during the first quarter of 2018. It is tough to forecast exactly what will be in the final bill, but our chief observation is that there seems to be more agreement on reducing corporate taxes and solving the problem of overseas repatriation than on changing the individual tax structure. The ultimate bill will likely be more modest than the current House or Senate plans, but most believe that we will at least see a reduction in the corporate tax rate and a path that would allow U.S. companies to repatriate earnings. Politically, Congressional Republicans are desperate to pass significant legislation before the 2018 midterm elections. And President Trump appears equally eager to claim a victory on something more substantial. These forces will likely overcome infighting within the Republican Party and allow competing factions to unite to pass and sign a tax reform bill. At least they may recognize the midterm elections could be much more troublesome if they can't get any legislation passed with their current majority.

However, the question that is frequently raised is whether it is even a good idea to enact tax cuts at this point in the economic cycle. After all, growth has picked up; unemployment is at a 17-year low and capacity utilization is high. It's reasonable to wonder whether tax cuts spur inflation higher rather than boost economic growth. We agree that inflation is likely to move modestly higher next year (more so if tax rates are reduced), but lower tax rates will likely improve productivity and benefit the economy.

Corporate Taxes

This is particularly true when it comes to the corporate sector. If the corporate tax rate is reduced from 35% to 20%, many estimate this would increase S&P 500 earnings-per-share between $12 and $15 annually. Companies could also see an additional boost in the form of earnings repatriation. It's possible (and even likely) that some companies would use these earnings benefits to lower prices to increase market share, so some gains may be "competed away." But the general thought is lower corporate rates would equate to an overall boost in profits and earnings.

Furthermore, if U.S. companies finally bring their overseas earnings home in a tax-effective manner, it's fair to wonder what they would do with their cash windfalls. Should this happen, expected increases in balance sheet improvements, more hiring, a rise in capital expenditures, dividend increases, higher levels of share buybacks and an increase in merger and acquisition activity are all likely possibilities. And, all of these actions would most likely be a positive for corporate health and equity prices.

Stock Market Reaction

Regarding prices, what would tax reform mean for the stock market? To start, we need to ask if a tax bill is already priced into market expectations. The probable answer is partially. Should a bill get passed, it would probably mean additional upside. If not, most would expect downward pressures. The negatives would come not only from disappointment and missed opportunities but also from a higher degree of political uncertainty. After all, if the Republicans can't pass a tax package, it would call into question their basic ability to govern and complicate the 2018 midterms. Tax reform, especially in the form of reduced corporate tax rates, would almost certainly be a positive for U.S. stocks. The benefits would come not only from improvements in corporate earnings profiles and increased levels of free cash flow but also from a better competitive environment. Lower tax rates would allow U.S. companies to compete more evenly with companies in countries that already have lower tax rates. On balance, should we see tax reform pass (and we expect it will), it should be a plus for economic growth, corporate earnings, and equity prices. However, the end result for individual tax reform is still an unknown. With such differing opinions and priorities between both political parties, not to mention those differences within the Republican majority itself, time will tell what will come of the individual brackets, deductions, AMT, estate taxes, and state and local taxes in high tax states. Bottom line is to stay tuned to see if the legislation gets passed, then someone can read it to see what's in there. Seems like a familiar story.

Chris

__Chris Lott, CFP®, CPA__ is a Managing Partner at Smith Anglin Financial, and is a member of the firm's Investment Committee. He regularly meets with prospective clients, counsels existing clients, leads investment portfolio analysis and develops materials for communicating with the firm's clientele and target markets.

***Experts at the Captain's Table**: All members have a wide and varied background in all areas of wealth management. Most importantly, the members have worked extensively with professional pilots at American, Delta, Federal Express, Southwest, United – and every airline that merged into these along the way – for more than 85 years combined. They know your world, your benefits, how to retire in the best way, and what is needed at each life-stage in retirement to get you to your goal.*

CENTRAL BANKS

The White House will have a lot of influence on future Federal Reserve Bank policies, as the president will appoint up to 5 future Fed board members. President Trump nominated Fed member Jerome Powell to replace Fed Chair Janet Yellen next year. In her time as Fed Chair, Yellen has led 30 central bank meetings. During those meetings, eight different members have cast 20 dissenting votes to Yellen's interest rate recommendation… and none were ever cast by Powell. What does that tell us? It probably means that we'll see a smooth transition of policy philosophy from the head of the most important seat in the world of finance.

Overseas, the IMF urged Japan to maintain its massive monetary stimulus, and with Abe's re-election, that seems very likely. Eurozone inflation remains below the European Central Bank's target of 2.0%, and ECB President Mario Draghi recently said that the central bank needs to be "patient for inflation to return sustainably." The Bank of England raised interest rates for the first time in 10 years, from 0.25% to 0.50%.

COMMODITIES AND CRYPTOCURRENCIES

Ministers from OPEC and non-OPEC countries met in Vienna recently to discuss extending oil supply cuts into 2018. Continued supply cuts alongside steady demand-side growth would suggest higher prices next year. Oil prices continue to rebound in 2017, with Brent crude prices finishing at $63/barrel and WTI crude finishing the month at $57/barrel. But the most interesting oil-related news comes from Saudi Arabia, which continues to prepare for an IPO to sell off a portion of state-owned Saudi ARAMCO in an effort to diversify its holdings away from the energy complex. However, the IPO is not the interesting story.

On November 4th, over 200 princes, ministers, and businessmen were detained at the Ritz-Carlton in Riyadh. Crown Prince Mohammed bin Salman led an anti-corruption drive in the effort to clean house and recover as much as $100B. Some viewed it as a power grab by the prince, but others viewed it as a shrewd way for him to further his plan to shift Saudi Arabia away from being almost completely dependent on oil.

We covered Bitcoin in a feature earlier this year, and the cryptocurrency (which some liken to gold as supply is finite) has made major headlines recently by crossing over the $10,000 mark. Bitcoin's rise in price this year is nothing short of meteoric, and starting mid-December Bitcoin futures contracts will be traded on the Chicago Mercantile Exchange (CME). The future is still very unclear for the volatile cryptocurrencies, but progress continues for wider adoption.

MACHINE LEARNING

Classic beauty: porcelain skin, a slender nose, high cheekbones, and an intriguing smile. These are all physical characteristics that were used to build the robot, Sophia. Hanson Robotics developed Sophia to be a social-bot, to interact with humans, to develop relationships, and "to become super intelligent genius machines that can help us solve the most challenging problems we face here in the world," according to creator David Hanson. Her artificial intelligence allows her to hold eye contact, recognize faces, and understand human speech. You can find stories and videos of her online, and she's already been all over the world in her short existence.

On October 25, she was granted citizenship in Saudi Arabia, which might have been more for publicity than anything else, and yet it's still fascinating. As Saudi Arabia strives to prepare for a future after big oil, it has begun focusing on tech, innovation, infrastructure, and tourism. But the story is less about Saudi Arabia, and more about technology, robots, and artificial intelligence and more about the range of outcomes we face as machines, machine learning, and machine consciousness will come to impact virtually every aspect of our lives. Advancements in A.I. raise a lot of questions. Will robots pay taxes? Could they own property? Will they have to deal with jury duty? These are rights and duties of "real" citizens

Machines, be they citizens or not, have been a constant in business advancement over the last century, and all signs suggest that automation and technology will continue to help businesses advance in the marketplace. The upward revision to business investment mentioned above (some of that possibly being investment in newer tech) is a good indication that many companies are preparing for a healthy and friendly business environment in 2018. We believe that reduced corporate taxes and tax rules set to reward capital expenditure would increase economic expansion, which one would think would be good for the stock market. Typically, when the economy and stocks are doing well, the consumer does their part too, which results in more expansion and inflation.

In a sense, a signed tax reform bill removes a fair amount of uncertainty about current stock market valuations. Higher stock prices are justified by better and higher earnings, assuming that's what happens. Failed tax reform would be an outcome that could magnify risk, or at least it would feel that way. Failed reform would suggest political turmoil and an inability to fix a system that all sides see as broken. That sort of failure could cause consumer and business sentiments to come down, which could curtail spending and investment and eventually take a toll on economic expansion. International trade negotiations will also be critical to global trade in the near term. Volatility has been remarkably low, but we think investors should prepare for choppier markets if politics prevent progress.

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