BLUE CHIP
PARTNERS, INC.
a Registered Investment Advisory Firm
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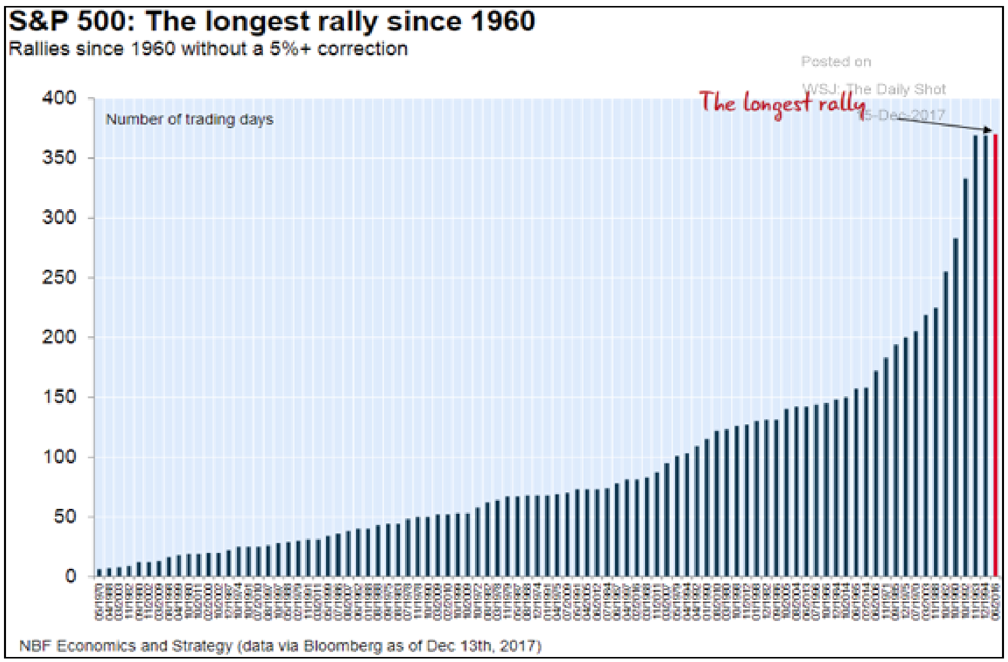
JANUARY 2018 COMMENTARY

2017 was a year of records for the Standard and Poor's 500 ("S&P 500") and Dow Jones Industrial Average ("Dow"). The Dow reached 20,000 in January and never looked back, closing the year at 24,719.22, a 25.1% increase. The S&P 500 also set new highs, cruising through 2,500 in mid-September, ending the year up 21.8%. On a total return basis, the S&P 500 has been positive for 14 consecutive months, stretching back to November of 2016 – a record. The longest period between new highs in the S&P 500 during 2017 was only 45 days!

While the new highs and strong returns garnered most of the attention, we found the lack of any meaningful declines in the markets much more interesting. The largest move to the downside, by percentage, occurred in March and was a whopping - 3.28%. You must go back to 1995 to find a year that matches 2017 in terms of muted declines. We view the lack of recent market declines as an aberration and not the norm.   It is important to keep in mind the periodic market declines are a normal part of the investment process.



WSJ: The Daily Shot 15-Dec-2017

History aside, there was a lot for the markets to like, both economically and fiscally. Congress was able to pass a tax reform package that will help corporate earnings in 2018 and beyond. Industries that historically paid a high effective tax rate, such as, Banks, Telecommunications, Transportation and Retail are the early winners. The ability for companies to immediately expense 100% of capital expenditures is another advantage that will help earnings. Technology and Health Care companies will benefit from the one-time tax-break of 15.5% on cash held overseas. We remain skeptical about just how much of the estimated $2.5 trillion of cash held outside of the U.S. will be brought back for domestic investment; surely some portion will be, but most likely cash will be returned to investors in the form of dividends and share buybacks. We do expect companies in most other industries to benefit as they find loopholes and advantages they can use to boost profitability for shareholders.

The U.S. economy performed well in 2017. Data readings were strong across the board, prompting the Federal Reserve to raise short-term interest rates three times to 1.25%. This is still a low level historically and still considered accommodative. Currently the expectation among the members of the Federal Reserve is three more rate hikes in 2018. However, if the currently tight labor market conditions translate to above-trend wage-growth we could begin to see inflation that would necessitate an additional hike or two. Whichever the case, the Federal Reserve will likely continue to deliver guidance in a way that does not upset the financial markets.

Another trend likely to persist into 2018 is increasing economic growth in other developed international and emerging economies. Manufacturing was a positive contributor to nearly every major country's economy in 2017. Unemployment continues to fall, and European and Japanese Central Banks have begun to see an uptick in inflation to where they feel comfortable withdrawing monetary stimulus that has lingered since 2009. As the other countries of the world see growth pick up U.S. multinational companies will be well-positioned to benefit.

Having international equity exposure helped portfolio returns in 2017 and, given relative valuations, could help in 2018. International developed equity markets as measured by the MSCI EAFE Index posted a 21.8% return, while Emerging Market equities, as measured by the MSCI Emerging Market Index, returned 34.4%. Both International Developed and Emerging Market equities have lagged the U.S. since 2009. Both indices currently trade at more attractive valuations than their U.S. equity counterparts and if international economies can sustain themselves beyond the removal of central banks stimulus, they can continue to show outperformance relative to broad U.S. equity market indices.

We see bond markets being relatively stable in 2018. While the years of double-digit bond market returns are likely behind us, it's difficult to envision a scenario, which would cause rates to spike and lead to a global bond bear market. Inflation is still historically low due to secular factors such as technology, globalization and population growth; with central banks' recent practice or providing much more forward guidance, the bond market will likely be stable and still an important part of portfolio diversification. Diversification is the best defense against market volatility, which is almost certain to increase in 2018 after historic lows in 2017.

Finally, as a reminder, we are moving offices in late February. The new address is: 38505 Country Club Dr. Suite #100, Farmington Hills, MI 48331. The new space is on the south side of 12 Mile Rd, between Haggerty and Halsted Rd., or as Robert describes: “a Par 5 away from our current location.” We are incredibly appreciative of the Blue Chip client base; without your trust in us (and referrals), this would not have been possible. We cannot wait to host you at the new office!

Sincerely,

Robert | Dan | Matt

Robert K. Steinberg, JD, CPA, CFP® | Daniel E. Seder, CFA, CFP® | Matthew Mondoux, CFA, CFP®, CMT

Data Source: Bloomberg LP

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DID YOU KNOW . . .

Markets

1. **FROM THE MARCH 2009 LOW** - Since dropping to a bear market low on 3/09/09 (i.e., approximately 106 months ago), the S&P 500 stock index has gained +378% (total return) through the close of trading on Friday 12/29/17 or an average gain of +19.4% per year over the near 9-year bull run (source: BTN Research).

2. **THE LONG-TERM AVERAGE** - The S&P 500 stock index has gained an average of +10.1% per year (total return) over the last 50 years (i.e., the years 1968-2017). The index has been positive for each of the last 9 years (tying the record for consecutive "up" years set previously between 1991-99) and in 14 of the last 15 calendar years. The S&P 500 has been up during 40 of the last 50 years, i.e., 80% of the time (source: BTN Research).

3. **THERE HAVE BEEN BETTER** - In spite of gaining +21.8% (total return) in 2017, the S&P 500's performance last year is just the 8th best performance for the stock index in the last 25 years (1993-2017). The best performance of the last 25 years: a gain of +37.6% (total return) in 1995 (source: BTN Research).

Health Care

4. **HEALTH CARE** - 23% of health care spending in the USA is incurred by just 1% of Americans. The healthiest 50% of Americans account for just 3% of total health care spending nationally. Prior to the passage of the Affordable Care Act in 2010, 35 states had "high-risk" pools to insure their high-cost sicker citizens (source: KFF).

5. **WHO PAYS?** - A 1986 federal law ("Emergency Medical Treatment & Labor Act") requires hospitals to provide emergency services regardless of a patient's ability to pay. Every uninsured person costs a hospital an average of $900 per year in uncompensated care (source: Craig Garthwaite, Northwestern University).

6. **WHAT EACH PAYS** - The total cost of Medicaid ($566 billion in calendar year 2016) is shared between the federal government and the 50 state governments. Nationally the split of Medicaid expenses is 57% paid by the federal government and 43% paid by state governments. On average, Medicaid represents 24% of state expenditures (source: National Association of State Budget Officers).

Population

7. **SHRINKING AND GROWING** - Detroit was the 5th largest city in the United States in 1950 with 1.9 million people. Detroit is currently the 23rd largest city in the United States with 673,000 people. Phoenix was the 99th largest city in the United States in 1950 with 107,000 people. Phoenix is currently the 5th largest city in the United States with 1.6 million people (source: Census Bureau).

8. **THE FOUR LARGEST** - 1 out of every 3 Americans (33%) lives in just 4 US states – California, Texas, Florida and New York. These 4 states were home to 107.5 million citizens at the end of 2016 out of our nation's population of 323.1 million (source: Census Bureau).

9. **NINETY YEARS OLD** - 1 out of every 4 Americans who reach age 65 will live at least another 25 years to age 90 (source: Social Security).

Miscellaneous

10. **ALL RED** - Republican Donald Trump had a Republican majority in the House and the Senate in 2017, the first Republican to enjoy that level of Congressional support at the beginning of his first term in the White House since Dwight Eisenhower took office in 1953 (source: Congress).