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Dear Client:

Wow, what a year 2017 was!

Donald Trump was inaugurated; North Korea repeatedly tested ballistic missiles (and the world's patience); terrorists launched a number of attacks both around the world and in the United States; Equifax suffered a massive data breach affecting 143 million Americans; Hurricanes Harvey, Irma and Maria wreaked havoc on Texas, Florida, Puerto Rico and the rest of the Caribbean; California suffered the worst wildfires in its history; #metoo emerged, becoming by far the most important social issue of the year; and Congress passed the most substantial change to the tax code in 30 years.

Dominating the financial press last year was news that the S&P 500 Stock Index gained 21.8%. Of course, this doesn't mean your portfolio rose that much. Why? Because your portfolio is not 100% invested in the U.S. stock market (or solely in the largest 500 U.S. companies). Consider, for example, that the Bloomberg Barclays Aggregate U.S. Bond Index rose only 3.5% in 2017, and the S&P North American Natural Resources Sector Index (largely representing the oil industry) rose just 1.2%. Those returns are a far cry from 21.8%.

So, the return you earned reflects your portfolio's asset allocation; the greater its weighting in stocks, the higher your 2017 return.

It's also important to put 2017's results into proper context. First, we're talking here about the results of just one year. Thus, we mustn't become overconfident. After all, last year's stock market performance was significantly higher than usual. Indeed, the S&P 500's average annual return since 1926 is 10%, according to Ibbotson Associates — meaning 2017's performance was more than twice the norm. In other words, you shouldn't expect such lofty returns from the stock market every year.

I spoke with a client earlier this week who expressed disappointment in his 2017 return. He lamented that he "only" had 65% of his portfolio in stocks, and said that his return would have been much higher if he had 80% in stocks — suggesting that he wanted to change his asset allocation.

It's very important that you don't fall into that trap. Past performance does not guarantee future results, of course, and there is no assurance that future returns will match the gains of 2017. If you increase your allocation to stocks, all you might be doing is increasing the risk — not necessarily the returns. Instead, we recommend that you stay focused on your long-term goals and remain consistent with your financial plan. There's a reason why you and your Edelman planner arrived at your asset allocation and if your circumstances and goals haven't changed, your portfolio's asset mix probably shouldn't change, either. If you're not sure, talk with your planner.

This goes the other way, too, of course: Many people are worried that the stock market's outstanding performance over the past nine years won't continue, and they fear that a crash is coming. Such sentiment is understandable. After all, since the bottom of the 2008 credit crisis (reached on March 9, 2009), the S&P 500 has gained an average of 19.4% per year. This is causing some folks to ask about decreasing their stock allocation.

We believe that kind of change could be a mistake as well. Although the current rally is now the third-longest without a 5% decline since 1930, according to Goldman Sachs, and although the market has risen 14 months in a row (the longest streak for the S&P 500 since 1983), these facts do not by themselves mean that a decline is about to occur.

To understand why, look closely at the S&P 500's performance last year. Although there are 500 stocks in the index, five of them — Facebook (up 53%), Amazon (up 56%), Apple (up 46%), Microsoft (up 40%) and Google (up 33%) — were responsible for 25% of the index's entire return, according to Bloomberg! Makes you wonder what happened to the other 495 stocks, doesn't it? (Hint: 20% of them lost money and 35% of them returned less than 10%.)

Thus, although a glance at the S&P 500 might make it appear that the market has risen dramatically for a long time, the fact is that the market is composed of thousands of stocks, and each of those individual stocks and the asset class they represent had very different returns. For example, the Morningstar Small Value Index of 245 stocks gained only 8.4% last year, almost two-thirds less than the S&P 500.

Also, stock prices don't fall merely because they've been rising for a while. Rather, stock prices tend to reflect the strength of the economy and the outlook for corporate profits. And on that scale, we see many reasons for optimism. To wit:

- Unemployment, currently 4.1%, is at the lowest level since 2000. In December, unemployment for Americans who don't have a high school diploma came in at 6.3%, the lowest level since the Department of Labor began compiling data in 1992.

- Consumer confidence reached a 17-year high in November. The more confident people are about their finances, the more willing they are to spend money and commit to major purchases such as houses and cars. No wonder sales of newly constructed homes surged 17.5% in November, to the highest level since 2007 and the biggest percentage increase since 1992.

- The increase in home sales helps explain the rise in home prices. In the 20 largest U.S. cities, home prices rose 6.4% in 2017, the largest annual increase since 2014, according to S&P CoreLogic Case-Shiller.

- Inflation, as measured by the Consumer Price Index, is only 2.2%.

- Interest rates remain low as well, with the 10-year U.S. Treasury bond at 2.41% according to Bloomberg. Low loan rates make the monthly payments for houses and cars more affordable.

- According to WardsAuto, 17.76 million new cars were sold in 2017, topping 17 million for three consecutive years for the first time ever and representing the second-highest level since 1999.

- Corporate profits are projected to have jumped by 9.5%, up the most since 2011, according to FactSet.

- Even the hurricanes and wildfires weren't able to harm the economy. Despite the fact that insured losses are projected to reach $100 billion, according to Fitch Ratings, the insurance industry is paying those claims out of operating income; actual cash reserves aren't being tapped. Indeed, says Fitch, insurance company profits actually rose in 2017, to $37 billion, despite the record-setting claims.

- For all the above reasons, the economy grew 3.3% in the third quarter, its fastest pace in more than two years, according to the Department of Commerce.

So, let's put it all together: 2017 generated returns that supported your financial plan, and the economic data offers comfort and reason for optimism for the coming year. Still, we must keep in mind that unexpected events could negatively affect securities prices. An event of some kind (use your imagination) could quickly cause a decline in the stock market. So, although the future looks bright, we must remain cautious — and that's why we continue to champion the importance of maintaining extensive global diversification within your EMAP portfolio.

While there may be no reason to substantially increase or decrease your stock allocation, we are always looking for ways to improve your portfolio. In the coming months, we will adjust the weightings of some of your funds and possibly introduce new funds, depending on your risk profile. As a result of these changes, some of the models will have a decrease in overall costs (around 0.01%), but others will experience an increase in costs (from 0.01% to 0.03%). As you know, we don't take these changes lightly. We make strategic changes like this only when we believe the changes will enhance the overall risk/return profile.

(At the bottom of this letter is a link to the Edelman Financial Services Form ADV Part 2A and Wrap Fee Brochure that contains additional information on the potential risks, conflicts of interest and any additional trading costs that would be incurred by reallocating or adding funds to the EMAP models, including the iShares Exponential Technologies Fund ("XT"). We particularly want to draw your attention to the following disclosures in the ADV Part 2A: Fees and Expenses (page 33), Involvement With XT and the SPDR Natural Resources ETF (NANR) (page 34), Risks Associated With Positions in Which EFS Was Involved (page 27) and Step-Out Trades (page 38). There are similar disclosures in the Wrap Fee Brochure, which is appended to the Form ADV. These and other important disclosures are contained in these documents and we encourage you to read them in their entirety.)

As always, you will receive confirmation for any transactions and a follow-up letter of explanation from us a few weeks after we complete this strategic rebalance. There is no action required on your part. If there are any tax implications because of changes we make to your EMAP account, you will receive detailed information for you to share with your tax preparer. (There is no tax implication for IRAs or other tax-deferred accounts.)

Let's shift conversation to the new tax law. During good economic times like these, we want to maximize all the financial planning opportunities that exist. And without question, the most significant source of planning opportunities comes from the new tax law. Here are a few important changes in the law, with ideas you might want to discuss with us and your tax professional:

- Interest you pay on a Home Equity Line of Credit (HELOC) or Home Equity Loan (HEL) is no longer tax-deductible. If you have either, you might want to consider refinancing your mortgage. By consolidating your HELOC/HEL into your primary loan, all the interest you pay might remain tax-deductible. Having said that, be aware that the standard deduction has nearly doubled, to $12,000 for single tax filers and $24,000 for joint filers. If you decide not to itemize your deductions in 2018, you won't get any tax breaks for mortgage interest you pay or for charitable donations. Talk with your tax advisor to see how these changes might affect the benefit of refinancing.

- You can contribute up to $18,500 this year to your retirement plan at work — plus $6,000 more if you're age 50 or older. Talk with your HR department to increase your payroll contribution levels now.

- When making gifts to family or charity, consider donating appreciated securities instead of cash, and if you're age 70½ or older, consider making charitable contributions directly from your IRA. Both of these ideas can reduce your tax liability, so be sure to talk to your tax advisor about them.

One final tax-preparation note: For the past 10 years or so, we've advised you to delay filing your tax return until March. That's because the mutual fund industry regularly issued amended 1099 forms late into tax season. Those who filed early in the year often found themselves forced to file amended returns — a nuisance at best, and costing extra money at worst. By delaying your filing, you reduced that risk.

However, the fund industry has vastly improved its accuracy; thus, amended 1099s have become far less common. Meanwhile, last year's Equifax privacy breach has increased the risk that a crook might file a fake tax return in your name. That risk now outweighs the possible inconvenience and cost of filing an amended tax return. Therefore, we have changed our advice in response to these evolving circumstances: We now encourage you to file your return as quickly as possible. It's best to owe the IRS money instead of expecting a refund — this further reduces your exposure if a scammer does file a fake return in your name. As with all tax matters, please consult your tax advisor before taking any action.

These ideas, along with the advice and recommendations we provide you on an ongoing basis, are all designed to help you achieve your financial goals. And we have lots more to offer you in 2018!

Starting this month, we're offering a brand-new seminar that focuses on the most important themes from my newest book, The Truth About Your Future. The event, Road Trip! Successfully Navigating Your Journey to Retirement, is all about positioning yourself and your family to enjoy the wonderful — and wonderfully different — world we're all going to find ourselves in. Longevity, generating income, long-term care and caregiving, investing in exponential times, and estate planning in the digital age are all covered. The key takeaways are the importance of living your life joyfully and guidance on creating a financial plan to enable you to do that. You'll soon be getting your special invitation to attend, so be sure to watch for it.

Indeed, The Truth About Your Future, which reached #4 on The New York Times Business Best-seller List after it was published last year, introduced you to exponential technologies such as augmented reality, materials science, big data, nanotechnology and more. It also showed you what your future will be like and how you should begin to prepare for it. As the book explains, Edelman Financial Services led the industry by encouraging BlackRock to create the first exponential technologies ETF, and it is now a part of most EMAP portfolios. Nowadays, you can't avoid hearing or reading about these advances in technology. The startling revelations in TAYF are certain to have a great impact on your life — and that's why we're launching new educational programs based on this theme!

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We are also launching later this year a series of entertaining and informative videos based on the book, and you'll be able to view them at your convenience using any internet-connected device.

Last year's book isn't the big news, though! This year's book is! Jean and I have been working on a new children's book — our first! — and we expect to release it within the next few months. It's written for 3 to 5-year-olds (and the grown-ups raising them), taking kids on a tour of Walkabout Wood®, and it is filled with four important life lessons you'll want to share with the young'uns in your life.

And that's not all Jean and I are working on. We're also tackling the two biggest challenges facing baby boomers today: the Social Security crisis and the threat of Alzheimer's disease.

- Unless action is taken, the Social Security trust fund will be depleted by 2034. At that time, benefits will be cut by one-third and payroll taxes will increase significantly. More than half of current retirees rely on Social Security for the majority of their income; if we don't solve this problem, the damage to the economy will be incalculable. So, in the coming weeks, we're planning to announce the formation of a partnership with the Bipartisan Policy Center. Together, we're creating an initiative called "Funding Our Future: A Campaign for America's Retirement Security" to raise awareness that we hope will lead to a solution for our nation's current and future retirees. Already, four other organizations have offered to join our effort, and we anticipate many more will follow as this important initiative gains momentum.

- It's great news, of course, that we're living longer than ever, but this means more people than ever will develop Alzheimer's disease. Five million Americans already have the disease, and that number is projected to rise to 50 million over the next four decades. Currently, there is no vaccine, treatment or cure. Alzheimer's is 100% fatal, making it the #1 health issue on the planet. That's why Jean and I are joining forces with the XPrize Foundation. Using the exponential technologies of crowdsourcing and gamification, our donation of $25 million is intended to fund a multimillion-dollar prize as well as the operational and infrastructure support needed to help the teams vying for the prize achieve their goal.

Our ability to focus on these big-picture challenges — financial education, retirement security and Alzheimer's — is due in no small part to the fact that Jean and I no longer have to lead the operation of the firm's daily activities. With almost 600 Edelman employees in 43 offices nationwide, that's a full-time job in itself! That's why we're so pleased to have recruited Ryan Parker 18 months ago as our first-ever CEO (other than me). His dad's a minister and his mom's a nurse, and his Midwestern upbringing has imbued him with the same ethics and client-centric commitment that you've come to expect from us over the last 30 years.

Watch for announcements as the year progresses — all designed to continue delivering the utmost in client service and value for you!

As we close out this year-in-review letter, we want to note that Dec. 17 marked the 30th anniversary of our founding. Back in 1987, Jean and I could not have imagined that we would have built such a successful financial planning firm — and we owe it all to you. The wonderful relationships we've developed and friendships we've formed make it all worthwhile, and we're honored that you've given us the privilege of helping you all these years.

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As we look forward to the next 30+ years, we want to be certain that the most important aspects of the firm that you trust and enjoy remain at the forefront of everything we do. Although we serve more families than ever, we want to make sure you continue to enjoy the benefits of tailored and personalized advice and that we provide you with dedicated attention at all times. If you see any sign that we're wavering, please let Ryan or me know personally. We're easy to reach via email, the client portal or telephone. Markets might rise and fall, but our commitment to you has never wavered, and we will not allow that to change.

We wish you the very best for a healthy and happy new year, and want you to know that we're here to help. As always, please feel free to contact us anytime.

Regards!

Ric Edelman
Founder and Executive Chairman

P.S. Need an extra copy or three of The Truth About Your Future, for yourself or others? Simply contact your Edelman planner and we'll mail them to you.

P.P.S. You are also welcome to invite friends and family to our new seminar; they can attend for free. You can forward them the New Seminar link above or forward them this entire email. They will be able to register for free by entering the discount code "Client".

P.P.P.S. The best way to tell us that we're exceeding your expectations is to refer your friends, family and colleagues to us. We are grateful for the opportunity to serve them!

P.P.P.P.S. As mentioned above, download our Form ADV Part 2A and Wrap Fee Brochure.