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Financial Perspectives

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Tax Law Changes Have Arrived

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You may recall in our last *Financial Perspectives* we discussed the proposals of the House and the Senate regarding tax changes. On December 22, 2017, President Trump signed into law the Tax Cuts and Jobs Act (the "Act") which brought about the largest tax reforms since 1986. While the largest cuts involved corporate taxes, individual taxes have changed significantly as well. It's important to note, though, that nearly all of these changes are to sunset no later than December 31, 2025. While these changes could become permanent, for now we face a "fiscal cliff" similar to the 2012 tax situation.

Individual Tax Changes

The tax brackets generally lowered, but we still retain seven brackets:

Single taxpayers

Taxable income over	But not over	Is taxed at
$0	$9,525	10%
$9,525	$38,700	12%
$38,700	$82,500	22%
$82,500	$157,500	24%
$157,500	$200,000	32%
$200,000	$500,000	35%
$500,000		37%

Married taxpayers filing jointly

Taxable income over	But not over	Is taxed at
$0	$19,050	10%
$19,050	$77,400	12%
$77,400	$165,000	22%
$165,000	$315,000	24%
$315,000	$400,000	32%
$400,000	$600,000	35%
$600,000		37%

Capital gains taxes remain, but they are no longer paired to a particular tax bracket:

Capital Gain for Single taxpayers

Taxable income over	But not over	Is taxed at
$0	$77,200	0%
$77,200	$479,000	15%
$479,000		20%

Married taxpayers filing jointly

Taxable income over	But not over	Is taxed at
$0	$38,600	0%
$38,600	$425,800	15%
$425,800		20%

Also significant for individual taxpayers is that the standard deduction has doubled to $12,000 for individuals, $24,000 for married couples filing jointly. Moreover, personal exemptions have been eliminated, but parents will now receive a child tax credit of $2,000 per qualifying child, with $1,400 of that being a refundable credit. There is also a $500 credit for qualifying dependents that are not qualifying children.

While itemized deductions for mortgage interest and charitable contributions will continue, nearly all other itemized deductions are eliminated. For mortgage interest, only $750,000 of acquisition debt is deductible (formerly $1 million limit), and home equity interest is only deductible if it is part of acquisition debt, or is used to improve the real estate. Gone are the days of using home equity lines of credit to pay for personal items like tuition and being able to deduct the interest on that line of credit.

For charitable contributions, a taxpayer may now deduct up to 60% of adjusted gross income for cash gifts to qualified charities, up from 50%. With the elimination of most deductions, gone too are the phaseouts of deductions for higher income taxpayers, meaning you can deduct all of your charitable gifts if you itemize (subject to gift limitations).

Perhaps the most controversial change is that state and local tax deductions are now limited to $10,000. Previous law allowed a deduction for all state and local taxes, meaning higher tax state residents may see a higher tax bill starting this year.

Estate and Gift Tax Changes

In a windfall to taxpayers, the estate, generation-skipping and gift tax exclusions have doubled to $11.2 million per person, meaning a married couple with proper planning can protect $22.4 million. The tax rate remains at 40%.

Other Changes

There are many more changes to the code that may affect taxpayers: 529 accounts, for example, can now be used for elementary and high school tuition costs, up to $10,000 annually. Converting a traditional IRA to a Roth remains allowable, but you cannot "undo" the conversion in the year you convert (as you could in the past). Once you convert, you are locked into the conversion and the tax consequences.

What Now?

These are just some of the many changes to the tax rules for 2018 and beyond. You should meet with your tax advisor, in consultation with your financial advisor, to review how these changes will affect your tax bill going forward. Additionally, you should review your estate plan to see how the new rules will affect your legacy goals. Your financial advisor also has several topic specific materials regarding these changes that you can use to better identify your next steps. As a team, you, your tax advisor and your financial advisor can address your specific needs with these various changes. And going forward, be sure to monitor tax law changes, whether they be proactive changes or simply the sunsetting of these new rules, as such changes will likely change your tax situation again. [1]

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[1] Due to the scope and complexity of the tax law changes enacted in December 2017, it is expected that the IRS will be providing additional guidance over the coming months. Technical corrections and additional clarification are common in such situations, and if any are issued, we will update our client materials and resources accordingly. However, given the possibility of updated guidance and corrections to the tax law, it's important that any questions about your individual tax situation be directed to your tax professional.

How Does a "Robo-advisor" Stack Up to a Traditional One?

The intense market volatility that we have experienced during 2018 has directed more attention to the debate regarding a "robo-advisor" versus the traditional financial advisor. Recent news stories indicated some investors may be re-thinking the suitability of robo-programs to meet their financial needs.

Proponents of robo-advisors tout their ability to use computer algorithms to create and manage investment portfolios based on an investor's needs and risk threshold. They purport these algorithms can produce better returns because they "take the emotion" out of investment decisions which they say can come with human input, and at a lower cost to the investor. They create visually appealing dashboards that are available 24/7 and on-line reports which they claim are more interesting to younger investors and those who are computer-savvy. They claim robo-advisors increase the appeal of investing to individuals who are reluctant to share personal information, do not want to work directly with a human advisor, have very small investable assets or want to make small monthly deposits, or may otherwise be unable to meet or maintain account minimums.

These perceived advantages may be interesting to some investors. But what if you are undergoing life changes and need to make a complex transition from an investment objective that has been at the foundation of your strategy to something new about which you have limited experience? What if you need to discuss and make suitable plans for the needs of family members? What if you need advice for your estate planning and want to consider the merits of and compare several scenarios? Or perhaps you need to discuss the possible tax implications for your strategic changes. Would a robo have been able to assist you when it was officially announced in December 2007 that the U.S. entered a recession, when it continued through 2008 with the financial crisis and you needed reassurance that your investment plan was still on track? Or think about times when the Dow Jones Industrial Average has experienced large swings – in a week, or even a day. Did you have someone to call to assuage your fears, or to consult with to get perspective? The relationship you have built with your financial advisor helped you weather these storms.

The investment landscape has become even more complicated and volatile with many moving parts even intraday, as we have seen since the last Presidential election. We have more information to assimilate coming at us from all directions and this impacts the markets and investment decision-making. During 2017, we witnessed a 25.1% return for the DJIA, a 19.4% gain for the S&P 500 and an increase of 28.2% for the NASDAQ. You probably thought many times last year "how long can this go on, and are my investments structured appropriately for the time when the markets will reverse?" As has been the case throughout these turbulent markets, your financial advisor will continue to be your key resource, providing you personalized advice supplemented with the use of industry-leading financial tools customized to benefit you.

Fixed Annuities Can Provide Calmness in a Turbulent Market

The recent stock market volatility has left many investors worried about meeting their retirement goals. This has left some of these individuals seeking products that can provide downside protection with upside growth or provide an income stream that cannot be outlived. Fixed annuities are contracts issued by insurance companies that will provide accumulation and/or income guarantees to a policy owner, in exchange for a lump sum premium.

Various types of fixed annuities in the marketplace include:

Single Premium Immediate Annuities Typically these types of fixed annuities start paying income immediately (within one year) after the premium is received. These annuities can be structured to provide lifetime income guarantees for you (and your spouse, if applicable) regardless of how long you live. The amount of the income guaranteed by the contract will vary by company, and is largely based on the life expectancy of the annuitant(s). The products can also be designed to provide income for a certain number of years instead of a lifetime.

Deferred Income Annuities These annuities can structure income payouts similar to a single premium immediate annuity except that they are designed to begin to pay out income at some point in the future (at least one year after the initial premium is paid). The older you are when income begins, and the longer you defer taking income, the higher the guaranteed income stream the insurance company will pay to the policy owner.

Fixed Interest Annuities These types of annuities pay a guaranteed amount of interest over a specific period of time. A fixed annuity yields returns similar to a bond or other lower-interest investment. The contract also accumulates tax-deferred until income is taken from the product. Fixed annuities can also provide a guaranteed lifetime income stream to the policy owner.

Fixed Indexed Annuities Like a fixed interest annuity, a fixed *indexed* annuity provides safety of principal with tax deferred growth. What makes a fixed indexed annuity different than a fixed rate annuity is that the policy owner has the option to allocate funds to indexed-based accounts that will pay interest based on the change in the price of a market index. If the selected index has positive growth for the time period selected, the annuity will credit returns subject to an interest rate cap or spread. This means returns will be less than the return of the specified index. If the index is negative for the period, most contracts offer an interest rate floor of 0%, so the contract will not lose value. These can also be designed to provide a guaranteed lifetime income stream to the policy owner.

Annuities are long-term investments and will often have surrender charges, as well as other fees and expenses. Because of the complexity of annuities, you should understand the features, risks and costs prior to making a purchase. Annuity guarantees rely on the financial strength and claims-paying ability of the associated carrier. Your financial advisor can help you analyze your situation and discuss various options to consider as a complement to your portfolio.

A Few Tax-Related Reminders to Consider Before the End of the Year

April 2	– Taking required minimum distributions from traditional IRAs if you reached age 70 ½
April 17	– Filing 2017 income tax returns – Paying 1st quarter 2018 estimated taxes – Opening and making contributions to traditional IRAs, Roth IRAs and Coverdell Education Savings Accounts for 2017 – Establishing and funding SEP IRA plans for sole proprietors AND partnerships for 2017 (unless filing under extensions)

NOTE: Both the Emancipation Day and Patriots Day holidays fall on Monday, April 16, so the tax filing due date this year is Tuesday, April 17.

Market Recap

Market Summary (As of February 28, 2018)

	Year-to-Date	Trailing 12-Months	3-Year Annualized	5-Year Annualized
DJIA	1.25%	20.26%	11.34%	12.23%
Nasdaq	5.35%	24.85%	13.58%	18.14%
Russell 2000	-1.50%	9.07%	7.04%	10.67%
S&P 500	1.50%	12.82%	8.85%	12.37%

Sources: Benjamin F. Edwards & Co. and Bloomberg

	U.S. Treasury Yields
Two-year	1.77%
Five-Year	2.11%
10-year	2.36%
30-Year	2.76%

Source: Bloomberg (as of March 1, 2018)

U.S. Stocks

Performance of S&P 500: Index Price Returns

for Periods Ended February 28, 2017

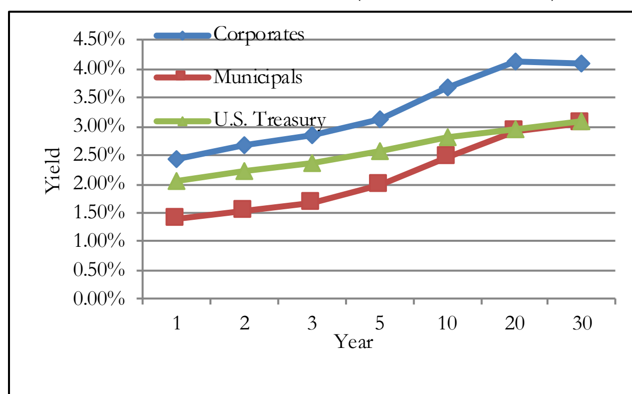
Sector	Weightings	Year-To-Date	Trailing 12-Months	Five-Year Annualized
Info. Technology	25.2%	7.45%	34.44%	20.29%
Financials	15.0%	3.22%	17.84%	15.14%
Health Care	13.8%	1.63%	12.41%	14.12%
Cons Discretionary	12.7%	5.35%	20.39%	15.58%
Industrials	10.2%	0.78%	13.97%	12.64%
Cons Staples	7.5%	-6.54%	-2.97%	6.93%
Energy	5.5%	-8.01%	-5.59%	-3.07%
Materials	2.9%	-1.59%	13.65%	9.01%
Utilities	2.7%	-7.36%	-5.31%	5.56%
Real Estate	2.6%	-8.77%	-6.26%	3.54%
Tele. Services	1.9%	-7.66%	-9.67%	0.04%

Ranked by highest to lowest index weightings; Weightings may not equal 100 due to rounding.
Source: S&P®

- Several ongoing themes are likely to contribute to high market volatility as we move into the second quarter of the year. Companies continue to evaluate the impact of the enacted tax reform legislation on profitability and individual taxpayers' spending habits. Consumers will be impacted as tax returns are filed and as taxpayers make changes to withholdings during 2018. President Trump's levy of tariffs on steel and aluminum is likely to continue to get mixed reviews, and a large bloc of Republican legislators are against the measures. Considerable uncertainty exists surrounding the domestic and global economic impacts, and protectionism versus globalization is likely to be a popular topic in the press. The markets are likely to be sensitive to how a new top economic advisor to the President plays out. Investors are still awaiting a firm proposal for infrastructure spending. Inflation and employment are likely to be year-long headwinds.
- The torch has been passed at the Federal Reserve from Janet Yellen to Jerome Powell. As new Fed Chair, it remains to be seen whether Chairman Powell will continue the dovish manner of Chairwoman Yellen, or will tighten up and become more hawkish. In his first appearance before the House and Senate, inferences to less monetary policy accommodation were viewed negatively by the markets. The Fed must continue to strike a balance between maximum employment and price stability. The three to four planned interest rate hikes this year need to be measured in order to prevent a spike in inflation above the Fed's 2.0% target while at the same time avoiding negative influences on economic growth.

Fixed Income

Fixed Income Yield Curves (As of March 1, 2018)



Sources: Bloomberg, Bloomberg US Corporate (A) Fair Value Index, Thomson Reuters MMD,

- The Treasury market continues its march of rising yields on the short end of the yield curve with the 1-year Treasury bond yielding 2.04% up 43 bps from the prior quarter (BPS = 1/100 of a percent). The 10-year Treasury bond now yields 2.81% from 2.36% in early December. The Federal Open Market Committee has been in the process of normalizing interest rates via adjustments to the Discount Rate. In conjunction with the interest rate normalization we have a new leader of the Federal Reserve in Chairman Powell, the market will closely watch his first FOMC meeting to see if any forward guidance on interest rates for the rest of the year can be gleaned.
- The Municipal Market has been trading at higher prices, lower yields in the 5-year and shorter maturities. This is primarily due to a change in the 2018 tax bill. The ability for issuers to advance refund bonds was suspended, now the issuers have to wait until a 6-month window prior to the call date to issue a refunding deal. This provision has reduced the new issue supply in the market by roughly 15%. Remember your Econ 101 courses about the supply and demand curves: a new equilibrium is being found at lower yields.

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Diversification does not guarantee a profit or protect against loss.

Investing in securities entails certain risks, including the potential loss of all or a portion of the proceeds invested. Individuals should consider their specific financial needs, investment objectives and risk tolerance before making an investment.

Equity investments refer to buying stocks of U.S. companies as well as companies outside of the U.S. The market capitalization of U.S. companies is used to group large, medium (mid) and small companies. The investment return to the owner of stock (shareholder) is in the form of dividends and/or capital appreciation. Shareholders share in both the upside potential and the downside risk. Dividends are not guaranteed and are subject to change or elimination.

Mutual funds and ETFs are sold by prospectus. Investors should carefully consider investment objectives, risks, charges and expenses. This and other important information is contained in the fund prospectuses and summary prospectuses, which can be obtained from your financial consultant and should be read carefully before investing.

There are special risks associated with an investment in real estate, including credit risk, interest rate fluctuations and the impact of varied economic conditions. Distributions from REIT investments are taxed at the owner's tax bracket.

An investment in a 529 plan will fluctuate such that an investor's shares when redeemed may be worth more or less than the original investment. Investors should carefully consider a 529 plan's investment objectives, risks, charges and expenses before investing. This and other important information can be found in the 529 plan issuer's official statement, which should be read carefully before investing.

The return of principal for bond funds and funds with significant underlying bond holdings is not guaranteed. Fund shares are subject to the same interest rate, inflation and credit risks associated with the underlying bond holdings. Lower rated bonds are subject to greater fluctuations in value and risk of loss of income and principal than higher rated bonds.

Bond prices fluctuate inversely to changes in interest rates. Therefore, a general rise in interest rates can result in the decline of the value in your investment.

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