carver financial services INC.
Established 1990
An Independent Practice

CLIENT MEMO

SEPTEMBER
2018

'PERSONAL VISION PLANNING™ SINCE 1990'

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A SNEAK PEEK OF WHAT'S **IN THIS ISSUE**

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IN THIS ISSUE

WELCOME!

There is so much happening both here at Carver Financial and in the world that we have expanded the format of this month's client memo. As the volume and pace of news continue to increase, it's easy to get distracted from the opportunities and also the pitfalls that are before us. To help you keep your focus on your long-term financial plan, our team has developed and refined an investment process that is not dependent on forecasts, predictions or market timing; rather it is based on you and your vision. We have continued to expand our team of experienced professionals this year so that we can continue to provide custom solutions to you and your family. In this issue we will discuss updates to our team, exclusive events for our clients and what is happening with the economy.

We do not believe in market timing or that anyone has a crystal ball. Still, it is interesting, if not psychologically important, to get a sense of where we are and where we are going with regard to financial markets, the political landscape and the economy and therefore you will see our thoughts in this regard. As always we are here for you and look forward to addressing any questions or concerns that you or your family have.

Never has the pace of change, or volume of news, been this great, nor will it ever be this slow again. Our experienced team is here for you, whatever the future brings. Although we might not contact you, we are monitoring both your portfolio and events that might impact you. We use a team-based approach with highly qualified people who have both the training and experience to help you develop your vision plan. Moreover, all team members are committed to continuing education so we can provide you with cutting-edge solutions.

We meet with thought leaders personally so we can understand what might impact you, without going through the filter of the media or other third parties. Other firms use cookie-cutter solutions for portfolios and rely on third-party information and research. Some firms are even using technology to replace staff and reduce personal contact with their clients. We believe that you should have a fully customized experience, so we continue to grow our team and use technology to provide a more personal experience, not less.

We appreciate being your partner and look forward to continuing to serve you. Please contact us whenever we can be of service to you, your family and friends. We are taking clients only by referral but are happy to meet, without cost or obligation, with someone you feel would benefit from our PERSONAL VISION PLANNING™ process. We are here for you. Please contact us without cost or obligation to discuss your personal goals, to provide a second opinion on current financial and wealth planning or if we can otherwise be of service.

Best,

Randy Carver

RJFS Registered Principal/Founder & President Carver Financial Services Inc

WHERE ARE WE & WHERE ARE WE GOING?

As the volume and pace of news continue to increase, it's easy to get distracted from the opportunities and also the pitfalls that are before us. To help you keep your focus on your long-term financial plan, our team has developed and refined an investment process that is not dependent on forecasts, predictions or market timing.

Our process is focused on a customized asset allocation based on your current needs and long-term vision. Still, it is interesting, if not psychologically important, to get a sense of where we are and where we are going with regard to financial markets, the political landscape and the economy.

THE MARKETS: WE PREDICT A CORRECTION • • • •

We believe a near-term correction is likely in the broader equity markets as people (ironically) become concerned about how well the economy is doing. Fear of higher inflation due to better corporate earnings, low unemployment and higher FED funds rates could be the trigger for this correction. We view this as healthy and not a reason for concern if you are invested properly.

We believe the coming drop could be 5 to 10 percent of the broader equity markets, followed by a strong rebound in the fourth quarter. Overall, we believe 2018 will be a good year for broader equity markets when all is said and done.

Over the years, one common mantra has been "Sell in May, and go away." The idea is that the stock market goes into a slump in the summer, and activity picks up again after Labor Day. We do not believe in market timing or that you should adjust your portfolio in anticipation of a correction.

We also believe that interest rates will continue to rise and that we will see long-term taxable bond prices drop. Tax-exempts might be less impacted as the supply of quality tax-exempt bonds continues to be reduced.

POLITICS: NOVEMBER WILL BE KEY • • • •

It will be interesting to see what the outcome of the mid-term elections is. As we get closer to the mid-terms on November 6th, we will no doubt hear more from both sides about all the problems we have — the candidates and political parties all want to justify their bid for election.

Elections will be held for all 435 seats in the House of Representatives, the lower chamber of Congress. These are contested every two years, both alongside the presidential race and in mid-term elections. Also, 35 seats are up for grabs in the Senate, the upper chamber, which holds elections every two years for about one-third of its six-year positions.

In early May, six months ahead of midterm elections, data from registered voters across the country suggested that Republicans held a slight edge on the generic ballot in key Democratic states, including Florida, Indiana and Missouri. That indicates that voters in those states are ready to replace incumbent Democrat Senators. Slightly more voters said they would vote for a Democratic candidate (40 percent), compared to 35 percent for a Republican candidate, according to a report by Morning Consult, a company that specializes in online survey and market research. [1]

However, pundits who are prognosticating about the midterm results seem to make predictions based on their political leanings. So you can find just as many articles predicting that the Democrats will come out ahead in November as you can find predicting that the Republicans will prevail.

THE ECONOMY: IT'S ALL GOOD! • • • •

The indicators are some of the best we have seen in years. The one area that concerns some is the level of the federal deficit and debt. In our opinion, this is not a threat to the growth of the broader equity markets over the next few years because we have already seen massive tax cuts and regulatory reduction, which should help offset the debt as they begin to have an impact later this year.

The unemployment rate is the lowest since 1969, while inflation, as measured by the consumer price index, or CPI, remains low. The gross domestic product (GDP) is a monetary measure of the market value of all final goods and services produced in a period (quarterly or yearly) of time. GDP growth appears to be accelerating, and in our opinion, will move up as the tax and regulatory cuts have an impact. S&P 500 earnings per share jumped by more than 9 percent in 2017, according to FactSet, and are expected to grow even more in 2018. We are seeing record foreign investment in the United States. We expect U.S. companies to continue to repatriate funds that have been held overseas.

Global companies cashed in on newfound economic strength in Europe and Latin America as well as relative stability in China. For the first time in years, virtually all major global economies are growing at the same time. "During 2017, the global synchronized recovery turned into a global synchronized boom that is likely to continue in 2018," Ed Yardeni, president of investment advisory Yardeni Research, wrote. [2]

Companies continue to accumulate record levels of cash, which can be deployed as higher dividends, bonuses and capital investments or stock buybacks. Any and all of those can help the broader markets and economy grow. Non-financial U.S. companies are sitting on an estimated $1.9 trillion in cash, more than double their 2008 totals, according to Moody's. Corporate earnings were up 25 percent in the first quarter of 2018 versus the first quarter of 2017.

In May, jobless claims fell to the lowest rate since 1969. At the same time, continuing claims have averaged the lowest since 1973. In the past year, non-farm payrolls are up an average of 190,000 per month, matching the pace of the year ending in April 2017. Assuming a real GDP growth rate of 3.0 percent this year and next, we think the jobless rate could finish 2018 at 3.7 percent and then drop to 3.2 percent in 2019, the lowest since 1953.

TWO AREAS OF CONCERN: DEBT AND TRADE WARS • • • •

Two areas of concern that continue to be highlighted by the media and doomsday soothsayers are the federal debt and the possibility of a trade war due to tariffs.

We have heard that the federal debt is growing to unsustainable levels and destroying the U.S. economy for more than 30 years. While the absolute dollar amount of the debt continues to rise, the impact remains benign. Back in 1981, the public debt of the federal government was $1 trillion; today it's more than $21 trillion. At some point, the theory goes, additional debt is going to be the fiscal straw that breaks the camel's back. The problem with this theory is that, in spite of the record-high debt, the net interest on the debt — the cost to our government to satisfy interest payment obligations — was only 1.4 percent of GDP last year, hovering near the lowest levels in the past 50 years.

We believe that GDP will grow 3 to 4 percent, given the tax and regulatory cuts. Even if this is not the case and interest rates double on the debt, we would be well within historic norms. Doubling the interest rate to 4 percent would mean net interest relative to GDP would double as well, going from 1.4 percent to 2.8 percent. That certainly wouldn't be pleasant, but it would be no different than the average net interest on the national debt from 1981 through 1999.

We also are hearing more concerns about a trade war due to the threat of tariffs by the United States. No doubt as we approach the midterm elections, this refrain will continue. We believe this is simply a negotiating tactic that might cause short-term volatility but will not have any longer-term impact. Other countries need the United States, and we do not foresee a trade war.

"NO NATION WAS EVER **RUINED BY TRADE.**"

—*Benjamin Franklin*

PROTECT YOURSELF FROM INFLATION WITH INCREASED INCOME • • • •

We are not saying everything will be perfect. There is often a difference between good economics and social impact. We believe that higher inflation and a drop in fixed income values will impact many who are not invested properly. Those who react to any short-term market corrections and/or have too much fixed income will not benefit, and might even lose, despite the strong markets we expect. We will continue to hear more about technology replacing jobs and all the problems due to either a stronger or weaker U.S. dollar.

We have seen a decades-long trend of relatively low inflation, and now we might be at a point where this reverses. The 40-year trend of falling inflation was primarily generated by healthy global demographics, globalization, automation and central bank policy. Falling inflation translated directly to lower bond yields and provided fuel to rising equity and credit markets.

As inflation rises, the cost of everything, from food to utilities, goes up. To help protect your standard of living, your income must rise commensurately. It is important that your portfolio is positioned to generate growing income rather than fixed income. In this regard, we believe that fixed-income investments such as CD's and bonds might pose significant risk to people's ability to maintain their lifestyles as the cost of goods and services increases and, in some cases, bonds lose value.

This is why we monitor and update your portfolio — we must recommend adjustments to help meet your changing personal needs that are not based on past assumptions or rules of thumb.

We believe demographics will play a role in pushing inflation higher. Census data mark 2018 as the year that inflation demographics turn in favor of higher inflation as dependency ratios finally begin to rise after falling for several decades. The "age dependency ratio" is the ratio of dependents (people younger than 15 or older than 64) to the working-age population (ages 15 to 64). A growing body of research suggests a strong causal link between demographics and inflation. For instance, a recent Bank of International Settlements (BIS) study found a direct relationship among the working-age population, the number of dependents (both young and old) and the underlying trend of inflation.

The study strongly suggests that inflation retreats as the number of dependents decreases, relative to the working age population. This demographic condition is known as a "falling dependency ratio," and it characterizes the U.S. experience since the 1970s, as the baby boomer generation moved through their work/life cycle.

Conversely, as the dependency ratio increases — as it did through the 1950s, '60s and '70s — there is a strong likelihood that the underlying inflation rate will increase.

AS ALWAYS, WE ARE FOCUSED ON YOUR CURRENT NEEDS AND FUTURE VISION • • • •

We appreciate being your partner and look forward to continuing to serve you. Please contact us with questions or whenever we can be of service to you, your family and friends. Please contact us without cost or obligation to discuss your personal goals, to provide a second opinion on current financial and wealth planning or if we can otherwise be of service.

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1 Caroline Tanner, "Survey: On the Generic Ballot, Republicans Hold Slight Edge in Key Senate Races," USA Today, May 4, 2018, https://www.usatoday.com/story/news/politics/onpolitics/2018/05/04/ahead-midterms-voters-indicate-they-vote-republican-key-states/581373002/.

2 Thomas Heath, "It Was a Year of Wins for Investors. Will Stocks Keep Climbing in 2018?" The Washington Post, December 29, 2017, https://www.washingtonpost.com/news/get-there/wp/2017/12/29/it-was-a-year-of-wins-for-investors-will-stocks-keep-climbing-in-2018/?noredirect=on&utm_term=.00c023a627d7

MEET THE NEWEST ADDITIONS TO THE CARVER TEAM

We continue to add to our team of dedicated, experienced professionals so that we can serve you and your family for generations to come. The two newest financial advisors on our team are Joe Lowe and Dan McGreevy.

JOE LOWE began his career as a Financial Advisor after earning his bachelor's degree in business from Mount St. Joseph University in 2014. He works closely with families and business owners to help develop customized strategies related to financial planning and investments. Joe is a member of the firm's Investment Committee and is currently pursuing his CERTIFIED FINANCIAL PLANNER™ certification. With over 3 years of experience helping individuals and families build financial confidence, Joe was humbled by the opportunity to be a part of the Carver Financial Team. In his free time, Joe enjoys playing golf, cheering on Cleveland sports teams and spending quality time with friends and family.

DAN MCGREEVY is a CERTIFIED FINANCIAL PLANNER ™ professional and is actively engaged as a member of the firm's Investment Committee. In May 2018, he joined the team as a financial advisor, and works closely with families and small businesses to help develop creative solutions for their personal objectives. He also helps oversee retirement plans for businesses and nonprofits. Dan is a lifelong Clevelander, and grew up in Lakewood. He attended St. Ignatius High School, and graduated from Kent State University with a bachelor's degree in finance and economics. Before joining the team, he worked as a financial advisor at Wells Fargo Advisors. Over the past seven years, he has worked closely with families and businesses, assisting during the settlement of a complicated estate, and helping families make sound investment decisions. He provides clients with the appropriate standard of care by staying current in the financial planning field through rigorous continuing education required for his Certified Financial Planner certification. Additionally, he maintains a Series 7 and Series 66 licenses. Away from the office, you'll find Dan volunteering at Junior Achievement and Circle Health Services, where he enjoys promoting positive education and health care awareness. Dan, his girlfriend Suzanne, their daughter Carmen and son Channing, live in Tremont. They enjoy doing anything outdoors, whether it's riding their bikes to Edgewater Park, or walking to the West Side Market.

QUIZ? FINANCIAL FACTS THAT MIGHT SURPRISE YOU

If you have a penchant for financial trivia, put your knowledge to the test by taking this short quiz. Perhaps some of the answers to these questions will surprise you. ***Answers on page 8.***

1. The first organized stock market in New York was founded on Wall Street under what kind of tree?
- **A.** Maple **B.** Linden **C.** Buttonwood **D.** Elm

2. Who invented the 401(k)?
- **A.** Congress **B.** Ted Benna **C.** The IRS **D.** Juanita Kreps

3. Which three U.S. bills together account for 81% of the paper currency in circulation?
- **A.** $1 | $20 | $100 **B.** $1 | $5 | $20 **C.** $1 | $10 | $20 **D.** $1 | $10 | $100

4. Small businesses comprise what percentage of U.S. businesses?
- **A.** more than 39% **B.** more than 59% **C.** more than 79% **D.** more than 99%

5. Which U.S. President signed Medicare into law?
- **A.** President John F. Kennedy **B.** President Lyndon B. Johnson **C.** President Richard M. Nixon **D.** President George W. Bush

EXCITING PROMOTIONS TO BETTER SERVE YOU

When I founded our firm in 1990, we had the simple vision of making people's lives better by providing personal financial planning based on each individual's needs. I associated with Raymond James so that we could provide independent, unbiased advice and not be required to sell specific products. There were just two of us. Within a couple of years, we had a team of four. As we have grown, so has our team of dedicated, experienced professionals. We now have 21 professionals in our office to serve you, and our expanded team requires an updated organizational structure. My focus will continue to be meeting with clients and overseeing our firm as the president and founder.

BOBBI **BRUNER**

To maintain our highest level of service, we are pleased to announce that **Bobbi Bruner** has been named Chief Operating Officer (COO) for Carver Financial Services Inc. and will take over management of our operations starting in September 2018. In this role, Bobbi is responsible for all day-to-day operations and the management of staff. Bobbi joined our firm in 1999 and has continued to expand her role and responsibilities.

TRACY **GOLDHARDT**

Tracy Goldhardt will become our Client/Community Relations manager. In this role, she will focus on coordinating our events, philanthropic work and overall communications. Tracy joined our team in 2015.

We believe this structure will enable us to continue to provide the highest level of service to you and our community in fulfilling our vision of making people's lives better. I will be able to focus on broad strategy, both for our firm and our financial planning, as I meet with clients and work with our partners. I have no plans to retire or slow down as we continue to expand.

We are committed to a multi-generational initiative that includes hiring experienced but younger advisors and expanding our meetings with children and grandchildren of clients. We also have a written "transfer on death" agreement in place so that if anything were to happen to me or any of our other key leaders, the rest of our team can continue to serve you without any interruption. Also, we have established and documented policies and procedures for business continuation in the event that there is a natural disaster or other issue with our building or team.

We are excited about the future of our firm and look forward to continuing to be of service to you and your family for generations to come. Please contact us with any questions or whenever we can be of service.

PAGE 7 QUIZ: FINANCIAL FACTS THAT MIGHT SURPRISE YOU - ANSWERS

1. C. - Buttonwood | On May 17, 1792, 24 New York City stockbrokers and merchants met under a buttonwood tree outside of what is now 68 Wall Street. Their two-sentence brokers' agreement is known as the Buttonwood Agreement.[1]

2. B. - Ted Benna | A 401(k) is a tax-deferred, employer-sponsored retirement savings plan. Although the name comes from Section 401(k) of the Internal Revenue Code, this type of retirement savings plan was created by Ted Benna in 1979. At the time, he was a co-owner of The Johnson Companies, a small benefits consulting firm.[2]

3. A. - $1, $20, $100 | The $1 bill represents about 29% of the total paper currency in circulation. The $20 bill represents about 22%, and the $100 bill represents about 30%.[3]

4. D. - More than 99% | Despite their size, small businesses are a big part of the U.S. economy. According to the U.S. Small Business Administration, small businesses (independent businesses with fewer than 500 employees) comprise 99.9% of all firms and account for 62% of net new jobs.[4]

5. B. - President Lyndon B. Johnson | President Kennedy recommended creating a national health insurance program in 1961, but it was President Johnson who signed the Medicare bill into law on July 30, 1965. President Nixon extended Medicare eligibility to certain people under age 65 in 1972, and President Bush expanded Medicare to include prescription drug benefits in 2003.[5]

Sources - 1 NYSEData.com | 2 401kbenna.com | 3 Federal Reserve, Currency in Circulation: Volume, December 2017 | 4 U.S. Small Business Administration, August 2017 | 5 Centers for Medicare & Medicaid Services

A LEADER'S GREATEST LEGACY – DEVELOPING THE LEADERS OF TOMORROW

A VERY SPECIAL EVENT WITH

CARL PETTY

We are all leaders, role models and mentors. **Carl Petty,** the Director of Leadership and Organizational Effectiveness at WisdomTree Investments and once the youngest mission commander in the U.S. Navy's #1-ranked F-14 Tomcat squadron, will be joining us to share insights on leading and developing leaders. This very special, invitation only event, will discuss how we can be better leaders and help our friends, family and the next generation.

"Accomplish the mission of today and develop the leaders of tomorrow," sums up the mandate young military officers are given from their first day of training. Unfortunately, in today's world of relentless attention to short-term performance and instant gratification it's easy to focus only on the present at the cost of neglecting the long term development of leaders for the future. As mentors and leaders in your own right, you can play a powerful role in helping equip the next generation to lead and deliver tomorrow's results while providing a lasting and impact-full legacy.

QUESTIONS CARL WILL HELP US EXPLORE INCLUDE, BUT ARE NOT LIMITED TO ••••

- What leadership strategies from elite military units are fully transferable to the private and non-profit sectors?
- What have recent findings from anthropology and neuroscience revealed about leading people?
- What can leaders do to develop the next generation of leaders?

Carl Petty is a former Lieutenant Commander in the U.S. Navy and graduate of the U.S. Naval Academy at Annapolis and Harvard Business School. Before joining WisdomTree, Carl led dozens of combat missions off of aircraft carriers and spent decades leading and developing leaders of high-performing teams in elite military units and multinational corporations. He has worked on four continents as a consultant and as a lecturer at Harvard Business School's Executive Education program for C-suite executives. Over the past decade, Carl has worked closely with WisdomTree's leaders and valued clients to help them master the challenges of so-called "soft" human dynamics that can get in the way of delivering hard operational impact. We look forward to having you join us for the very special event.

There is neither a cost nor obligation to attend – however reservations are required due to limited seating. Please contact our office (440) 974-0808 to reserve space for you, your family or friends.

7:00 PM – LaMALFA CENTRE • HEISLEY RD. MENTOR OH
– PASTA DINNER WILL BE SERVED

MOTOR OIL, COOKIES, & YOUR PORTFOLIO'S

PERFORMANCE

What is more important: having the right amount of oil in your car or using a premium brand? Although the brand of oil plays a small part in how the engine performs, the most important thing is having enough oil.

When baking cookies, what is more important: the ratio of floor, sugar and baking powder or their respective brands? Of course it's the ratio.

The same thing is true of your portfolio. The overall allocation plays a bigger role in determining your performance than the specific investment selection. Yet many investors — and frankly, many financial advisors — spend an inordinate amount of time picking investments rather than focusing on asset allocation.

Asset allocation is, in our opinion, the biggest factor affecting your portfolio's performance, so that is what we focus on. The allocation should be dependent on your personal needs and objectives. With our trade-name PERSONAL VISION PLANNING™ process, we allocate your portfolio based on what you need and want to do to maintain and enhance your standard of living. We have a very disciplined and sophisticated process for selecting and monitoring investments. However, at the end of the day, the specific investments are far less important than the allocation.

WHAT IS THE DIFFERENCE BETWEEN

A TAX DEDUCTION & A TAX CREDIT?

Tax deductions and credits are terms often used together when talking about taxes. While you probably know that they can lower your tax liability, you might wonder about the difference between the two.

A tax deduction reduces your taxable income, so when you calculate your tax liability, you're doing so against a lower amount. Essentially, your tax obligation is reduced by an amount equal to your deductions multiplied by your marginal tax rate. For example, if you're in the 22% tax bracket and have $1,000 in tax deductions, your tax liability will be reduced by $220 ($1,000 x 0.22 = $220). The reduction would be even greater if you are in a higher tax bracket.

A tax credit, on the other hand, is a dollar-for-dollar reduction of your tax liability. Generally, after you've calculated your federal taxable income and determined how much tax you owe, you subtract the amount of any tax credit for which you are eligible from your tax obligation. For example, a $500 tax credit will reduce your tax liability by $500, regardless of your tax bracket.

The Tax Cuts and Jobs Act, signed into law late last year, made significant changes to the individual tax landscape, including changes to several tax deductions and credits.

The legislation roughly doubled existing standard deduction amounts and repealed the deduction for personal exemptions. The higher standard deduction amounts will generally mean that fewer taxpayers will itemize deductions going forward.

The law also made changes to a number of other deductions, such as those for state and local property taxes, home mortgage interest, medical expenses, and charitable contributions.

As for tax credits, the law doubled the child tax credit from $1,000 to $2,000 for each qualifying child under the age of 17. In addition, it created a new $500 nonrefundable credit available for qualifying dependents who are not qualifying children under age 17. The tax law provisions expire after 2025.

For more information on the various tax deductions and credits that are available to you, visit irs.gov.

MID-YEAR PLANNING

TAX CHANGES TO FACTOR IN

The Tax Cuts and Jobs Act, passed in December of last year, fundamentally changes the federal tax landscape for both individuals and businesses. Many of the provisions in the legislation are permanent, others (including most of the tax cuts that apply to individuals) expire at the end of 2025. Here are some of the significant changes you should factor in to any mid-year tax planning. You should also consider reviewing your situation with a tax professional.

NEW LOWER MARGINAL INCOME TAX RATES• • • •

In 2018, there remain seven marginal income tax brackets, but most of the rates have dropped from last year. The new rates are 10%, 12%, 22%, 24%, 32%, 35%, and 37%. Most, but not all, will benefit to some degree from the lower rates. For example, all other things being equal, those filing as single with taxable incomes between approximately $157,000 and $400,000 may actually end up paying tax at a higher top marginal rate than they would have last year. Consider how the new rates will affect you based on your filing status and estimated taxable income.

HIGHER STANDARD DEDUCTION AMOUNTS • • • •

Standard deduction amounts are nearly double what they were last year, but personal exemptions (the amount, $4,050 in 2017, that you could deduct for yourself, and potentially your spouse and your dependents) are no longer available. Additional standard deduction amounts allowed for the elderly and the blind remain available for those who qualify. If you're single or married without children, the increase in the standard deduction more than makes up for the loss of personal exemption deductions. If you're a family of four or more, though, the math doesn't work out in your favor.

ITEMIZED DEDUCTIONS — GOOD AND BAD • • • •

The overall limit on itemized deductions that applied to higher-income taxpayers is repealed, the income threshold for deducting medical expenses is reduced for 2018, and the income limitations on charitable deductions are eased. That's the good news. The bad news is that the deduction for personal casualty and theft losses is eliminated, except for casualty losses suffered in a federal disaster area, and miscellaneous itemized deductions that would be subject to the 2% AGI threshold, including tax-preparation expenses and unreimbursed employee business expenses, are no longer deductible. Other deductions affected include:

- **State and local taxes -** Individuals are only able to claim an itemized deduction of up to $10,000 ($5,000 if married filing a separate return) for state and local property taxes and state and local income taxes (or sales taxes in lieu of income).
- **Home mortgage interest deduction -** Individuals can deduct mortgage interest on no more than $750,000 ($375,000 for married individuals filing separately) of qualifying mortgage debt. For mortgage debt incurred prior to December 16, 2017, the prior $1 million limit will continue to apply. No deduction is allowed for interest on home equity loans or lines of credit unless the debt is used to buy, build or substantially improve a principal residence or a second home.

OTHER IMPORTANT CHANGES • • • •

- **Child tax credit -** The credit has been doubled to $2,000 per qualifying child, refund-ability has been expanded, and the credit will now be available to many who didn't qualify in the past based on income; there's also a new nonrefundable $500 credit for dependents who aren't qualified children for purposes of the credit.
- **Alternative minimum tax (AMT) -** The Tax Cuts and Jobs Act significantly narrowed the reach of the AMT by increasing AMT exemption amounts and dramatically increasing the income threshold at which the exemptions begin to phase out.
- **Roth conversion re-characterizations -** In a permanent change that starts this year, Roth conversions can't be "undone" by re-characterizing the conversion as a traditional IRA contribution by the return due date.

THE S&P 500 AS A BENCHMARK FOR COMPARING YOUR RETURN

Investors often want to compare the returns on their portfolios to a benchmark. The most commonly used benchmark for gauging individual portfolio returns, as well as overall stock market performance, is the S&P 500.

The "Standard & Poor's 500" index is a grouping of 500 of the largest U.S. stocks, weighted by market capitalization, which simply means the stock price multiplied by the number of shares outstanding. Market analysts commonly use this figure to designate a company's size.

Those 500 large-cap U.S. stocks make up about 80 percent of all U.S. market capitalization. That's why the index is widely considered to be the best indicator of how large U.S. stocks are performing on a day-to-day basis.

Yet despite this Amazon, Netflix and Microsoft together this year are responsible for 71 percent of S&P 500 returns and for 78 percent of Nasdaq 100 returns in 2018. Apple also makes up a large portion of the index return 12 percent of both S&P 500 and Nasdaq 100 returns. (Source –CNBC 7/10/18) Movements in these four companies will move the index but may not be representative of the broader market and certainly not a well diversified portfolio.

COMPARING YOUR PORTFOLIO TO THE S&P 500 • • • •

The S&P 500 is certainly a powerhouse of stocks, but is it a relevant benchmark for your portfolio? And will comparing your portfolio to the returns of the S&P 500 really tell you how you are doing relative to your personal goals, needs and objectives?

The S&P 500 may serve as a good measure for the overall U.S stock market and large-cap companies, but there are many other equity sectors that make up a portion of an individual investor's properly diversified portfolio (small and mid-cap, international, emerging markets and real estate investment trusts [REITs], to name a few.

Allocating a portion of your portfolio to fixed income (bonds/cash) may help reduce the price movement of the overall portfolio, up or down. From this standpoint, and with a properly constructed portfolio, it does not make a whole lot of sense to view your portfolio's performance only through the lens of the broadest equity index. From the perspective of an individual investor, outperforming the S&P 500 is neither a financial goal nor a financial plan. Proper diversification, strategic asset allocation and rebalancing at least annually remain of utmost importance in achieving solid, long-term investment returns.

THE 2000S: A LOST DECADE FOR STOCK INVESTORS • • • •

Many have claimed that the decade of the 2000s was a lost decade for stock investors. When you look at returns of the S&P 500 of that period, it is hard to challenge the validity of this claim.

From December 31, 1999, through December 31, 2009, the S&P 500 index had an annualized simple price return of –2.72 percent. When reinvested dividends are factored in over the same time frame, the annualized total return for the S&P 500 index was –0.95 percent. If you were invested for those 10 years, you would have a negative return, whereas a well-diversified portfolio could have provided you with positive returns.

Let's compare the returns of several other notable indexes over the decade of the 2000s.

INDEX NAME	ASSET CLASS	ANNUALIZED TOTAL RETURN 12/31/1999-12/312009
S&P 500 Index	Domestic Large Cap	- 0.95 %
S&P 400 Mid Cap Index	Domestic Mid Cap	6.36 %
S&P 600 Small Cap Index	Domestic Small Cap	6.35 %
MSCI EAFE (NET) Index	International - Developed Markets	1.17 %
MSCI EM Emerging Markets (NET) Index	International - Emerging Markets	9.78 %
Barclays Capital Aggregate Bond Index	Domestic Fixed Income	6.33 %

A quick view of the table above shows that the only place a "lost decade" took place was in domestic (i.e., U.S.) large-cap stocks. These results show the importance of asset allocation and the need for proper diversification with a portfolio oriented toward long-term growth.

Asset allocation remains of the utmost importance and should always be constructed in accordance with your investment objectives, investment time frame and tolerance for risk. Past performance cannot guarantee future results, and asset allocation cannot ensure a profit or protect against a loss. Applying a historical perspective and maintaining an appropriate strategic asset allocation can help provide you with comfort and direction during periods of great volatility, and relative unpredictability, over shorter periods.

By diversifying across equity sectors (and rebalancing once a year to come back to the desired portfolio mix), your mission doesn't change, regardless of which equity sector or discipline happens to be shooting the lights out in any given year.

A GUIDELINE FOR DOMESTIC LARGE-CAP STOCKS • • • •

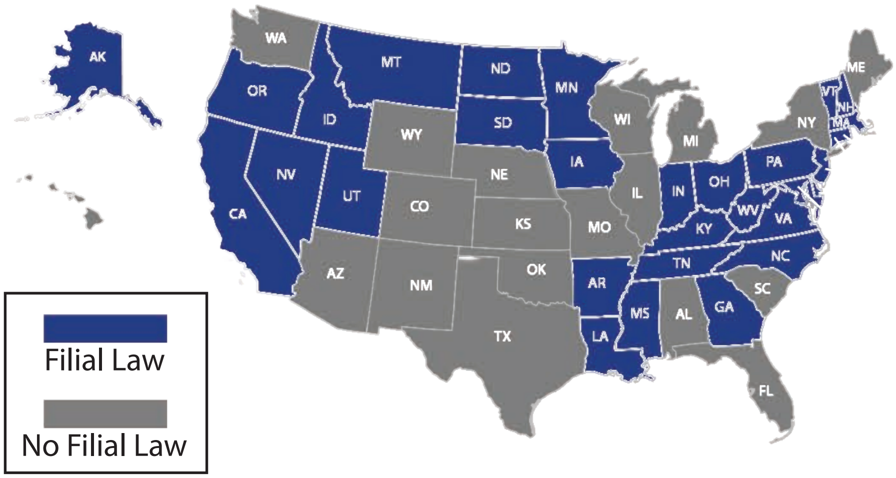
Wall Street, the media and investors tend to focus on returns over a one-year period, but history tells us that any 12-month period can be bad for any stock or even for the entire market. It's best not to invest in stocks unless you can commit for several years, at least. Again, focus on the long term.

Ultimately the most important benchmark, in our opinion, is whether or not you are able to maintain and enhance your standard of living over time. Investments are just tools for meeting specific needs and wishes, and your portfolio must be allocated based on your personal situation — not a benchmark.

DID YOU KNOW...

STATE LAW MAY REQUIRE YOU TO SUPPORT YOUR AGING PARENT!...

PRECEDENT HAS BEEN SET THAT EVEN ESTATES/ IRREVOCABLE TRUSTS ARE NOT EXEMPT FROM THIS REQUIREMENT



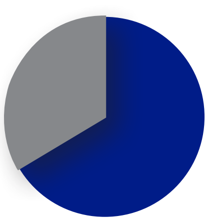
Currently, 30 states have passed Filial Responsibility Laws that may require adult children to financially support their parents if they are not able to take care of themselves. This includes food, clothing, shelter and medical needs; which extends to long-term care needs/expenses.

REFERENCE SAMPLE CASES:

Health Care & Ret. Corp. of AM. vs. Pittas - March 27, 2013 Pennsylvania Superior Court
Judgment against the son for $93,000 to pay for parent's long-term care bill. Re-argument Denied- (July18, 2012); Appeal Denied - 63 A.3d 1248 (2013)

In Re Estate Melby - In The Supreme Court of Iowa January 10, 2014
Supreme Court Reversed lower court ruling giving the Iowa Dept. of Human Services the right to recover Medicaid payments against the corpus of the trusts after the Melby's death.

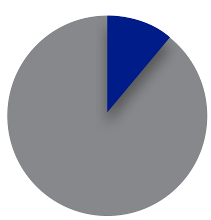
Will more states begin enforcing their existing filial responsibility laws? Given the following statistics (and much more), many experts agree it's possible.



70%

OVER 65 YEARS OLD

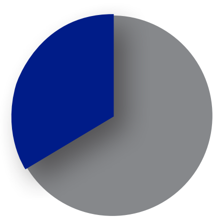
About 70% of Americans over the age of 65 will need long-term care services during their lifetime. By 2020, this number is expected to exceed 12 million.[2]



20%

OF U.S. POPULATION

Aging baby boomers will significantly impact the potential demand for long-term care services over the next two decades. Over the next 20 years, the number of Americans age 65 and older will more than double to 71 million, comprising roughly 20% of the U.S. population.[1]



33%

MEDICAID SPENDING

In 2003, Medicaid paid $83.8 billion dollars for long-term care services, roughly one-third of all Medicaid spending. 27.8 billion of these dollars were spent on community-based long-term care services. Home and community-based waivers accounted for roughly two-thirds of community-based long-term care expenditures.[3]

[1] Prudential Financial Inc. Neward, J.J. 2010 Long Term Care Cost Study • [2] Prudential Research Report: Long Term Care Cost Study, 2010 • [3] Burwell, B., K. Srdl, and S. Eiken. Medicaid long-term care expenditures in FY 2003 [Addendum]. Cambridge: The Medstat Group, 2004.

TWO-FACTOR AUTHENTICATION:
IMPORTANT YET SIMPLE

As cyberthieves step up their efforts to hack into our online accounts and steal money and identities, IT professionals step up their security efforts to protect those accounts.

A somewhat effective strategy for keeping thieves out of online accounts is two-factor authentication, or 2FA. It goes beyond the one-step login procedure of simply entering your username and password. This is something that Raymond James will be requiring for the Investor Access system and which we recommend for all of your on-line accounts.

THERE ARE TWO PRIMARY TYPES OF 2FA :

> **1. SMS VERIFICATION** — When you attempt to log in to a website, the system sends you a six-digit numeric code via SMS, or text message. You have to type in that verification code before you can get into your account. The code can be used only one time and expires within minutes. It takes only a few seconds to get that code, and just about everyone keeps a cell phone handy. But if you are in an area where you can't get a signal, you might be unable to receive your verification code.
>
> **2. PHYSICAL AUTHENTICATION** — For this method, you use a physical token that either plugs into a USB port or generates a unique passcode that you will type into the login screen. This security measure is particularly popular with banks and other companies that deal with highly sensitive information. This is the most secure form of 2FA. A cybercrook would need to steal your token and, even then, wouldn't have access to your password. But the downside is that the hardware can be costly. If you lose or forget your key, you're out of luck.

With 1FA, all that hackers have to do is guess your password, and they've gained access. With 2FA, hackers have to guess your password and also get that code somehow.

CYBERPROTECTION IN THE FUTURE • • • •

The 2FA method isn't completely hack-proof, but it's much more secure than 1FA. To thwart cyberthieves increasingly sophisticated hacking attempts, new innovations continue to emerge in the area of cybersecurity. One area that shows a lot of promise is biometrics, which includes fingerprint scans, retina scans, voice recognition and face recognition.

For example, the iPhone X uses Face ID, which is technology that unlocks the phone by using infrared and visible light scans to identify the user's face. As of December 2017, though, Apple was receiving a barrage of complaints from iPhone X users who were unable to unlock their phones. The camera had to be at just the right angle, and the lighting had to be ideal for the technology to work. No doubt, this technology will be refined soon.

We're all in a hurry, though. So people often opt out of 2FA because they don't want to spend the extra few seconds to get the verification code.

We recommend that you take the extra time needed to enter that second layer of protection — the one-time-use verification code — every time you log in to a website. Your personal information, especially your financial data, is much too valuable to leave to chance. As the old saying goes, "An ounce of prevention is worth a pound of cure."

[1] Paul Gillin, "Two-Factor Authentication: A Little Goes a Long Way," SecurityIntelligence, January 30, 2017, https://securityintelligence.com/two-factor-authentication-a-little-goes-a-long-way/.
[2] Miguel Leiva-Gomez, "The Untold Story of Facial Recognition Authentication," MakeTechEasier, December 23, 2017, https://www.maketecheasier.com/facial-recognition-authentication/.

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2020 **CLIENT EXPERIENCE**

JAPAN SUMMER OLYMPICS

JULY 22-28, 2020

TOKYO 2020

TOKYO 2020
PARALYMPIC GAMES

We are finalizing details for this amazing experience! We began doing trips more than twenty-five years ago so that you and your family could enjoy unique and memorable once-in-a-lifetime experiences that you might otherwise not have access to. Our 2020 experience is just such a trip. Every four years, the nations of the world come together to watch the greatest living athletes compete for the gold. The next Summer Games will be held in 2020 in the bustling metropolis of Tokyo – one of the most fascinating and cosmopolitan cities on the planet. Witness one of the world's most spectacular international events in an unforgettable setting. As always, our travel coordinators can provide custom pre-trip and post-trip extensions to make this your trip.

The trip will be open to clients and non-clients alike. We are finalizing pricing and details. For immediate information or to hold space please contact our travel coordinator.

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We look forward to traveling with you!

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Flights, Vacations, Tours & Cruises