PARTNERS
WEALTH MANAGEMENT

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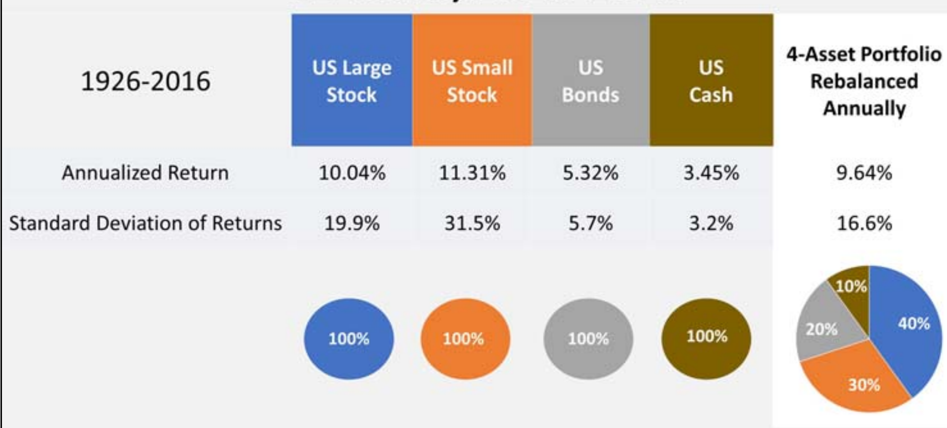
Investing For The Long Run Amid Volatility

With stocks surging one moment and plunging the next, it's good to remember that, from 1926 through 2016, a portfolio diversified across stocks, bonds and cash averaged a 9.6% annual return, with a better risk-reward ratio than any one of the four investments with large liquid markets.

Ninety-one years goes back to when stock returns were first recorded on Wall Street, but most people don't invest for 91 years. The bar chart shows returns of the four investments versus the diversified four-asset portfolio over more realistic holding periods.



91-Years, 1926-2016

1926-2016	US Large Stock	US Small Stock	US Bonds	US Cash	4-Asset Portfolio Rebalanced Annually
Annualized Return	10.04%	11.31%	5.32%	3.45%	9.64%
Standard Deviation of Returns	19.9%	31.5%	5.7%	3.2%	16.6%
	100%	100%	100%	100%	40%, 30%, 20%, 10%

* Diversified portfolio rebalanced annually.

Source: Dr. Craig Israelsen, low-expense portfolio design consultant.

Over 35 years, large-company stocks beat their long-term average return over 91 years in a whopping 88% of the 35-year rolling periods! In contrast, over all of the 10-year rolling periods between 1926 and 2017, large-company stocks beat their 91-year return in only 46% of the 12-month rolling period.

In addition, the longer you stayed in the diversified portfolio, the more likely you were to experience the 91-year results. While holding the diversified portfolio for five years beat the 91-year return of 9.6% in 56% of the 12-month rolling periods over the 91 years, holding the four-asset portfolio for 35 years beat the 91-year results in 88% of the 12-month rolling periods. Diversification neither assures a profit nor guarantees against loss in a declining market and past performance is not a guarantee of future results, but these results show that the longer you invest, the more likely you are to experience the 91-year return and risk statistics.

Recently, volatility surged after investors were spooked by rising inflation and lending rates, and growing concern over the long-term U.S. debt. Statistically, the chance of a bear market decline of 20% or more increases as the eight-and-a-half-year bull market grows older, and the new tax law increased the chance of a

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Allocation Allocation Allocation

Have you ever looked at the performance of the S&P 500 Index and asked yourself why isn't my portfolio getting those returns? Most likely, your portfolio is not invested in the S&P 500 Index entirely but rather, equities, bonds, etc. that coincide with your specific risk tolerance. It's a new year and a good time to check back in to see if your comfort level, liquidity needs or retirement goals have changed.

In fact, one tool we use to assess the most appropriate allocation/strategy for you is the Investor Profile. It's a questionnaire that asks you to provide information regarding your financial situation and needs, tax status, investment objectives, investment experience, investment time horizon, etc. We understand that your answers to those questions may change over time, and we are here to help guide you through those changes. As financial professionals, we make it our priority to know you, provide suitable recommendations in your best interest and continually educating you along the way.

It's important to us that you to know what you have, why you have it and what role it plays in helping you achieve your financial goals.

John

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Foreign Intrigue In Estate Planning

Are you married to someone who isn't a U.S. citizen? If you are, special estate planning considerations may come into play.

Whether your spouse is a citizen or not, you can use the same basic estate planning documents without any reservations. You can create a will bequeathing assets to your spouse, name him or her as a beneficiary of retirement accounts, and designate your spouse as the agent under a power of attorney. No problems there.

But things get trickier when your spouse inherits assets. Normally, property transferred from one spouse to another, during your lifetimes or when one of you dies, is completely exempt from gift or estate tax thanks to an unlimited marital deduction. But that doesn't apply to non-citizen spouses.

Instead, you can make use of a $5.49 million unified gift and estate tax exemption that covers transfers to any beneficiaries, including a non-citizen spouse.

In addition, you can give a non-citizen spouse as much as $149,000 (in 2017; the amount is indexed for inflation) in gifts during your lifetimes.

Other ways to avoid being subject to the rules for non-citizen spouses may include:

1. Have your spouse become a U.S. citizen. This can be an obvious solution. It allows your spouse to qualify for the unlimited marital deduction by the time your federal estate tax return is due. That's generally nine months after death, but the IRS may grant a six-month extension.

Because it takes time to obtain citizenship—there is a waiting period before you can even apply—it's important to start sooner than later.

2. Rely on a QDOT trust. With a qualified domestic trust (QDOT), you can leave property to the trust, rather than directly to your spouse. Then your spouse can receive income from the QDOT that is exempt from estate tax.

But there are a couple of extra wrinkles. If your non-citizen spouse withdraws principal from the QDOT, it will be taxed like a distribution from your taxable estate, which can increase estate tax liability. There are also limitations on investments made by QDOTs. In some cases, it could make sense to complement a QDOT with other kinds of transfers to your spouse. Finally, a QDOT can be structured to end if your spouse becomes a U.S. citizen. ●

Tax Relief For Disaster-Area Losses

If you reside in one of the areas recently devastated by a hurricane, wildfire or another natural disaster, or own investment property in one of those places, you may be able to salvage some tax relief. Federal tax laws allow victims of disasters to claim casualty losses of personal property on their tax returns, although the write-offs are limited. What's more, if you suffer a loss in a designated disaster area and you're due a tax refund, you may be able to speed up its arrival.

Generally, you're eligible to claim a casualty loss caused by an event that is "sudden, unusual, or unexpected." This, of course, includes natural disasters such as hurricanes, fires, tornados, floods, earthquakes, and the like. But no deduction is allowed for normal "wear and tear" of property over time. Your casualty losses for the year, including any losses due to theft or vandalism, are grouped on your tax return.

However, after you've subtracted any insurance reimbursements, the deduction for the remaining damages is subject to these two rules.

- You can deduct only the amount that exceeds 10% of your adjusted gross income (AGI), and that is after...
- You reduce the loss for each event by $100.

Suppose you own an apartment building in Houston that was destroyed by Hurricane Harvey and your unreimbursed loss was $50,000. If your AGI for 2017 is $100,000, your deductible loss is limited to the amount by which it exceeds 10% of AGI—$10,000—leaving you with $40,000 minus $100, or $39,900.

Because the IRS often challenges deductions that appear to be inflated, it's important to obtain an independent appraisal of damage to your real estate or other property by a reputable third party.

Compared with those who have

10 Common Questions About Social Security

If you're nearing retirement or you recently retired, you probably have plenty of questions about Social Security retirement benefits. Here are answers to 10 common queries posted online by the Social Security Administration (SSA).

Q1. How do I obtain a replacement Social Security card?

A. You can get an original Social Security card or a replacement card if yours is lost or stolen for free. Generally, all you have to do is submit the request to the SSA online. However, in some states, you must show additional documentation. Visit the SSA website for more information.

Q2. How do I change or correct my name on my Social Security number card?

A. If you're legally changing your name because of marriage, divorce, court order, or for any other reason, promptly notify the SSA and obtain a corrected card. This service is also free. Simply follow the procedures for getting a replacement card.

Q3. What are the ramifications if I receive Social Security retirement benefits while I'm still working?

A. If you haven't reached full retirement age (FRA) and you earn more than a specified annual limit, your benefits are reduced under this "earnings test" as follows:

- If you're under FRA for the entire year, you forfeit $1 in benefits for every $2 you earn that exceeds the annual limit. For 2017, that ceiling is $16,920.
- In the year in which you reach FRA, you forfeit $1 in benefits for every $3 earned above a separate limit, but only for what you earn before the month in which you reach FRA. For 2017, this limit is $44,880.

Beginning with the month in which you reach FRA, you can receive benefits that won't be affected by whatever you may earn.

Q4. What is my FRA?

A. It depends on the year in which you were born. The FRA gradually increases from age 65 for those born in 1937 or earlier to age 67 for those born in 1960 and after. The FRA for Baby Boomers born between 1943 and 1954 is age 66.

Q5. Can I collect benefits if I retire before my FRA?

A. Yes. You can retire and apply for benefits as early as age 62, but your monthly benefits will be reduced by as much as 30% in that case.

Q6. Are benefits increased if I wait to apply until after my FRA?

A. Yes. You can receive increased monthly benefits by applying for Social Security after reaching FRA. The benefits may increase by as much as 32% if you wait until age 70. After age 70, there is no further increase. Visit the SSA website to figure out the exact amount of your "early" and "late" benefits.

Q7. How do I apply for Social Security retirement benefits?

A. You should apply for retirement benefits three months before you want your payments to start. The easiest and most convenient way to apply is to use the online application. Note that the SSA may request certain documents to verify your eligibility.

Q8. How do I handle benefits for an incapacitated person?

A. If your elderly parent or someone else who is entitled to receive Social Security benefits needs help in managing those benefits, contact your local Social Security office about becoming that person's representative payee. Then you assume the responsibility for disbursing the funds for that person's benefit.

Q9. Who is entitled to receive Social Security survivors' benefits?

A. A spouse and children, or both, of someone who has died may be in line for benefits based on that person's earnings record. Visit the SSA website for more details. Survivors must apply for this payment within two years of the date of death.

Q10. Are Social Security benefits subject to tax?

A. Yes, but not everyone is liable. You are taxed on Social Security benefits under a complex formula if your provisional income (PI) exceeds the thresholds within a two-tier system. PI is the total of (1) your adjusted gross income (AGI), (2) your tax-exempt interest income, and (3) one-half of the Social Security benefits you received.

- For a PI between $32,000 and $44,000 ($25,000 and $34,000 for single filers), you're taxed on the lesser of one-half of your benefits or 50% of the amount by which PI exceeds $32,000 ($25,000 for single filers).
- For a PI exceeding $44,000 ($34,000 for single filers), you're taxed on 85% of the amount by which PI exceeds $44,000 ($34,000 for single filers) plus the lesser of the amount determined under the first tier or $6,000 ($4,500 for single filers).

In many cases, these answers will lead to even more questions. The SSA website is helpful, but you may need additional guidance for your personal situation. Don't hesitate to contact us for assistance. ●

suffered regular casualty and theft losses, people in federally designated disaster areas can obtain faster relief. Normally, you claim a casualty loss on the tax return for the tax year in which it occurred. However, a disaster-area loss may be deducted on a return for the year *preceding* the tax year of the event.

So, in the example involving Hurricane Harvey, instead of waiting to file your 2017 tax return—due by April 15, 2018—to claim your loss, you could file an amended tax return for 2016, and your refund would be sent to you within a matter of weeks.

Similarly, if you suffer a disaster-area loss early in 2018, you don't have to wait until you file your 2018 return in 2019 to claim the loss. You can opt to take it on the 2017 return you'll file in 2018.

These tax rules are designed to provide people who have casualty losses with a measure of relief to help them get back on their feet. Review these rules with your professional advisers if your personal property is damaged or destroyed. ●

This Plan Is Just For Nonprofits

If you work for a nonprofit organization—a hospital, school, or government agency, among many other kinds of groups—you can't participate in a 401(k) plan as a way to save for retirement. But not to worry: Many nonprofit employers offer 403(b) plans, which closely resemble 401(k)s and also can help you put away pre-tax dollars to fund your life after work.

Although there are a few important differences between the two kinds of plans, 403(b)s are quite similar to 401(k)s. You contribute to a 403(b) plan account on a pre-tax basis through salary deductions, just as you would fund a 401(k). Your contributions are invested and can grow and compound without being eroded by current taxes. Distributions generally are taxed at ordinary income rates.

Some organizations that offer 403(b)s also may give you the option of contributing to a Roth-type account that uses after-tax dollars for contributions but provides tax-free distributions during retirement.

The IRS limit on annual contributions to a 403(b) is the same as for 401(k) plans, and also is indexed for inflation. In 2017, you can contribute up to $18,000, plus another $6,000 if you're age 50 or over, for an annual maximum of $24,000. But there's an extra wrinkle for 403(b) plan participants. If you have worked for the same nonprofit for at least 15 years, you also can contribute up to an additional $3,000 a year—beyond the normal limits—for five years if your previous contributions have averaged less than $5,000 per year. That perk for 403(b) plans is unique and not available to participants in 401(k) plans.

Employers also may make contributions to 403(b) accounts, just as many companies provide matching contributions to 401(k)s.

One drawback of 403(b) plans has been a tendency to offer fewer investment choices than you would have in a 401(k) plan sponsored by a corporation. But that disparity is changing, and most 403(b) plans today allow you to choose from a wider variety of mutual funds, ranging from conservative to aggressive.

As in a 401(k) plan, if you make a withdrawal from a 403(b) plan before age 59½, it generally is subject to a 10% tax penalty, in addition to any regular tax owed. And in both kinds of plans, you must begin required minimum distributions after age 70½.

What happens if you quit, change jobs, or retire? Depending on your situation, you may roll over the funds in your 403(b) plan to a 403(b) or 401(k) at your new job, or to an IRA. Or you could decide to take a cash distribution, which will be taxable and could be subject to the 10% penalty tax for early withdrawals. ●

Investing For The Long Run

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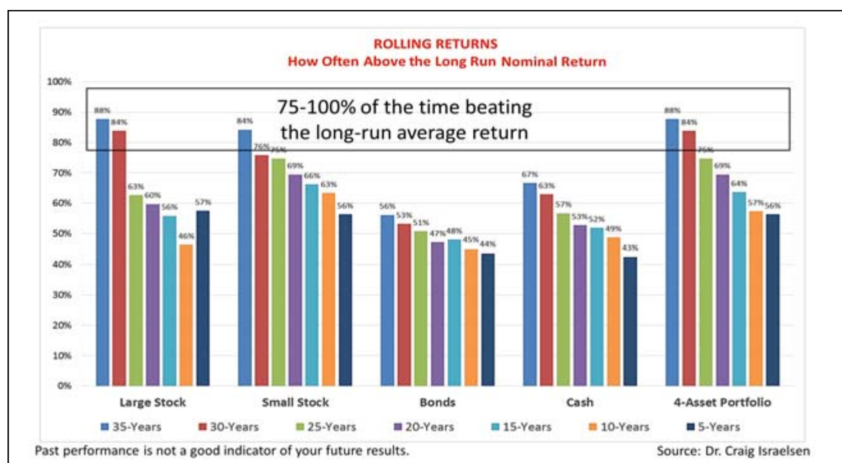
Federal Reserve interest-rate policy mistake quashing growth for allowing inflation to surge. Fed mistakes caused every recession in post-World War II history.

However, earnings drive stocks and earnings expectations have recently surged. When the tax law was signed on December 22, 2017, the average company in the S&P 500 was expected to earn $131 a share in 2018, but that was revised to $152 and could be boosted again. S&P 500 operating earnings per share as of February 7, 2017 were $132.40 for 2017, $155.26 in 2018, and $170.93 in 2019, according to data from Yardeni Research, Inc. and Thomson Reuters I/B/E/S. According to independent economist Fritz Meyer, 2018 and 2019 estimates were revised up in December 2017 from, respectively, $146.19 and $160.69.



US Large Cap represented by S&P 500 Total Return Index; US Small Cap represented by S&P Small Cap600 Total Return Index; US Bonds represented by Barclays US Aggregate Bond Index TR USD; Cash represented by USTREAS Stat UST-Bill 90 Day TR.

With real wages continuing to grow, consumers are spending and consumers account for 69% of economic growth. So, despite the recent correction, the bull market and economic expansion could strengthen and last many months longer. ●

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