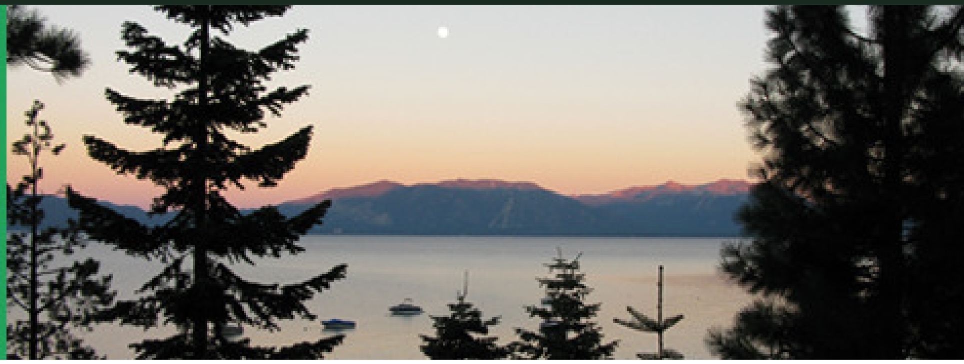

Market Jitters

After two years of historically calm markets, jittery nerves have made a comeback! In 2017, a year in which the markets failed to record a single day with a drop below 2%, this recent market activity is sure to jar some nerves. Last week, the Dow officially entered “correction” territory, a market drop of 10% or more from previous highs. Having been one of the longest runs in the stock market without a correction, this is certainly overdue, especially with the strength of the markets over the past year.

What is causing this? There are many reasons the stock market has been so strong. The markets are thrilled with the current deregulatory environment. The markets were expecting a corporate tax cut, which they got in December 2017. For those seeking income, stock dividends have provided better returns than the interest paid by bonds, providing further incentive to invest in stocks over bonds. But with the Federal Reserve's schedule for raising those rates in 2018, it is likely that bonds will soon pay out more in interest than one can receive from stock dividends. This, on top of a stock market with very few “cheap” stocks to be found, has caused investors to start a pullback. That doesn't explain the wild volatility though. Turns out financial engineering that made bets on when the extreme market calm would burst drove the wild ride. According to Bloomberg, a small hedge fund in Denver, CO made $17.5 million on a $200,000 investment in ProShares Short VIX Short-Term Futures ETF. Expect these types of bets to proliferate in our current deregulatory environment.

How long will this last? No one knows at this point. However, we are currently in a strengthening economy with no recession in sight. As long as that continues, this correction should be relatively short-lived.

Keep in Mind.. While the media made a big deal with this drop being the worst point drop ever, the reality is that it was FAR from the biggest percentage drop. Perspective is always a valuable commodity in times such as these! As the chart below shows, these downturns have not overwhelmed the preceding powerful bull market:

WEEK ENDING FEBRUARY 9, 2018 (CUMULATIVE TOTAL RETURNS)

Equities[1]	Close	Week	YTD	1-Year
S&P 500	2,620	▼ -5.10%	▼ -1.8%	▲ 15.8%
DJIA	24,191	▼ -5.08%	▼ -1.9%	▲ 22.8%
NASDAQ	6,874	▼ -5.01%	▼ -1.8%	▲ 18.6%
Foreign Stocks		▼ -6.19%	▼ -2.8%	▲ 18.5%
Emerging Markets		▼ -7.14%	▼ -1.3%	▲ 26.6%

What should you do now? Most of us have discussed the positioning of individual portfolios to weather this exact situation, and if this is the case for you, there is really nothing to be done. Ride it out, knowing that you can handle this downturn and still be prepared to meet your funding goals. If you are still feeling anxious, you don't feel you have adequately addressed this issue, or if your situation has changed, contact me and we can discuss your individual situation. Avoiding a panic sell is key here. Have cash waiting to be invested? This is a time to evaluate whether you should invest it now.

Taxes are Changing in 2018!

NOTE: This tax law is in effect for tax year 2018, not 2017!
The new TAX CUTS AND JOBS ACT passed last December, created some significant changes in both business and individual tax rates. For purposes of this newsletter, only key changes in the individual tax rates will be addressed.

One of the most significant changes in this bill seeks to shift many who have been itemizing deductions to utilizing the standard deduction instead, eliminating the need or ability to deduct individual expenses. This alone will simplify taxes for many for sure, and as the following chart shows, a significant number of taxpayers will be be able to take advantage of this simplification of their taxes:

Standard Deduction Amounts

Filing Status	2017	2018
Single	$6,350	$12,000
Married Filing Jointly	$12,700	$24,000
Head of Household	$9,350	$18,000

While the mortgage deduction was retained in this bill, you can only take that deduction if you itemize your deductions. Since the standard deduction will likely now be higher than many taxpayer's itemized deductions, many will lose the ability to utilize their home mortgage interest as a tax deduction.

A provision of this bill which is very significant for Oregon residents is the SALT Deduction, which caps our deduction for OR income taxes and property taxes at $10,000, a significant loss for many. Currently, states most affected (NY, CA, OR) by this are attempting creative solutions to work around this. In the meantime, this will cause many to pay increased taxes while this in effect. Stay tuned on this issue as the year unfolds.

This shift is understandably raising concerns in the non-profit world that Americans will significantly reduce their charitable contributions, since many will now no longer receive a tax benefit from doing so. Hopefully, the charitable desire will buck this trend as our non-profits rely heavily on these donations. Those who donate stock may lose this benefit as well, but they can still retain the benefit of donating high gain stocks and therefore removing it from their taxable income.

Another large change is the complete elimination of the personal exemption. This will partially offset the benefit of the increased standard deduction for many, and could be problematic for those with large families. Congress slightly increased the child credit for these families, but not entirely.

And finally, federal tax brackets were lowered, temporarily, as detailed below for **single taxpayers**:

New Rate	New Income Bracket	Old Rate	Old Income Bracket
10%	Up to $9,525	10%	Up to $9,525
12%	$9,525-$38,700	15%	$9,525-$38,700
22%	$38,700-$82,500	25%	$38,700-$93,700
24%	$82,500 – $157,500	28%	$93,700-$195,450
32%	$157,500-$200,000	33%	$195,450-$424,950
35%	$200,000-$500,000	35%	$424,950-$426,700
37%	$500,000+	39.6%	$426,700+

For **married taxpayers filing jointly**:

New Rate	New Income Bracket	Old Rate	Old Income Bracket
10%	Up to $19,050	10%	Up to $19,050
12%	$19,050-$77,400	15%	$19,050-$77,400
22%	$77,400-$165,000	25%	$77,400-$156,150
24%	$165,000-$315,000	28%	$156,150-$237,950
32%	$315,000-$400,000	33%	$237,950-$424,950
35%	$400,000-$600,000	35%	$424,950-$480,050
37%	$600,000+	39.6%	$480,050+

And for **taxpayers filing as head of household**:

New Rate	New Income Bracket	Old Rate	Old Income Bracket
10%	Up to $13,600	10%	Up to $13,600
12%	$13,600-$51,800	15%	$13,600-$51,800
22%	$51,800-$82,500	25%	$51,800-$133,850
24%	$82,500-$157,500	28%	$133,850-$216,700
32%	$157,500-$200,000	33%	$216,700-$424,950
35%	$200,000-$500,000	35%	$424,950-$453,350
37%	$500,000+	39.6%	$453,350+

What has not changed?
1. Capital gains taxes
2. Retirement plan contributions are still deductible
3. Municipal bond income retained their tax-free status

What is the best way to offset an increase in your taxes in 2018?
1. Maximize your retirement plan contributions
2. Evaluate whether terminating Roth IRA contributions, and opting for IRA contributions instead makes sense for you
3. Be strategic about receiving income if you have a large sale coming up in the next few years

This is a complicated tax bill, with outcomes that won't be known or tested for some time. There are many changes above and beyond the few I have listed here. I encourage you to discuss what changes will most affect you with your individual accountants as you meet with them this tax season.

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