
SURPRISES FOR 2017 AND TAX PLANNING

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Last week on my podcast, I spoke with Mark Yusko, CEO of Morgan Creek Capital Management, and Bill Sweet, Certified Financial Planner™ and Investment Advisor Representative at Ritholtz Wealth Management.

Global Surprises

Mark and I spoke about his global outlook and the top 10 surprises for 2017 that he just released, including:

- 1) Mark's surprise scenario in which the U.S. enters a recession, making the recent upward move in [interest rates](#) a head fake in a longer-term down cycle.
- 2) A scenario where Japan turns things around, and why Mark is over-weight Japan and Japanese financials but has gotten there through [currency-hedged](#) approaches
- 3) Why he likes European banks and the euro
- 4) Skating to where the puck is going: why Mark's asset allocation portfolio of equities is the reverse of the most common themes, with the biggest allocations toward emerging markets, Europe and Japan, and the lowest allocation to the United States

I have a lot of sympathy for Mark's asset allocation model. Mark believes the U.S. is the most expensive market around the world, a characterization I would not dispute. And while I don't think the U.S. markets are quite as expensive as Mark does, I absolutely would agree to over-weight foreign markets. It is interesting to think of turning allocations upside down the way Mark does.

Tax Planning for 2017 and Beyond

Bill Sweet and I talked about his approach to tax planning for his Ritholtz Wealth clients. With changes to tax rates on the horizon, it is a good time for investors to think about how tax rates impact portfolio choices, particularly for funding [tax-qualified](#) or [tax-deferred accounts](#).

Most people tend to think about tax planning once a year when they sit down with their accountants to prepare and file their taxes, but Bill suggests including tax implications in portfolio construction all year round. This "tax location" analysis is an important topic, and Bill discussed asset classes like [managed futures](#) and [high-yield corporate bonds](#) as prime candidates for such tax-qualified accounts as 401(k)'s or IRAs due to their high income distributions.

We also talked about [Roth IRAs](#) and [traditional IRAs](#) and the rationales to start considering Roth IRAs, especially if Trump

starts lowering individual income taxes and one expects tax rates to increase more in the future.

Bill also discussed a scenario of converting tax- deferred assets into a qualified plan for those who like thinking creatively.

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DEFINITIONS

Interest rates : The rate at which interest is paid by a borrower for the use of money.

Currency hedging : Strategies designed to mitigate the impact of currency performance on investment returns.

Tax qualified accounts : Offer tax benefits, including tax deferral of income within the account, tax deductions or exclusions for contributions to a traditional qualified account.

Tax-deferred savings accounts : Accounts that allow for the postponement of certain types of taxes for specified periods of time.

Managed futures : An alternative investment strategy in which futures contracts are used as part of the investment strategy.

High Yield Corporate (Bond) : a type of corporate bond that offers a higher rate of interest because of its higher risk of default.

Roth IRA : An individual retirement plan (a type of qualified retirement plan) that bears many similarities to the traditional IRA. The biggest distinction between the two is how they're taxed. Since traditional IRAs contributions are made with pretax dollars, you pay income tax when you withdraw money from the account during retirement. Conversely, Roth IRAs are funded with after-tax dollars; the contributions are not tax, depending on your income and life situation. But when you start withdrawing funds, these qualified distributions are tax free.

IRA : Individual retirement account.