

FEBRUARY 2017

# THE EXPRESS ADVISOR™

A NEWSLETTER FOR FEDERAL EXPRESS PILOTS



Leading Authority on Successfully Investing Your 401k Plan

## CAPTAIN'S BRIEFING:

- **REBALANCE** in ALL the models.

**Now that the freeze is lifted, if you haven't already YOU NEED TO GO IN AND RE-ELECT YOUR RSP BENEFICIARIES.**

**Captain's Table — Go to page 5**

## YIKES! IT'S TAX FILING SEASON

- **Make sure you are keeping track of your trade dates for the 30-day buy back in period!**

## INTERESTING TIMES ...

As Chinese New Year celebrations wind down, it's fitting to recall an expression that has been attributed to the Chinese for generations. The expression "May you live in interesting times" has an origin that is, ironically, interesting itself. The English expression was thought by Westerners for generations to be the translation of a traditional Chinese saying, and one of blessing at that.

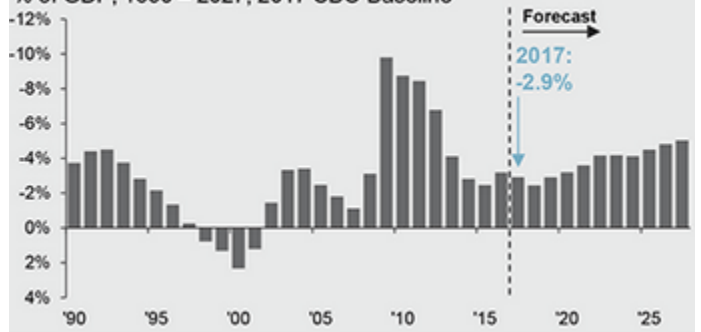
Regardless of its origin, upon closer examination, the expression seems not to be a blessing at all, but a curse. 'Interesting times' have historically been associated with periods of disorder and conflict while 'uninteresting times' typify periods of peace and prosperity. Blessing or curse, few would say that the world today is 'uninteresting,' and one of the most interesting things going on in the world right now has been the unfolding repudiation of the establishment class by the electorate in the U.S. as well as in other Western democracies.

## WHAT HONEYMOON?

Love him or hate him, the world's largest superpower only a few months ago elected a billionaire businessman and television personality to the highest office in the land. President Trump is also the oldest and wealthiest person elected to the office in the nation's history and the first without prior military or governmental service to his credit. He rode to victory on a platform focused on populist themes like renegotiating trade deals, repealing and replacing Obamacare, reducing regulation in an effort to help U.S. businesses and workers, enforcing federal immigration laws, pursuing energy independence, and investing substantially more in infrastructure projects and national defense. President Trump has encountered strong and energized resistance since the first day he assumed the office, but with Republican majorities in both houses of Congress, he will have the opportunity to usher in a period of sweeping policy change in America.

Be assured that most of these changes will impact the investment environment. However, the changes that occur will be influenced significantly by political, ideological, and economic realities, not to mention other players including the Federal Reserve and our trading partners. For example, President Trump has proposed both tax cuts and increased infrastructure spending, both of which would add to the deficit in the face of rising interest rates. Even Congressional Republicans may not be on board with adopting these measures as proposed. They may point to recently released data by the Congressional Budget Office (CBO) showing that, in percentage terms, our national debt is growing faster than our economic output and that even without any policy changes the federal budget deficit will increase relative to gross domestic product (GDP) due to increased Social Security outlays and growing interest payments on our national debt. Trump contends that his policies make 4% economic growth a possibility. The CBO projects 2% growth based on current policies. Neither is likely correct. The origin of the expression "only time will tell" is officially unknown, so for all we know it may be Chinese. If not, maybe it should be.

**Federal budget surplus/deficit**  
% of GDP, 1990 – 2027, 2017 CBO Baseline



Source: CBO, J.P. Morgan Asset Management

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

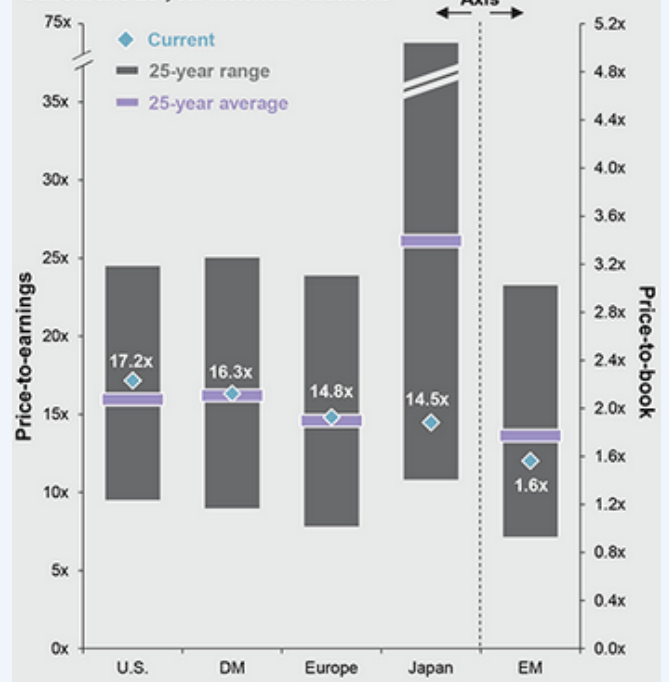


## Stocks

The Standard & Poors 500 (the S&P) hit an all-time record high in the first week of the new year, which portended a good month for stocks all around the world. The S&P went on to hit another record high later in January and finished the month up 1.9%. Since the November 8th election, the S&P is up more than 6%. Another U.S. stock market index, the Dow Jones Industrial Average (the Dow) made headlines in January as well. After hovering within a couple hundred points of 20,000 for several weeks, the Dow closed above that threshold for the first time on January 25th. The Dow's ascent to 20,000 was a fast one, as it came just 42 trading days after the index crossed the 19,000-point level for the first time back in November. International markets fared even better than the U.S. did in January. Developed market stocks were up 2.9% in January while emerging market stocks surged more than 5.4%. The global stock market was up 2.6% for the month overall. While recent gains in stocks give investors reason to cheer, it would be wise to proceed with caution, as several market valuation metrics suggest that the U.S. stock market may be getting ahead of itself. Stock price-to-earnings multiples show the U.S. market is more expensive than its long-term average, and contrarian signals – like strategists' and retail investor optimism, the 2016 year-end buying frenzy, and the discounting of headwinds like a strong U.S. dollar and the potential for protectionist policies – are all what you would expect to see around a major market top.

### Global valuations

Current and 25-year historical valuations\*



Source: FactSet, MSCI, Standard & Poor's, J.P. Morgan Asset Management.

## BONDS

The U.S. bond market recovered slightly in January after spending the final two months of 2016 in sharp decline. U.S. bonds were up only 0.2% for the month, but after tumbling almost 3% in November and December, a significant drop for the conservative asset class, anything above breakeven was welcomed. Rising expectations for a positive economic turnaround in Europe led to a sell-off in bonds there as well, causing German, French and Italian bond yields to hit highs not seen in years. (Bond yields move inversely to prices.) With interest rates likely to rise in the future, a diversified approach makes the most sense for investors who need exposure to fixed income assets.

2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	YTD	Cum.	Ann.
EMD LCL	Treas.	High Yield	EMD LCL	TIPS	EMD USD	High Yield	Muni	Muni	High Yield	EMD LCL	High Yield	High Yield
18.1%	13.7%	58.2%	15.7%	13.6%	17.4%	7.4%	8.7%	3.8%	17.1%	2.3%	105.2%	7.5%
TIPS	MBS	EMD USD	High Yield	Muni	EMD LCL	MBS	Corp.	MBS	EMD USD	High Yield	EMD USD	EMD USD
11.6%	8.3%	29.8%	15.1%	12.3%	16.8%	-1.4%	7.5%	1.5%	10.2%	1.5%	94.6%	6.9%
Treas.	Barclays Agg	EMD LCL	EMD USD	Treas.	High Yield	Corp.	EMD USD	EMD USD	EMD LCL	EMD USD	Corp.	Corp.
9.0%	5.2%	22.0%	12.2%	9.8%	15.8%	-1.5%	7.4%	1.2%	9.9%	1.4%	70.3%	5.5%
Barclays Agg	Muni	Corp.	Corp.	Corp.	Corp.	Asset Alloc.	MBS	Treas.	Corp.	TIPS	Asset Alloc.	Asset Alloc.
7.0%	1.5%	18.7%	9.0%	8.1%	9.8%	-1.9%	6.1%	0.8%	6.1%	0.8%	62.9%	5.0%
MBS	Asset Alloc.	Asset Alloc.	Asset Alloc.	Asset Alloc.	Asset Alloc.	Barclays Agg	Barclays Agg	Barclays Agg	Asset Alloc.	Muni	Muni	Muni
6.9%	0.1%	14.7%	7.9%	8.1%	7.4%	-2.0%	6.0%	0.5%	4.7%	0.7%	58.4%	4.7%
Asset Alloc.	TIPS	TIPS	Barclays Agg	Barclays Agg	TIPS	Muni	Asset Alloc.	Asset Alloc.	TIPS	Asset Alloc.	TIPS	TIPS
6.7%	-2.4%	11.4%	6.5%	7.8%	7.0%	-2.2%	5.5%	-0.3%	4.7%	0.6%	53.3%	4.4%
EMD USD	Corp.	Muni	TIPS	EMD USD	Muni	Treas.	Treas.	Corp.	Barclays Agg	Corp.	Barclays Agg	Barclays Agg
6.2%	-4.9%	9.9%	6.3%	7.3%	5.7%	-2.7%	5.1%	-0.7%	2.6%	0.3%	53.0%	4.3%
Corp.	EMD LCL	Barclays Agg	Treas.	MBS	Barclays Agg	EMD USD	TIPS	TIPS	MBS	Treas.	MBS	MBS
4.6%	-5.2%	5.9%	5.9%	6.2%	4.2%	-5.3%	3.6%	-1.4%	1.7%	0.2%	52.0%	4.3%
Muni	EMD USD	MBS	MBS	High Yield	MBS	TIPS	High Yield	High Yield	Treas.	Barclays Agg	Treas.	Treas.
4.3%	-12.0%	5.9%	5.4%	5.0%	2.6%	-8.6%	2.5%	-4.5%	1.0%	0.2%	47.6%	4.0%
High Yield	High Yield	Treas.	Muni	EMD LCL	Treas.	EMD LCL	EMD LCL	EMD LCL	Muni	MBS	EMD LCL	EMD LCL
1.9%	-26.2%	-3.6%	4.0%	-1.8%	2.0%	-9.0%	-5.7%	-14.9%	-0.1%	0.0%	45.5%	3.8%

Source: Barclays, FactSet, J.P. Morgan Global Economic Research, J.P. Morgan Asset Management.



## Velocity Composite™ Fund Score Ranking

Symbol / #	Fund Name	Score	YTD	1MoPerf	3MoPerf
#6901	Vanguard Instl Extended Market Tr	1130	2.13%	2.13%	12.23%
#6900	Vanguard Institutional 500 Index Trust	1081	1.89%	1.89%	7.74%
#6904	Vanguard Inst Tot Intl St Mt Ix Tr	916	3.94%	3.94%	3.76%
VSCIX	Vanguard Small-Cap Index Fund Inst	853	1.57%	1.57%	12.40%
#1680	Vanguard Target Ret 2040 Tr Sel	837	2.37%	2.37%	5.52%
#1686	Vanguard Target Ret Income Tr Select	786	0.87%	0.87%	0.99%
VTRIX	Vanguard International Value Fund	769	3.97%	3.97%	4.53%
VWNEX	Vanguard Windsor Fund Admiral	763	1.68%	1.68%	10.30%
VMCIX	Vanguard Mid-Cap Index Fund Inst	746	3.00%	3.00%	8.54%
VSMGX	Vanguard LifeStrategy Mod Growth	736	1.61%	1.61%	3.11%
VWENX	Vanguard Wellington Fund Admiral	736	0.93%	0.93%	5.38%
VWILX	Vanguard International Growth Adm	707	7.29%	7.29%	3.26%
VSCGX	Vanguard LifeStrategy Consvr Grwth	586	1.03%	1.03%	1.46%
VIPIX	Vanguard Infla-Protected Sec Inst	577	0.96%	0.96%	-1.21%
#6903	Vanguard Inst Tot Bond Market Index Tr	524	0.32%	0.32%	-2.09%
J6560	Janus Core Plus Fixed Inc CF	497	2.65%	0.00%	-2.71%
VPMAX	Vanguard PrimeCap Fund Admiral	475	3.11%	3.11%	8.97%
#1674	Vanguard Target Ret 2010 Tr Sel	220	0.90%	0.90%	1.06%

### APPROXIMATE Future Publication Dates

3/3/17

4/5/17

5/3/17

6/5/17

7/6/17

8/3/17

9/6/17

10/4/17

11/3/17

**\*\*\* 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%
#6904	Vanguard Inst Tot Intl St Mt Ix Tr	10.00%
VSCIX	Vanguard Small-Cap Index Fund Inst	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%
#6904	Vanguard Inst Tot Intl St Mt Ix Tr	16.00%
VSCIX	Vanguard Small-Cap Index Fund Inst	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%
#6904	Vanguard Inst Tot Intl St Mt Ix Tr	27.00%
		100.00%

### • REBALANCE in ALL the models

- IN A MONTH WITH TRADES—

THE NEW FUNDS WILL BE HIGHLIGHTED IN YELLOW

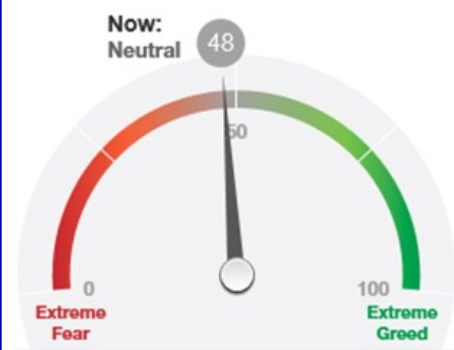
- **READ:** If your 401k plan has *any* trading restrictions, you must keep track of your buy and sell orders.
- **Future Contributions:** The models work smoothly if you direct ALL future contributions into the money market account. Then, they will be automatically invested into the correct allocation when you make changes to follow a model.

**Is your credit card about to expire? Have you recently received a new card OR have you requested a new credit card because of vendor security issues?**

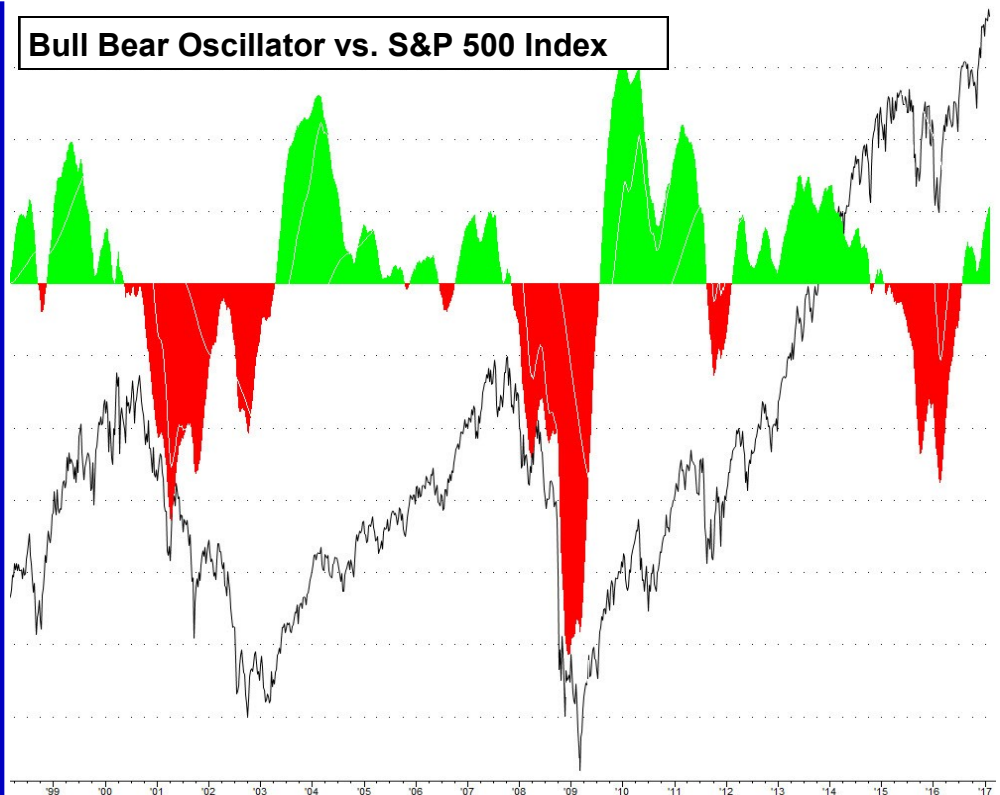
**To update new CREDIT CARD information BEFORE your credit card expires, either call us at 717-569-8162 or go to the “Update Credit Card Information” section under the Member’s Tab.**

## Fear & Greed Index

The S&P 500 had a good month in January. The market was positive for the entire period and finished the month up almost +1.8%. However, market volatility (and fear) increased near month end due in part to controversial policies emanating from President Trump's just-installed administration.



## Bull Bear Oscillator vs. S&P 500 Index



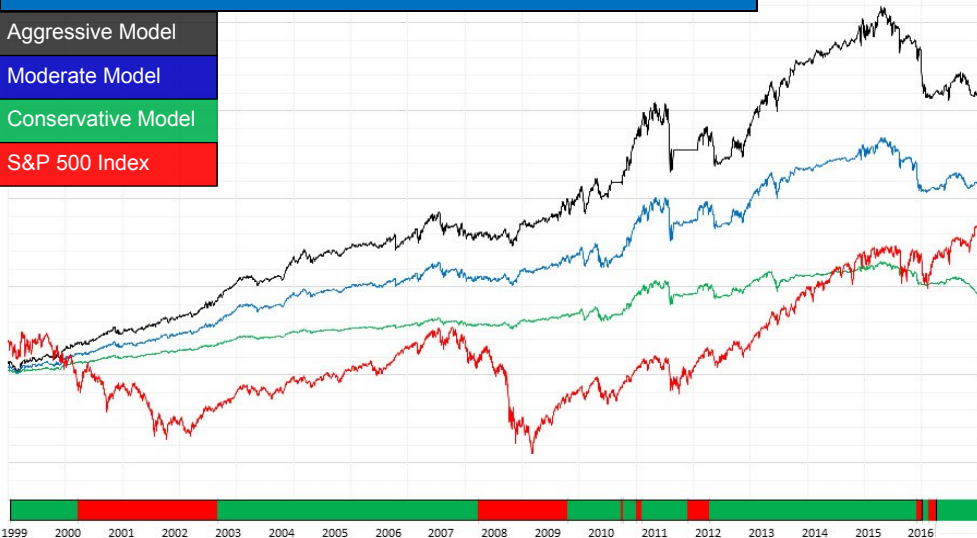
## Worry-Free 401k Flight Path Models™—FedEx

Aggressive Model

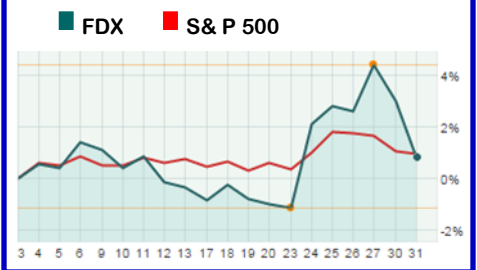
Moderate Model

Conservative Model

S&P 500 Index



**FDX**—FedEx stock and the stock market both finished January up just over +1.5%, but they took different paths getting there. While the S&P 500 had a relatively stable ride, FDX was negative for the month as late as January 20<sup>th</sup> before rallying strongly near month end, only to fall again in the month's final two trading days.



## FedEx Pilots 401k Plan (as of January 31, 2017)

### Performance Stats

	YTD	1 Month	1 Year	3 Years	5 Years	10 Years	Inception
Conservative Model	0.32%	0.32%	-1.00%	5.03%	16.87%	18.60%	67.06%
Annualized				1.65%	3.17%	1.72%	3.06%
Moderate Model	0.60%	0.60%	-1.50%	12.39%	29.72%	36.51%	138.99%
Annualized				3.97%	5.34%	3.16%	5.26%
Aggressive Model	0.70%	0.70%	-3.00%	25.34%	35.65%	55.74%	209.35%
Annualized				7.82%	6.29%	4.53%	6.87%
S&P 500	1.90%	1.90%	20.40%	36.20%	93.28%	96.46%	127.00%
Annualized				10.85%	14.09%	6.99%	4.94%



## from the CAPTAIN'S TABLE

### Yikes!! IT IS THAT TIME OF THE YEAR AGAIN, TAX FILING SEASON

This time of the year can really give us heartburn. The heartburn can come from a variety of things, but two of them can come from having to accumulate all your tax filing documents and preparing your tax return. I would make the argument that accumulating the documents is worse than preparing the return. And then, the result can be unsettling for sure. No one wants to send MORE money to the IRS. Today hopefully, we can lend some thoughts to helping reduce your 2016 tax liability.

Most everyone knows that aviation professionals generally qualify to write off certain out of pocket expenses they have associated with their job. These expenses are called employee business expenses and are deducted on Schedule A of your 1040. Itemized deductions consist of medical expenses (if above the threshold), home mortgage interest, taxes (income or property), charitable contributions, etc. These deductions are added together and deducted from your total income before applying the tax rate, so it is important to maximize them.

To be eligible, employee business expenses must qualify under four tests.

1. The expense must be ordinary. An ordinary expense is one that is common and accepted in your field of trade, business, or profession.
2. The expense must be necessary. A necessary expense is one that is helpful and appropriate for your business. An expense does not have to be required to be necessary.
3. The expense must not be personal. A personal expense is one that you would have incurred even if you weren't employed.
4. The expense can't be prohibited in the tax code. An example of this would be a wristwatch. We can make the argument that a watch is ordinary and necessary for an airline pilot. Furthermore, we could argue that it isn't personal because we only purchased it for airline employment. However, the tax code specifically says

wristwatches are not tax deductible for any reason.

Although not a comprehensive list, common examples of expenses that are included are; union dues (and initiation fees), uniform purchases and upkeep (alterations, dry cleaning ,etc.), luggage, annual physical, passports/visas, sunglasses, connectivity (cell phone & internet), bid service, office costs, tips for van drivers, books for training, and professional publications.

### A QUICK CAUTION ABOUT COMMUTING EXPENSES

Commuting expenses do not qualify as employee business expenses and are not tax-deductible. This is where the definition of "tax home" becomes very important. Tax home does not always mean where you live. Tax home is defined by the IRS in Publication 463 as follows: "Generally your tax home is your regular place of business .... regardless of where you maintain your family home. It includes the entire city or general area in which your business or work is located." Thus, for most pilots, this would be your domicile. Typically, if your domicile changes during the year, your tax home would change with it. Tax home is often questioned for commuters, but typically the tax home will be the same as the domicile.

This concept of tax home is very important because of the allowance of the per diem deduction. The pilot taxpayer is only allowed to deduct meal and incidental expenses when away from their tax home. The per diem deduction allowed by the IRS is typically used to offset the per diem that is paid by your airline and can result in a larger deduction for tax purposes than the reimbursement given by your employer.

The per diem calculation is very difficult, and we have found that it typically is much easier to use a software program for calculating per diem. The calculation is based on the location of your overnight travel, and the amounts vary by city and typically are larger for international destinations.

Once those locations are entered, the system typically calculates the per diem deduction based on the amount allowed per IRS guidelines.

There are several programs available to help crewmembers with per diem calculation, but we feel one of the best is PerDiemMax. This program was developed by Larry Lonero who is a pilot for Southwest, an enrolled agent with the IRS and owner of Lonero & Associates; a tax preparation firm specializing in helping pilots and flight attendants with their tax issues.

Per my discussions with Larry, he feels this specific area is where most crewmembers leave money on the table. These extra per diem deductions can help you save taxes and is well worth the effort and cost (under \$40) to make sure you get your maximum deduction for your overnights.



We would encourage you to invest in the time necessary to calculate this deduction and help minimize your tax liability whether you prepare your own tax return or have a professional prepare it for you. Feel free to use the PerDiemMax calculator or any of the other products available for this purpose.

## TAX FILING UPDATE

Also, wanted to update you on the filing date for your tax return this year. **The deadline for filing your 2016 Form 1040 is Tuesday, April 18<sup>th</sup>.** The tax filing deadline was extended because of April 15<sup>th</sup> falling on a Saturday, and the following Monday is a holiday in the District of Columbia. Happy Emancipation Day to those folks in DC!!

Looking forward, we expect changes in the tax system and certainly tax rates for 2017. There are currently several plans under discussion, and we will be tracking the progress of tax modification and advise you as appropriate when some clarity is obtained.

Have a great month and good luck on gathering all your tax data.

*Steve*

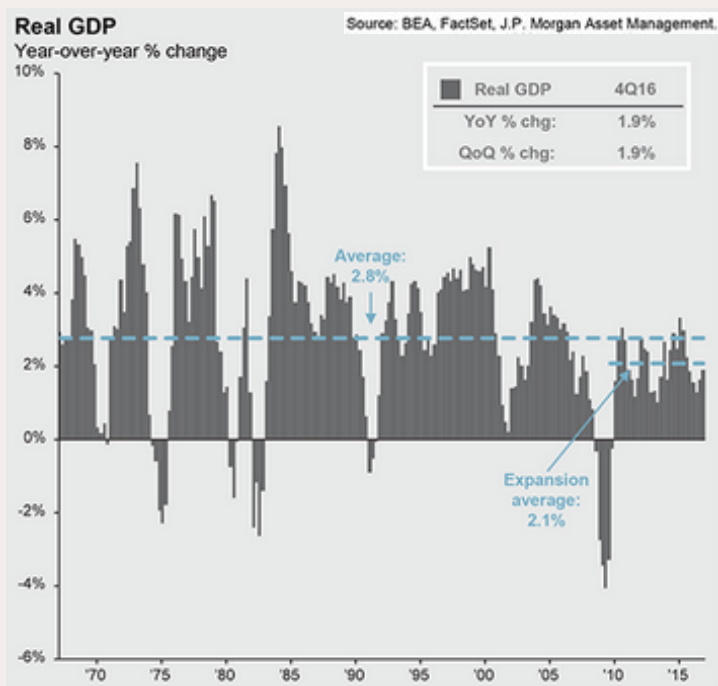
*Steve Anglin, CPA is a Managing Partner at Smith Anglin Financial, and the Head of the Tax Preparation Services. He is also responsible for Smith Anglin's compliance supervision. He holds a BBA in Accounting and a BBA in Real Estate, and numerous securities licenses and designations.*

**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.

## ECONOMY

The U.S. economy ended 2016 on a slightly weaker note, with the Commerce Department's first estimate of GDP for the fourth quarter showing growth slowing to an annual rate of 1.9%, from a third quarter annual rate of 3.5%. For all of 2016, the pace of expansion finished at 1.6%, the lowest annual rate in 5 years, and well off the 2.6% rate recorded in 2015. Employment growth has moderated recently as well. December's gain of 156,000 jobs was below most economists' expectations. However, wages are up 2.5% on a year-over-year basis, and the Institute for Supply Management's monthly manufacturing index for the United States rose to its highest level in two years in December, so there's good news out there as well.

In foreign markets, slow growth has also been a big theme. The European economy shows signs of growth as the Eurozone economy kept pace with the U.S. for the first time since 2008. Meanwhile, two of the world's largest emerging market players – China and India – are experiencing a larger disparity of outcomes. China recently reported a slowdown in trade, with exports falling nearly 7.7% in 2016. The drop was the second annual decline in exports in a row, and the worst since 2009. In contrast, India has become more of a bright spot. India's Finance Ministry forecasts that growth could dip to around 6.5% in the current fiscal year, before picking up to as much as 7.5% in the next fiscal year.



## The Fed

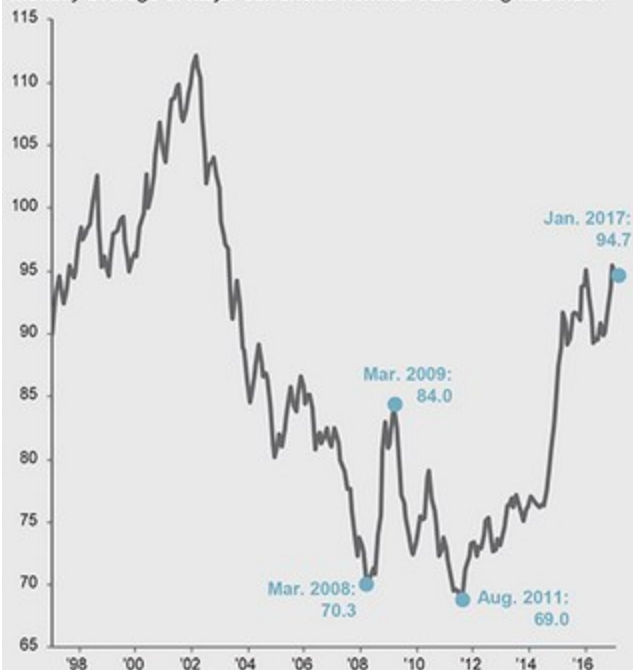
As expected, the Fed kept policy rates unchanged following the central bank's February 1st meeting. It was only at their last meeting in December that the Fed raised rates for the first time since late 2015. Federal Reserve Chair Janet Yellen said in a speech in January that most Fed officials expected to raise rates a few times each year through 2019. Rate increases are expected because the Fed sees inflation on the rise and is trying to stay out ahead of it. The Fed's preferred measure of inflation, the Personal Consumption Expenditure (PCE) deflator, showed the core estimate growing 1.6% year-over-year for November, and other markets-based indicators of inflation are also picking up, suggesting a quicker pick up in prices soon.

## Currencies

The U.S. dollar has been on a wild ride versus a basket of other major currencies since the election last fall, and in January in particular. After climbing to its highest level in 14 years around the New Year holiday, the USD has fallen almost 2%, posting its worst start to a year in three decades. The drop may be due in part to comments President Trump made in a recent interview when he said the USD is “too strong” (versus other currencies). However, the greenback’s recent slide is small potatoes when compared to the Mexican peso, which has declined in value approximately 20% versus the USD since the U.S. elections.

### U.S. Dollar Index

Monthly average of major currencies nominal trade-weighted index



Source: J.P. Morgan Asset Management;

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## Unlock the hidden growth potential of your 401k investments

**Your FedEx plan allows you to do an In-Service Rollover out of your RSP at age 59 1/2 AND NOW the funds that were previously in your MPP at 62.** Get better control and flexibility of your retirement assets by moving them off the platform. Break the chains of trading restrictions and red tape.

That's *exactly* what **The 1-Step In-Service Rollover<sup>SM</sup>** does for you. With one simple call, we help you transfer your ISR funds to an IRA where they can be invested into more diverse and better performing portfolio models! This is what pilots have been telling us they need and want. \$250,000 minimum.

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## Manage My 401k for Me!

Are you too busy to keep up with your 401k? Do trips and time zones keep you out of the loop? Want to make sure changes are made automatically to your account?

**The 401k Autopilot Program<sup>SM</sup>** is offered through Smith Anglin (not the newsletter). The firm provides *daily supervision*, going beyond the newsletter recommendations. All this for a fee smaller than the amount the market often fluctuates in a *day*. There is a \$250,000 minimum combined 401k plus any transferred accounts.

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<http://www.smithanglin.com/401k-autopilotprogram/>

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