

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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