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June 2017 - Bonus Issue Including Cybersecurity & Medicare News

Market Update

(all values as of
05.31.2017)

Stock Indices:

Dow Jones	21,008
S&P 500	2,411
Nasdaq	6,198

Bond Sector Yields:

2 Yr Treasury	1.28%
10 Yr Treasury	2.21%
10 Yr Municipal	1.90%
High Yield	5.50%

YTD Market Returns:

Dow Jones	6.31%
S&P 500	7.73%
Nasdaq	15.15%
MSCI-EAFE	12.24%
MSCI-Europe	14.55%
MSCI-Pacific	8.31%
MSCI-Emg Mkt	16.59%
US Agg Bond	2.27%
US Corp Bond	3.35%
US Gov't Bond	2.52%

Commodity Prices:

Gold	1,268
Silver	17.32
Oil (WTI)	48.62

Currencies:

Dollar / Euro	1.11
Dollar / Pound	1.28
Yen / Dollar	110.95
Dollar / Canadian	0.74

Macro Overview

Political turmoil was not able to derail market momentum in May as the three major market indices continued on their upward trajectory. Delayed passage of stimulus driven legislation is reducing inflation expectations as markets anticipate an extended low rate environment.

The Federal Reserve Bank of Atlanta's closely watched GDPNow forecast model is predicting second quarter economic growth of 3.4%, a generous number.

The equity market's rise is broad with small, mid, and large capitalization stocks all rising in tandem, a healthy dynamic as noted by most analysts. As inflation expectations have fallen, the equity markets have been rising in hopes of a slower process of increasing rates by the Fed.

Globally, the price of commodities such as iron ore, copper and oil have fallen since the beginning of the year. A weaker dollar is also buoying emerging markets as their currencies rise to fend off inflationary pressures in emerging market economies.

Changes in banking rules and regulations may be in the air as the Trump Administration made its first major regulatory change, replacing the head of the Comptroller of the Currency, the banking industry's primary regulatory entity.

The Republican led House of Representatives voted to repeal and replace the ACA (Affordable Care Act) with the American Health Care Act of 2017. The Act must now pass through the Senate in order to initiate any healthcare mandate changes. Congressional leaders reached a bipartisan agreement to fund the U.S. government through September. The omnibus spending measure provides nearly \$1.2 trillion of funds until leaders meet again in the fall to formalize longer term spending provisions.

The Treasury department is exploring the issuance of longer term bonds maturing in 50 and 100 years. Current ultra low rates encourage debt issuance for longer periods of time.

Puerto Rico sought court protection in the largest ever U.S. municipality bankruptcy, owing over \$72 billion to creditors, including Puerto Rican municipal bond holders. Detroit's bankruptcy in 2013 amounted to \$18 billion, which at the time was considered the largest municipality to go bankrupt. Moody's & S&P credit rating agencies both downgraded the credit quality of Illinois state municipal bonds to one notch above junk status, giving it the lowest rating of all 50 states. Illinois state legislators' impasse on passing a budget and spending cuts led to the downgrades.

The Fiduciary Rule goes into effect on June 9 after being postponed two months from its original effective date of April 10, 2017. Created by the Department of Labor two years ago, the Department's definition of a fiduciary demands that advisors act in the best interests of their clients and to put their clients' interests above their own. It leaves no room for advisors to conceal any potential conflict of interest, and states that all fees and commissions must be clearly disclosed in dollar form to clients. All affected financial institutions will have until January 1, 2018 to fully comply. (Sources: Dept. of Labor, Fed, Moody's, Reuters, Bloomberg)



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THE IRS COLLECTED REVENUE ON OVER 134 MILLION TAX RETURNS IN 2016

Equity Markets – Domestic Equities

Despite political turmoil in Washington, equity markets propelled ahead, resilient to any political and media interference.

Heightened corporate cash levels and steady earnings growth continue to fundamentally fortify equities across various sectors.

The three worst performing sectors so far in 2017 have been energy, telecommunications, and financials, while consumer, healthcare, and technology stocks have led since the beginning of the year. (Sources: Reuters, Bloomberg)

Fixed Income Update – Domestic Bond Markets

U.S. Treasuries strengthened at month end as demand for government bonds increased in anticipation of lessening inflationary pressures. The yield on the 10-year U.S. Treasury ended May at 2.21%, down from 2.29% at the end of April.

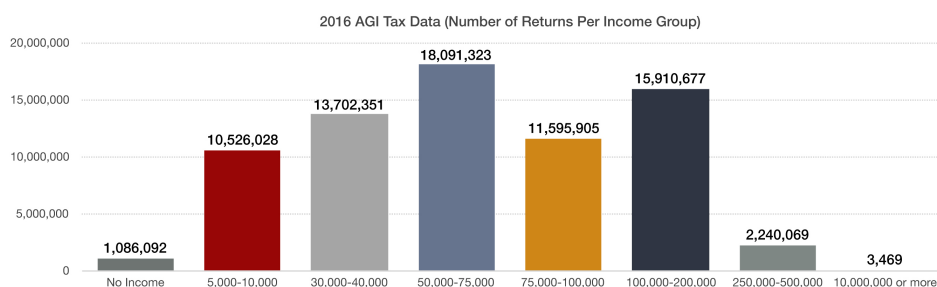
Inflation, the primary determinant for the Federal Reserve to raise rates has been muted over the past few weeks, allowing confidence to build among investors that rates will not spike up anytime soon.

Fed members this past month suggested a slow yet consistent manner in raising rates. The Fed is being careful to communicate the rise in rates as slow and steady in order to avoid another “taper tantrum” as occurred in 2013 when the Fed spooked markets by aggressive rate hike language. (Sources: U.S. Treasury, Federal Reserve)

What Most Tax Payers Earn -Tax Fact

With tax cuts and IRS simplification proposals on the agenda, tax revenue statistics are focal points as certain taxpayers in various age and income groups may or may not see beneficial changes.

The Internal Revenue Service (IRS) keeps careful detail on tax revenue and how it is broken down. Tax revenue data is based on Adjusted Gross Income (AGI) which is compiled and revised during every tax season.



Of the more than 134 million tax returns filed for tax year 2016, the bulk of returns fell between the \$30,000 to

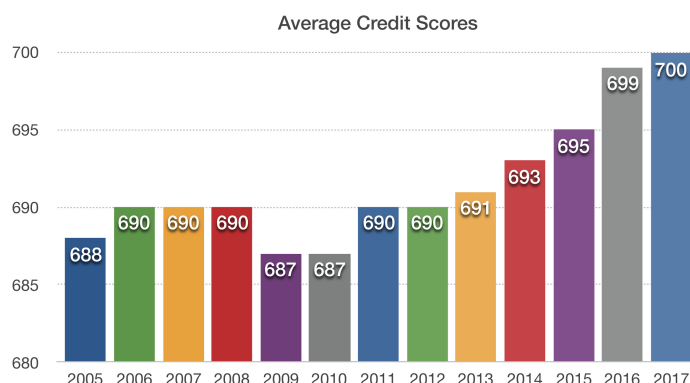
\$200,000 income range. The median income group of taxpayers earning \$50,000 to \$75,000 comprised the largest segment of tax payers nationwide with over 18 million filers. The second largest group includes those earning between \$100,000 to \$200,000, with nearly 16 million filers in 2016. Demographical factors drive tax revenue, such as middle-aged, dual income households tending to earn more for a longer period of time. The amount of income also determines the number of filers in each income group. For 2016, there were only 3,469 taxpayers reporting \$10,000,000 or more in income and 1,086,092 filers reporting no income. (Source: IRS)



Credit Scores On The Rise For Americans – Consumer Finance

Higher scores lead to more available credit as consumers tend to receive more financing offers and promotions. Eight years after the financial crisis, consumers that suffered bankruptcies and repossessions are seeing their credit scores improve. Theoretically, as credit scores increase, consumer expenditures also increase, but some believe it might be different this time. More favorable and higher credit scores are usually held by older consumers, who actually spend less as they enter retirement and empty nester years.

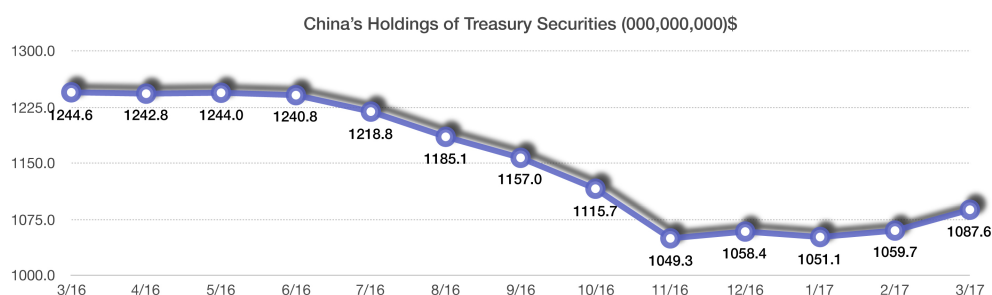
The onslaught of lower rates for over eight years now has also buffered consumers with the help of lower interest payments and more going towards paying down principal balances. (Sources: Fair Issac, Experian, Equifax, TransUnion)



China Buying U.S. Treasuries Again – Global Fixed Income

Currently valued at over \$13 trillion, the U.S. Treasury Bond market continues to be the world's largest and most liquid bond market, attracting capital from foreign central banks seeking safety and stability.

Federal Reserve data as of May17 shows that foreign central banks held nearly \$3 trillion of the \$13 trillion Treasury market, an increase of over \$60 billion since the beginning of the year. Of the various foreign buyers, China's central bank has increased its Treasury holdings the most by \$29 billion to a total of \$1.08 trillion. China is currently the second largest holder of Treasuries, with Japan the largest holder.



A reversal in the U.S. dollar has also helped propel buying by foreigners in order to help stabilize their local country currencies. U.S. Treasuries continue to offer higher yields than other developed country debt such as Japan or Germany, attracting yield seekers.

For the first time in almost 30 years, China's government debt rating was lowered in May by one of the major credit reporting agencies, Moody's. Such a move could diminish China's ability to borrow funds from domestic and foreign investors. (Source: Federal Reserve Foreign Holdings Report, Moody's)



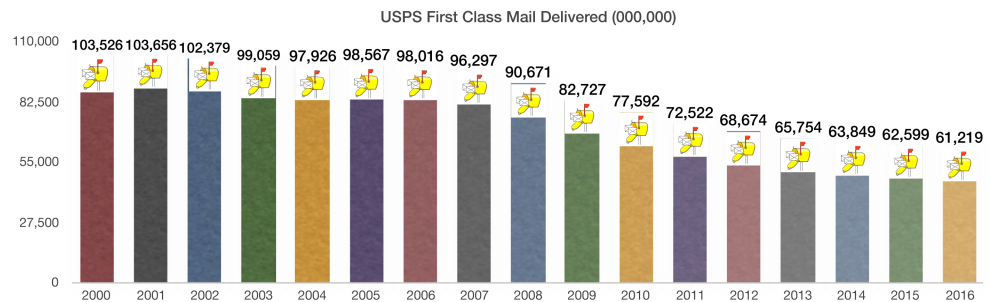
USPS Delivering Less Mail – Market Fact

The United States Postal Service (USPS) remains an integral part of the economy and the country's infrastructure even as the popularity of electronic payments and digital transactions have dramatically reduced the volume of mail processed by the USPS.

Of the more than 150 billion pieces of mail delivered in 2016, the most widely used service of the USPS is its first class

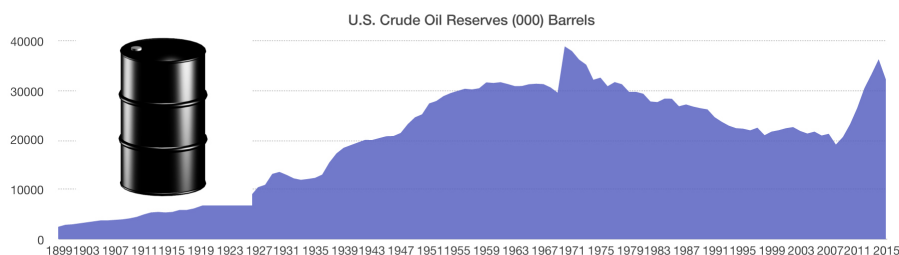
mail service. As the volume of all mail has been dwindling, so has first class mail, falling from over 103 billion pieces in 2000 to just over 61 billion pieces in 2016, roughly a 40% drop in sixteen years.

As the volume has decreased, so have the number of postal employees. There were nearly 700,000 postal employees in 2006, falling to less than 500,000 in 2015, a sizeable drop in a short period of time. (Source: USPS)



U.S. Oil Reserves At Record Highs – Oil Market Review

A recent proposal by the Trump Administration to sell a portion of the U.S. Strategic Oil Reserves has brought the subject to the forefront. The higher level of oil reserves and supply over the past few months has led to a recent pullback in oil prices both domestically and internationally. The U.S. has become a dominant player in the global oil markets, becoming the 3rd largest producer of oil worldwide. The U.S. Energy Information Administration (EIA) estimates that U.S. production will reach 10 million barrels per day, surpassing Saudi production. The increase in U.S. production is primarily attributable to American technology and skills created by U.S. drillers using hydraulic fracturing, also known as fracking. Part of the



downward pressure on oil prices has also been a lessening demand for oil by American consumers.

Demand for imported oil has also fallen, as the

U.S. reaches the highest production levels in over 45 years. Foreign oil imports now account for less than 21% of all U.S. consumption. (Source: EIA)



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ANALYSTS ESTIMATE THE IMPROPER PAYMENTS COULD BE AS HIGH AS \$10 BILLION A YEAR

MA insurers bilking Medicare

Medicare Advantage plans have proven to be a very popular way for people to get their Medicare. Launched in 2002 as a way for private insurers to absorb some of Medicare's \$13 trillion funding gap, one-third of all Medicare beneficiaries are now enrolled in a Medicare Advantage plan. The program seems to be profitable for insurers, too. Major insurers like Aetna and United Healthcare, which are pulling out of the Obamacare marketplace, are fully embracing the Medicare Advantage program and continuing to sign up new members.

MA insurers get paid a base rate for each member based on the cost of care in that area under traditional Medicare. The idea is that insurers can use that money more effectively to keep patients healthy. To discourage cherry-picking, MA plans are paid an additional amount if members have certain conditions. For example, the base rate for a male age 70-74 might be \$3,866. If the member has diabetes without complications, the plan might get an additional \$1,058. If the member has diabetes with acute complications, the plan might get an additional \$3,251. This system allows MA plans to function and profit, even when insuring very sick people. For Medicare, it provides a kind of cap on spending, which lessens Medicare's risk.

Now it is coming out that MA plans are abusing the system by making members appear sicker than they really are in order to get those extra payments. A former finance director at UnitedHealth Group has filed suit to recover excess payments, and big penalties, for the Centers for Medicare and Medicaid Services (he would get a percentage of amounts recovered). Analysts estimate the improper payments could be as high as \$10 billion a year. The whistleblower, Benjamin Pohling, began working at UnitedHealth in 2002. He filed his lawsuit in 2011 and left the company in 2012 when it was still under seal.

The Justice Department is now investigating UnitedHealth along with four other Medicare Advantage insurers: Aetna, Humana, Health Net and Cigna's Bravo Health. This suggests that there are more whistleblowers in the wings, potentially snarling more insurers in litigation and ultimately forcing a rethinking of the entire program.

UnitedHealth is disputing the allegations and has said it would contest them vigorously. It is also seeking to change a 2014 CMS rule requiring insurers to make sure that the diagnoses they report to the government are borne out in the patient's medical chart. They say it unlawfully departs from the program's statutory mandate of "actuarial equivalence" (i.e., that MA insurers get paid the same amount providers would be paid under original Medicare).

What is perhaps most disturbing about this New York Times article, [A Whistle-Blower Tells of Health Insurers Bilking Medicare](#), is that the health plan's executive bonuses are based on revenue targets, not patient health outcomes. "You or I or the average person is probably appalled by this," Mr. Poehling said. "But the scheme here was not about delivering better care to members — the thing you would expect from a health care company. It was about increasing the bottom line."



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CYBERSECURITY NEWS BRIEFS

Cybersecurity Shorts

Fraud with a side of guac? Chipotle [confirmed a data breach](#) which allowed hackers to steal customer payment card information. The restaurant's payment machines were infected with malware and stole payment information from locations around the country between March 24 and April 18. Affected locations can be found [here](#).

Linksys Smart Wi-Fi routers discovered to have at least 10 security vulnerabilities. Researchers found the holes while they were reverse engineering the firmware that 20 of the "Smart" series routers use. Linksys is currently working on a firmware update for affected routers. You can see if your router is vulnerable [here](#).

Equifax subsidiary TALX exposes customer data through weak security practices. Criminals stole W-2 information from the online payroll, HR, and tax services company. The accounts were protected with 4-digit PINs that hackers were able to reset after answering personal security questions about the victims. [Security experts are slamming Equifax](#) for the poor security method as the answers to many of these security questions can be found online. Affected organizations have been notified if their information was exposed.

Google Doc phishing scam hits nearly one million users. Earlier this month, [Gmail users began receiving emails](#) from people they knew containing a link sharing a Google Doc with them. When clicked, the link led users to a fake Google Doc page asking for account access. When accepted, the phishing email went to all of their contacts. Google was able to shut down the scam relatively quickly.

President Trump signs cybersecurity executive order. The [executive order requires](#) that federal agencies follow the National Institute for Standards and Technology to assess their current risk and submit a report in the next three months. The new order also requires a critical infrastructure review and workforce development. The order was supposed to be signed in January but was delayed until now.

Phishing email costs North Carolina couple their new home. The day before closing on the house, the couple's realtor received wiring instructions from the law firm handling the settlement. The realtor wired money as instructed, but the next day the law firm said they never received the money. One party's email had been compromised by a hacker who forged fake wiring instructions so the money would go to their account. The wire transfer was successfully frozen, but issues continued. Read more [here](#).

Hotel reservation company Sabre investigates data breach. The company is used by more than 30,000 hotel properties for reservation services. [Sabre says](#) they are currently investigating an "incident of unauthorized access to payment information."

Social Security Administration gives stronger security a second try. Last year, the SSA tried to require all online users to provide a mobile phone number for two-factor authentication. After backlash, the SSA did away with the mobile phone requirement. Now, they are [requiring online users provide either a mobile phone number or email address](#) to receive a one-time code when signing into their account online.