LAW & ASSOCIATES

Time for Balance and Flexibility

By Janice L. Henderson, CFP®

As we headed into 2018, investors saw blue skies just about anywhere they turned. The synchronized global economic recovery was gathering a head of steam. Last year U.S. stock markets experienced the least volatile year on record, hitting new highs seemingly every day. In 2017, most of the world's equity market indexes achieved or neared multiyear highs, as investors set aside concerns about politics and focused on the broadening expansion. European stocks went on a tear and outpaced U.S. shares for the first time since 2012 and emerging markets equities also outpaced the U.S.

To cap the year off, there was a tax reform bill which ushered in a huge January with the S&P 500 rising 5.6%. Investors, especially individuals who finally became convinced that the rally would go on, flooded in. And, as if on cue, sentiment (but not fundamentals) shifted and stock markets gave up their early 2018 gains.

We recommend meeting once a year to make sure you are on track to accomplish your goals. We look forward to hearing from you in 2018!

Everyone wants to find a "reason" for a correction to explain why this happened, usually when it takes them by surprise. The prime culprit these days, according to the financial press, is interest rates heading higher. Some attribute this increase to rising wage pressures and inflation, some blame ballooning budget deficits. But beneath it all is a widely held belief that stock market gains have been propped up by easy money and low interest rates. After eight years of expansion in the U.S., investors may be concerned that the American economy is nearing the end of the cycle.

We see it differently. The stock market has been driven higher by consistent earnings growth. Corporate profit growth remains healthy and inflation has been relatively tame. Built into the market calculation was already the expectation of interest rate hikes.

Periodic corrections such as we've recently experienced rattle investors. For many, who thought markets only go up, they feel like it's the end of the world. This is especially true when "pundits" start trying to explain the drop in stock prices by arguing that there are fundamental problems with the economy. But, in our opinion, this was an emotional correction, not a fundamental one. We do not believe the U.S. is entering a recession, and higher interest rates over the next few years do not spell doom for the economy or markets. Our opinion is that interest rates are rising because of better than expected economic growth.

That being said, there will always be challenges when investing in the "market". We continue to recommend portfolios stay well-diversified, with the flexibility to change as your situations change. For almost 40 years, Law & Associates has been helping clients achieve their life-long goals.

Introducing Edrianne

Edrianne Wenger joined Law & Associates in January 2018 as an Assistant to the Financial Planners. Edrianne is a native Washingtonian and grew up right down the road from Law & Associates! Edrianne earned her Bachelor's degree in Communication from UPenn before moving to London, where she worked in the independent film industry and obtained her MBA from Imperial College London. Edrianne now resides in Cleveland Park. She is a member of her building's Condo Board and enjoys staying active, traveling, and spending time with friends, family, and her pitbull Jacks.

Estate Planning

Reviewing your estate documents every couple of years is extremely important. Life changes quickly and five, even ten years, could go by and your wishes may have changed drastically. We encourage you to take the time and review your Wills, Power of Attorney Documents, Advanced Directives, Beneficiaries, Trust Documents, and all other estate related affairs.

A special note on Financial Durable Powers of Attorney

If you would like to grant your attorney-in-fact the power to handle your retirement accounts, a specific section listing retirement accounts and the powers granted must be included. Please consult your attorney who can help you with the specific language you must use.

Trusted Contact

From now on, when you are opening a new account, you will need to designate a 'Trusted Contact Person' who you authorize us to contact and disclose information about your account in the following circumstances: to address possible financial exploitation, to confirm the specifics of your current contact information, health status, or the identity of any legal guardian, executor, trustee or holder of power of attorney, or as otherwise permitted by FINRA Rule 2165.

A Fond Farewell...

After 5 years at Law & Associates we are sad to have to say goodbye to Alyson. She will be moving back up to the Buffalo area to be closer to her extended family. We will miss her but are happy she is making the decision that is right for her and her family.

DONE DEAL: THE TAX BILL TAKES EFFECT

The new tax bill was signed into law on December 22, 2017. The final tax bill makes a number of changes to individual tax rates. Seven tax brackets are retained, but the bill provides tax relief by changing the income thresholds and tax rate for most taxpayers. Here is a table that illustrates important changes to the individual tax rates and deductions.

	PRIOR LAW	NEW LAW
Income Brackets	7 Brackets: 10%-39.6% (top rate starts at $470,700 for joint-filer - for 2017) 10% <$9,325 (single); <$18,650 (married) 15% $9,325; $18,650 25% $37,950; $75, 900 28% $91,900; $153,100 33% $191,650; $233,350 35% $416,700; $416,700 39.6% $418,400; $470,700	7 Brackets: 10% - 37% (top rate starts at $600,000 for joint filer) 10% <$9,525 (single); <$19,050 (married) 12% $9,525; $19,050 22% $38,700; $77,450 24%82,500; $165,000 32% $157,500; $315,000 35% $200,000; $400,000 37% $500,000; $600,000
Standard Deduction	$6,350 individual; $9350 couples	$12,000 individual; $24,000 couples
Personal Deductions	$4,050 deduction for each personal exemption.	Repealed.
State and Local Taxes (SALT)	Filer are able to deduct taxes paid to states and local governments (including property taxes).	Caps state, local, property, and sales tax deduction at $10,000.
Mortgage Interest Deduction (MID)	Itemized deduction for mortgage interest paid on principal residence and one other residence up tot $1 million. Allows deduction for up to interest paid on $100,000 income equity indebtedness.	Caps MID to $750,000 from 2018-2025. Retains $1 million for acquisitions made before December 15, 2017. Removes ability to deduct interest on home equity loan.
Phase out of Deductions (Pease Limitation)	Limitations on otherwise allowable deductions based on income. Current threshold is $261,500 for individuals, $313,800 for couples.	Repealed.
Child Tax Credit	$1,000 credit phase out beginning at $110,000 (joint filers)	$2,000 credit, $1,400 refundable. $500 dor qualifying non-child dependents Phase-out at $400,000 (joint-filers)
Alternative Minimum Tax (AMT)	Taxpayers are required to compute tax liability on an alternative tax code; if filer would pay more in the alternative , the filer is subject to the AMT. Tax rate is 26% or 28% depending on income	Retains AMT, but raises exemption amount ($109,400 for joint filers). Raises exemption phase-out threshold to $1 million (joint filers).

	PRIOR LAW	NEW LAW
Variety of Current Deductions, Including Student Loans, Medical Expenses, Childcare, Alimony	Subject to certain limits, current code provides an above-the-line deduction for a variety of expenses.	Repeals a variety of current deductions, maintains student loan interest and medical expense deductions.
Estate Tax	40% tax on estates above certain threshold, $5 million as base exclusion.	Doubles base exclusion to $11.2 million, indexed for inflation.
Charitable Contributions	Contributions are an allowed itemized deduction.	Increases percentage limit for charitable contributions.
Sale of Principle Residence	Exclusion from gross income up to $500,000 couple, $250,000 individual if residence was principal residence 2 of last 5 years. Can be used once every 2 years.	No provision, status quo maintained.

SOURCE: Ed Mills, Washington Policy Analyst