

What's Driving Stocks And How It Affects Portfolios

The new tax law is boosting the economy more than initially thought. After the election of November 2016, the Standard & Poor's 500 rose sharply, coinciding with the growing likelihood the law would be adopted. Legislation was signed on December 22nd; in the following weeks, Wall Street analysts sharply hiked their earnings estimates for the S&P 500, and stock prices soared to start the year.

surveyed in early January by *The Wall Street Journal* was for strong growth, averaging 2.7% quarterly through 2018. Meanwhile, the Conference Board's Leading Economic Indicators — a forward looking index — surged at the end of 2017 and the business group's economists cited the new tax law as a tailwind to the expansion. In addition, the International Monetary Fund also cited the new tax law in upping its latest

quarterly projection for world growth in 2018 and 2019.

The key to the sustainability of the virtuous economic cycle is the American consumer. The data on gross domestic product released



Earnings expectations are surging and earnings are ultimately what drive stock prices. Since 2001, earnings on large-company stocks averaged a growth rate of 7.4%. But earnings are not expected to grow a mere 7.4% annually in 2018 and 2019 — they're expected to grow 15% and 10%, respectively.

After the new tax law was signed, the average company in the S&P 500 was expected to see profits of \$131 a share in 2018. By historical standards, earnings surges are unusual but not without precedent. Still, you have to wonder how much longer the good times can last.

The consensus of 68 economists

in late January showed consumer strength remained intact. GDP is comprised of four factors and consumer spending is by far the most important, accounting for 69% of U.S. economic activity. If consumers keep spending, the good times could keep on rolling. In February, a lower rate of withholding federal taxes on paychecks began, putting more money in consumers' pockets to spend.

While the future looks very bright, plenty could go wrong. A constitutional crisis looms larger, the nuclear standoff with North Korea is on a hair trigger, and investors could suddenly turn their focus

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The Market Outlook Is...

Well into the tenth year of the post-recession rally, investors are feeling mixed emotions about where stocks are headed. On one hand, increasing volatility has raised concerns that a correction is imminent. On the other hand, fundamentals remain solid, economic growth is slowly increasing, unemployment is low, and corporate profits are near record highs. Some investors believe that the rally has room to run.

By now you have probably realized that the headline above was just a teaser. Sorry, but we are not going to make a call on the direction of the market for the next few months. But we will take this opportunity to remind our clients and friends how best to approach an unpredictable future. Find an asset allocation you are comfortable with and stick to it. Invest with conservative equity managers to limit your downside risk, but still have potential for growth. Choose high-quality bonds to produce a high-certainty income stream. And periodically rebalance to take profits and keep you centered on your target asset allocation.

Finally, avoid being seduced by the latest, greatest fads (See: Bitcoin). Don't be afraid of missing out; last month's hot stock may have already peaked. And don't lower your standards to chase higher fixed-income yields.

Approach the unknowable future with caution and optimism and it won't matter what "the market outlook is"!

Florence Dupont, Ken Gutwillig,
and Linda Schoenthaler

Six Tips To Avoid Phishing Scams

“Fake news” has exacted a high cost to American culture and political discourse, but the internet fakery that costs you time and money is phishing: emails diabolically aimed to trick you into opening your personal data to crooks and miscreants.

Phishing is the practice of emailing people purporting to be a reputable company to fool victims into revealing passwords, credit card numbers, contacts, emails, internet accounts, and the most personal digital data. It’s rampant. Whether you’re using a smartphone, tablet, or computer, here are some tips for protecting yourself:

Mistakes. Phishing emails often are generated by teens or crooks with weak skills in English punctuation, grammar, and spelling. This sample phishing email from Office uses an improper style in “24hrs” and the capitalization of the phrase, “Kindly Click here” should arouse suspicion. When you look at this email’s bottom line, the copyright is “Office Outlook.” The logo is

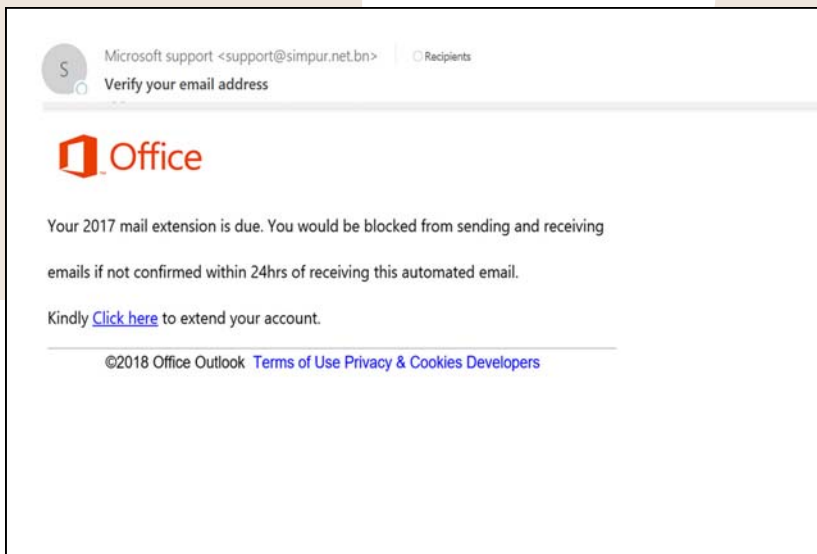
off. The product name is Office 365 and there is no mention of Microsoft in the copyright notice. Does the sentence Terms of Use Privacy & Cookies Developers make sense? It’s a hint that this is a fake.

Reply email address. In this phishing email, the reply address at the top left says “Microsoft support,” but if you look closer, the reply email address is “support@simpur.net.bn” and that is not a Microsoft address. The “bn” suffix is the internet country code for Brunei, and that’s another telltale sign of fraud. Clever phishing emails often fake reply addresses in other ways. The easiest way to verify a reply email

address is to look at its properties. If the email purports to be from Microsoft or Google, will hitting reply send an email to a Microsoft or Google email account? If not, it’s fake.

Links. Don’t click on links in a suspicious email without being deliberate. The link could be a malicious website. Navigate directly to the company website or call them to verify the message.

Slow down. The grammar, misspelling, bad links, and other telltale signs are easily overlooked when you’re in a rush, and that’s perhaps the reason why people become ensnared by phishing emails.



Verify before you trust. Trust but verify works for some things but not with internet security. First verify and then you can trust.

Secure Software. Microsoft and Apple release updates to computer operating systems continually and those are essential to staying secure. Anti-virus and anti-malware programs are also essential and they need to be kept updated with the latest fixes. ●

Three Ways To Defuse Estate Rifts

It’s impossible to know what will happen to your family after you’re gone, but it’s doubtful you’re envisioning a bitter squabble over your possessions. Yet many a family is torn asunder when a patriarch or matriarch leaves this world.

Although there are no guarantees the claws won’t come out, here are three documents that may reduce the potential for a serious rift:

1. A will. Virtually every adult with assets of any value needs a will. Typically, a will is the centerpiece of an estate plan and covers everything from appointing guardians for young children and addressing estate tax

issues to determining who will receive your most valuable assets. A will gives you the opportunity to spell out who will inherit the beach house or expensive jewelry as well as other items of sentimental value.

A properly executed will is legally enforceable, so it’s crucial that yours meets all of the technicalities of your jurisdiction. If you have significant assets you’ll probably need to hire an attorney to draw up the document. It’s likely that it will need to be updated in the future as your family circumstances change.

2. Personal property memorandum. Your will likely won’t

cover every last trinket you own, and it’s a hassle to revise it all the time for minor changes. A personal property memorandum can supplement a will and may be referred to in the will itself. The memorandum can list all of your personal assets and your intended beneficiary for each item.

More than half of the nation’s states have laws recognizing a personal property memorandum as legally binding. To avoid confusion, include a detailed description of your property. Make sure your executor has an official copy of both the will and the memorandum.

2018 Estate Tax Changes And What May Be Ahead

The tax code overhaul brought a lot of changes, but for the estate tax, the most far-reaching result was what didn't happen. Chiefly, you didn't lose the capital gains break on inherited assets when they are sold.

For tax purposes, the value of an asset, when sold, rises to its current market-value even though it was originally purchased at a lower price. The result is a lighter tax when an heir sells off stocks or other holdings that were part of the bequest.

For a narrow slice of the population, one weighty thing did happen with tax reform: very wealthy households received a better deal on

how much of their estate is taxable. Their fondest wish did not come true, to be sure, and the new tax law did not kill what is derisively called "the death tax." However, Uncle Sam's claim on inherited mega-money has been decreased with the new law. Starting in 2018, the exemption

for estate tax nearly doubled. The amount that can be passed along to heirs tax-free rose to \$11.2 million from \$5.5 million for individuals, and to \$22.4 million, from \$11 million, for couples.

Above the new thresholds, the Internal Revenue Service expects to collect 40%. However, an important and favorable new wrinkle increases the exclusion annually by the rate of inflation.

The good news — and bad — is that through the end of 2025 is a great time to die, but Congress could modify the just-enacted rules as soon as 2019, particularly due to recent changes in the

political climate. Left unchanged, this new part of the tax code is set to expire in 2026.

The number of estates that will pay any tax, according to the Tax Policy Center, is expected to drop from 5,300 in 2017 to 1,700 in 2018.

For heirs, the most important developments are what the House and Senate left alone. Those relate to capital gains and how surviving spouses can structure their own estates, a concept called portability:

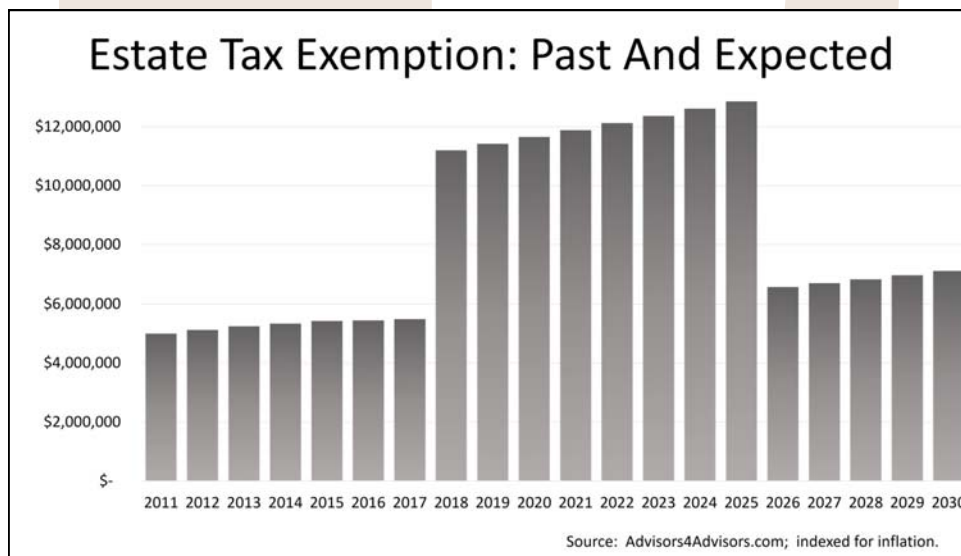
Capital gains. The technical term for this untouched provision is a "step-up in basis." Let's say your father dies and you inherit Apple stock

that he bought at \$8 per share in 1983, a little after it went public. Today, Apple stock value fluctuates around \$172. That kind of appreciation usually means a whopping capital gains bill, should you sell the shares. In other words, a 15% tax bite on the appreciation of

\$164 for each of the shares. Thanks to the step-up, the IRS values your Apple shares at \$172, rather than the earlier \$8 per share.

Portability. This is a helpful tax benefit for married couples, which Congress also let stand as is. It permits a surviving spouse to receive the unused part of the estate-tax exemption of the dead spouse. Example: Dick and Jane have an estate worth millions. Dick dies and leaves \$3 million of it to his children. Remember that the exemption for one person is \$11.2 million. Under the law, Jane can use the leftover \$8.2 million for her estate planning. That's a big deal to her beneficiaries.

We recommend checking in with your attorney to see how the changes impact your individual plan. ●



3. Letter of instruction. This is the last piece of the puzzle. Although a letter of instruction isn't legally binding, it can clarify certain issues and provide additional guidance to your heirs. The letter may include:

- The location of important documents, such as your will, insurance policies, titles, and deeds;

• Details of cemetery plots and funeral arrangements;

- Contacts for legal, tax, and financial information;

- A list and descriptions of all financial assets, including savings and checking accounts, stocks, bonds, and retirement accounts;



- The location of your tax returns for the past three years;
- The location of safe deposit boxes and keys; and
- Other special requests (for example, preferences for grandchildren attending college).

Last, but not least, your family members need to know about these three documents and where to find them. ●

Giving More To Loved Ones – Tax-Free

While it may be better to give than to receive, as the adage contends, both givers and receivers should be happy with the new tax law. The annual amount you can give someone tax-free has been raised to \$15,000, from \$14,000 in 2017.

Exempting \$15,000 annually from gift tax, over time, transfers a lot of wealth to those you care about during your lifetime, while avoiding the tender mercies of the tax man, and married couples can have double the fun.

Take the example of a husband and wife with three married children and six grandchildren. The husband can give \$15,000 each to his married children and the same amount to their spouses, as well as \$15,000 to the half-dozen grandchildren — totaling \$180,000 — and his wife can do the same for the same 12 beneficiaries. The grand total is \$360,000 per year. No federal tax will be levied on these transfers of your wealth to family as well as friends.

In addition, you can give more than the annual exemption caps for college savings. The Tax Cuts and Jobs Act (TCJA) permits bunching five years of

\$15,000 annual gifts into one year, by plugging it into a 529 college savings plan for a child or grandchild. That's \$75,000 in total. Assets in 529 savings plans grow tax-free, if used to pay qualified education expenses.



Gifts made during your lifetime reduce your exemption from tax on your estate. The TCJA more than doubled the estate tax exemption in 2018 from \$5.5 million to \$11.2 million for individuals, and from \$11 million to \$22.4 million for couples. All of these new levels will increase with inflation,

though the formula annually adjusting inflation is less generous than before.

Lifetime gifts can be made directly or through trusts. With a trust, you place the gift of cash, securities, or other assets in an entity set up to make the transfer of wealth after you die. The assets in the trust avoid probate court, and makes the transfer faster, less costly, less likely to be contested, and generally more sure-footed. Trusts can influence the values of your progeny by requiring the money you leave to be spent for religious, philosophical, or any variety of educational activities.

A trust also shields assets left to your heirs from lawsuits and business creditors. Should your grandchild get divorced, the trust money is shielded.

The friendlier tax treatment of transfers under the TCJA affects your estate plan and how your assets will be spent after you are gone, but it also may change your plan for gifting during your lifetime. Giving assets during your lifetime can be satisfying because you can witness your impact and influence on the future of your family. ●

What's Driving Stocks

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to the \$19 trillion U.S. debt and the nation's unsustainable fiscal path. A 10% or 15% drop could occur in a flash at any time, and chances of a bear-market decline of 20% or more increase as the nine-year bull market grows older. In addition, the new tax law increases the chance that the Federal Reserve will make an interest-rate policy mistake — by quashing growth or allowing the economy to overheat and inflation to surge. Fed mistakes caused every recession in modern U.S. history.

Despite these risks, earnings are surging and that's what ultimately drives stocks. In addition, consumers are spending and that's what drives the economy. With no sign of a recession and all major economic indicators signaling growth, the bull market and

expansion could continue for months and soar much higher.

Stocks are an important part of a diversified portfolio — they're the main growth engine in portfolios. But remember, stocks won't always appreciate and are only one part of a

diversified portfolio, and diversification neither assures a profit nor guarantees against loss in a declining market. With stocks appreciating so much in the past year especially, be sure you are rebalancing properly and count on us for prudent portfolio management based on economic fundamentals and quantitative analysis. ●

