carver financial services Inc.
Established 1990
An Independent Practice

CLIENT MEMO

'PERSONAL VISION PLANNING™ SINCE 1990'

IN THIS ISSUE

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MARCH | 2018

WELCOME!

The New Year has certainly started off with a bang. The markets continue to hit new highs, as has the political debate. Regardless of what transpires in the coming year, we are here for you. Unlike firms that use models and are moving away from personal interaction, we take a customized approach with each client. This allows us to take advantage of current conditions while meeting your changing needs and objectives. While many firms are moving to automated interactions, we continue to add to our team of experienced professionals.

CONSOLIDATE YOUR ACCOUNTS IN ONE PLACE FOR EASY REPORTING

As the pace of change becomes more hectic and things become more complex, we see that many people are consolidating their investment accounts to simplify reporting and better facilitate comprehensive financial planning. If you have portfolios in multiple places, it can be difficult for you and your financial advisor to know your true financial situation. When you get all your assets in one location, it's much easier to keep your intended asset allocation on track, rebalance your portfolio, monitor performance, minimize tax implications and plan for the future.

One concern about consolidating accounts that some have is that they will have "too many eggs in one basket." This is understandable. When you consolidate your accounts with Raymond James, however, the investments remain diversified; we are simply consolidating the reporting. Moreover, Raymond James offers the only written guarantee against cybercrime while providing standard industry insurance through SIPC. Although this does not protect against market fluctuation, it does protect your portfolio.

We work as a team and have effective procedures and controls in place, including disk encryption and off-site data storage, to protect your personal information. In the event of an emergency, natural disaster or the loss of any employee, we are prepared to continue our business operations without skipping a beat.

While we do expect normal pullbacks, we are optimistic about the outlook for the broader markets over the next few years. We continue to expect strong growth in equities, coupled with rising interest rates and inflation.

Investors often ask us if they should move out of the market because it has gone up so much. We do not believe in market timing; instead, we take a very proactive approach to reallocating your portfolio so that you have the liquidity you need, along with cash for any near-term needs. This means that short-term volatility should not impact your ability to receive income or live your ideal lifestyle.

Another question people ask us often is if their portfolios should be allocated based on their age. We believe that although age is a factor, your portfolio should be allocated based on your personal needs and objectives, not according to a general rule of thumb. Your advisor will work with you to develop an allocation that meets your changing needs.

UPCOMING EDUTAINMENT

As we approach the mid-term elections, we expect the political and economic rhetoric to increase—if that's possible. We are excited to be hosting Brian Wesbury, an economist who focuses on economic forecasting, on April 17th at 7 p.m. More details are in this memo, and you can make reservations through our office.

We have some other great events planned for you this year that will provide both information and entertainment. Some are listed here, and all will be on our website.

We look forward to speaking with you, your family and your friends and to being a part of your financial journey. There is never a cost or obligation to chat. Please contact us with any questions or concerns, and let us know if we can be of service. We hope you have a great spring.

Best,
Randy Carver, *RJFS Registered Principal/ President, Carver Financial Service Inc.*

IT'S TAX TIME AGAIN!

Although we recommend that you prepare your income taxes as soon as you receive all tax documents, we strongly recommend that you wait until April to file your tax return and consider filing for an extension in the event corrected documents come in at the last minute.

EXPECT REPORTING DELAYS

If you file your taxes and then delayed documents come in, you will need to file an amended return. We recommend that you use a qualified CPA for your tax preparation. Because of delayed legislation, we expect even more delays in reporting this year. Raymond James does everything it can to get information out in a timely and accurate fashion.

Because there are often last-minute corrections and delays, many companies will not mail the first round of 1099s until February this year. The first round of 1099s is expected to be sent between February 15th and 28th, 2018. What the IRS terms "delayed 1099s" will not be sent until March 14th.

All tax documents will be available via our Investor Access online system as soon as they are generated. You may also give your CPA access to these electronic documents by setting up Third-Party Investor Access. Our assistants can help you set up Investor Access and third-party access if you wish to do so.

Last tax season, the mailing of many 1099s was delayed. Raymond James' first mailing of original 1099 tax forms occurred on February 15th, and all original 1099s with cost-basis-related activity were delayed until March 15th. These delays affected many clients. To avoid this inconvenience in 2018, Raymond James has told us they will be mailing 1099s as soon as they receive information from investment companies.

It is imperative to remember that certain investment types are prone to income reallocation. Because these reallocations frequently result in delayed or amended 1099s, the IRS grants reporting extensions for clients who hold these types of investments.

FORMS YOU MIGHT RECEIVE

The types of tax forms you receive will depend on the types of investments and income you have. Please note the following:

• Widely Held Fixed Investment Trusts (WHFITs) — Under the IRS definition, the affected market segments include Unit Investment Trusts (UITs), Royalty Trusts, Commodity Trusts and Mortgage Pools such as Fannie Mae. Trustees and middlemen of WHFITs are required to report all items of gross income and proceeds on the appropriate Form 1099. The reporting deadline for these items is March 16th, so you may receive a delayed 1099 (early April) if you own these types of investments.

• 1099-B — If you receive a 1099-B ("Proceeds from Broker and Barter Exchange Transactions"), please keep in mind that you are responsible for reporting the gain or loss on what you sold, not the entire amount. This means that you are responsible for the difference between what you originally paid for an asset and what you sold it for. We will provide cost-basis information on holdings that we have the data for. If you have transferred an asset or cost basis is not showing on your statement, please call our office.

• W-9 — You might receive a W-9 form from your mutual fund and/or annuity companies. These are used to confirm and/or update your Social Security number. If you receive a W-9, you simply need to fill in your Social Security number, sign the form and return to the vendor. These are mailed as a matter of routine every few years.

• Nontaxable transactions — You might receive a 1099 for nontaxable transactions such as an IRA rollover or 1035 exchange of an annuity. A 1035 exchange is reported as Code 6 in box 7, a direct rollover to an IRA is reported as code G in box 7, and a direct rollover to a qualified plan or TSA is reported as Code H in box 7. Receiving one of these 1099s does not necessarily mean you owe taxes, but you should follow the IRS instructions carefully for reporting this type of transaction.

• K-1 forms — Schedule K-1 forms ("Partner's Share of Income, Deductions, Credits, etc.) are issued by partnerships, S-corporations, trusts and estates to report a taxpayer's prorated share of net income or loss from the entity, along with various separately stated income and deduction items. By law, these forms must be sent by the first March 15th following the close of the partnership's tax year. Therefore, you might not receive your K-1 until late March or even the first week of April.

WORK WITH A CPA TO ENSURE ACCURATE RETURNS

If you have a question about your tax documents, please give us a call. Tax laws are very complex. Extreme care must be used in reporting accurate tax information. Both our office and the Raymond James 1099 Tax Reporting Department can answer many of your questions; however, we are not accountants and cannot provide specific tax or legal advice. We can recommend a qualified Certified Public Account (CPA) if you need assistance in preparing your taxes.

You can also get answers to many of your questions by reading free IRS Publications. You can obtain copies by calling 1-800-TAX-FORM (1-800-829-3676) or by visiting the IRS website at www.irs.gov, where you can also print tax forms.

The bottom line is that it is important to file accurate and complete tax returns. For this reason, we recommend that you work with a tax professional. It is also important to note that the IRS never demands payment or personal information over the phone or by credit card. If you receive such a phone call, it is most likely a scam. The IRS will contact you in writing if there are any questions or issues.

DID YOU KNOW?

• The amount of individual uncollected tax revenue (i.e., from Form 1040s) was estimated to be $458 billion in 2016.

• Twice in the past two decades, the IRS has outsourced tax-collection efforts to private contractors, and both times, the Treasury Department paid more money than it received in overdue taxes. The last time, starting in 2006, congressional tax analysts predicted that the companies could collect as much as $4.8 billion over a decade. The IRS eliminated the program three years later after losing about $4.5 million, according to a 2014 report from the Taxpayer Advocate Service, an independent organization within the IRS.

• Despite those losses, though, beginning in May 2017, four debt-collection companies the IRS hired to collect taxes were allowed to keep about 25 percent of the money they recover for the government. The IRS also gets 25 percent, while the rest goes to the Treasury Department.

1 . Charles S. Clark, "Uncollected Taxes Now Total $58 Billion, IRS Estimates," Government Executive, April 29, 2016, http://www.govexec.com/management/2016/04/uncollected-taxes-now-total-458-billion-irs-estimates/127916/.
2 . Alex Richards and Brad Wolverton, "Owe Back Taxes? Collection Agencies May Have Your Number," CBS News, April 17, 2017, https://www.cbsnews.com/news/owe-back-taxes-collection-agencies-may-have-your-number/. 3 . Ibid.

UPCOMING EVENTS

APRIL 17, 2018 | WHAT DOES IT ALL MEAN? A SPECIAL EVENING WITH BRAIN WESBURY - CHEIF ECONOMIST, FIRST TRUST ADVISORS

From Brexit, to Trump, the Italian Referendum, to the rise of a Thatcherite in France; the world is changing in massive ways. Add in activist central banks, bloated bureaucracies, and acrimonious politics – it's no wonder investors are nervous. Will the aging economic expansions stumble? Will the bull market in U.S. stocks continue? Are inflation and rising interest rates in the cards? Brian Wesbury promises to cut through the noise to provide a solid, actionable game plan for investors in the years ahead. Wesbury called the bull market in U.S. stocks starting in 2009. He's ready to tell you where he thinks they will go from here. Back by popular demand please join us for this exclusive event.

TIME- 7:00 pm | **PLACE- LA MALFA CONFERENCE CENTER -** Heisley Rd., Mentor, OH

MAY 15, 2018 | TRANSITION TO RETIREMENT A TOWN HALL MEETING

Many people spend more time planning their next vacation than their retirement. Save the date for this informative town hall meeting to learn about how to plan and make the transition to retirement. The Carver team will present and answer questions.

TIME- 7:00 pm | **PLACE- LA MALFA CONFERENCE CENTER -** Heisley Rd., Mentor, OH

JUNE 18, 2018 | 21ST ANNUAL CHARITY GOLF EVENT - TIM GROVES MEMORIAL CLASSIC

Join us at the scenic Fowlers Mill Golf Course located in Geauga County in Chesterland. Fowlers Mill was recently ranked by Golf Digest (2011) as the 2nd Best Public Course in the State of Ohio and 16th Best Course Overall. 100% of net proceeds from this event benefit charity.

TIME- 11:00am *Shotgun Start* | **PLACE- FOWLERS MILL GOLF COURSE -** 13095 Rockhaven Rd., Chesterland, OH 44026

WHAT DOES IT ALL MEAN?

A SPECIAL EVENING WITH BRIAN WESBURY- CHEIF ECONOMIST, FIRST TRUST ADVISORS

CARVER FINANCIAL SERVICES INC. INVITES YOU TO AN EVENING WITH BRIAN WESBURY

To reserve space contact out office at **(440) 974-0808** or email: **carverfinancialservices@raymondjames.com.**

DATE | APRIL 17, 2018

TIME | 7:00PM

PLACE | LAMALFA CENTRE

HEISLEY RD., MENTOR, OH

2019 GREATER KRUGER NATIONAL PARK & VICTORIA FALLS

We Hope you will join us for this amazing experience!

MARCH 2ND - 9TH, 2019

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 2019 experience is just such a trip. Limited to only 48 people you will enjoy a five-star South Africa experience including visits to Johannesburg, Victoria Falls and Krueger National Park. As always, our travel coordinators can provide custom pre- and post- trip extensions to make this your trip. We hope that you, your family and your friends will be able to join us for this amazing experience. The trip is open to clients and non-clients alike. Please note that due to the very small group size this trip will sell out quickly. Please contact our travel coordinator as soon as possible to reserve space or with any questions. Reservations will be taken on a first come first served basis. As always please contact me or our team if we can be of service.

CONTACT >>> SUE CHRISTENSEN | (503) 588- 9077 **EMAIL |** travelagentsue69@gmail.com

Once reservation is made, online payments can be made at: www.africaanswers.com/pay
* Please use reference reservation number 24212 * TRAVEL INSURANCE IS STRONGLY RECOMMENDED

TO GET THE BEST ADVICE, TELL YOUR ADVISOR ABOUT ALL YOUR ACCOUNTS

We want to ensure that your financial health is the best it can be, just as your doctors want to ensure your optimum physical health. To treat you safely and effectively, your medical team needs to know about your medical condition, your concerns and all the medications you are taking. The advice and medication they give you must take those facts into consideration. While you may see different doctors for different conditions it is important that they all understand all medications you are taking and conditions you are experiencing to best help you and to avoid a bad drug interaction

Similarly, we need to know all aspects of your investment planning, including but not limited to your debt, savings, insurance and all investment accounts you might have in various places. Without an accurate picture of all your holdings, your financial advisors cannot give you the best advice.

If you have holdings elsewhere, you do not need to move or change the accounts; simply let your advisor know about them so he or she can provide insight into what you have and do more holistic planning. To provide you with a customized solution, we need to know your full financial situation.

Do you have friends or family members who are not clients of ours but who would like a second opinion on their portfolios? Please feel free to refer them to us. We are happy to review portfolios without cost or obligation.

Many people have accounts in various places and aren't sure what their true financial situation is, so they don't know how to optimize their financial situations. Others have never consulted a financial advisor to find out about how they might increase their returns or minimize their tax burden.

SHOULD I CONSOLIDATE?

A few times throughout the year, we still hear the question, "Is it safe to keep all my assets with one company, such as Raymond James?" The underlying concern seems to be that if Raymond James were to go out of business, all your investments could disappear with it.

We understand this natural concern; however, it is important to remember that Raymond James doesn't generally hold the investments that are in your account. The investments are held at the issuing company, and Raymond James simply consolidates the record keeping within one convenient platform on which you can view your holdings.

Consolidating your investments with one firm may be very advantageous for you. Here are just some of the advantages:

1. **Simplified record keeping and tax reporting** — You will receive a single, consolidated 1099 at year end rather than tax reports from different firms. Our online Investor Access service will also allow you to authorize your tax preparer to review and monitor all tax information in real time. Consolidated account statements save you time. They give you a complete and accurate view of your entire portfolio via one hard-copy statement and/or electronic access, which is much easier than accessing records from many different sources.

2. **Better advice** — By analysing your entire portfolio, your advisor can likely provide more comprehensive investment, estate planning, and tax-management recommendations. Access to the full portfolio also allows your advisor to monitor the underlying holdings within the various funds you own, which can reduce investment overlap, concentration and redundancies.

3. **Lower fees** — Larger consolidated balances can qualify you for lower management and advisory fees based on household relationship size.

4. **Easier legacy planning** — A consolidated account can simplify your estate planning, monitoring and ultimately the transfer of assets to your heirs.

Please note there may be some assets we may be unable to transfer, such as your current employer's 401(k) and/or 403(b) or a private placement investment. It is still important for you to discuss these with your financial advisor so that we can make the best recommendations possible based on your overall situation.

It's similar to a visit to your doctor — you provide him or her with an updated list of the medications you're on so that he or she doesn't run the risk of prescribing you something new that may have an adverse reaction with your current medications. If your doctor doesn't have a full understanding of your situation because you are getting medications prescribed from many different sources, he or she cannot help you effectively. Please contact your advisor to discuss consolidating accounts and/or for a second opinion on any outside holdings.

RETIREMENT THOUGHTS & ALLOCATION

By Raj Chatterjee, Financial Advisor, Carver Financial Services Inc.

As we get older and think about retirement, a plethora of thoughts go through our minds: *Can I afford to retire? What will I do with my time? Do I have enough money to last?*

For most of their adult lives, individuals are working — producing income to maintain a particular lifestyle to provide for their families and trying their best to save. As retirement nears and individuals go from the accumulation phase to the income phase, thoughts of market risk, investments and spending often bring on anxiety. People often think that once they are retired, they need to be investing in 100 percent conservative investments. Is that the case? Is there a magic formula for how a 66-year-old individual should invest his or her money?

FIRST, FOCUS ON WHAT'S MOST IMPORTANT TO YOU

Investing has many nuances, and identifying what is important to you should be the main focus. When looking at any given allocation, it is important to consider the underlying assets as opposed to the broader view. When crafting an investment allocation, there is not just one answer. Also, an 80 percent equity and 20 percent fixed-income portfolio might be more conservative than a 70 percent equity portfolio and a 30 percent fixed-income portfolio, depending on what's in the portfolio. Determining the correct allocation for you depends on what your needs are and on what the underlying investments are.

CONSIDER DURATION IN YOUR UNDERLYING INVESTMENTS

The underlying investments is what makes or breaks a portfolio's return. As mentioned, an 80/20 portfolio could be more conservative than a 70/30 portfolio. How is that possible if conventional wisdom says bonds are safer than stocks?

Today, we are at historically low interest rates. At some point, rates might increase. When this occurs, investors will see downward pressure on the price of bonds. So how does a retiree with investments in fixed income work through this? The first step is to determine what types of fixed income you should hold in a rising-interest-rate environment. What has historically done well?

When interest rates are rising, "duration" is a major aspect to consider. Duration is a way of measuring how much bond prices are likely to change if and when interest rates move. It is essentially a measure of interest-rate risk. Duration is measured in years. As a general rule, for every 1 percent increase or decrease in interest rates, the bond price will change by approximately 1 percent in the opposite direction.

Many diversified portfolios have fixed income that consists of short-term, intermediate, term and long-term bonds. One e risk we see is that people buy longer term, or lower quality bonds, trying to get higher yields but exposing themselves to more risk.

BALANCE INTEREST RATE WITH RISK

The mistake many investors make is chasing a higher interest rate without the thought of risk. A short-term bond with a yield of 2.5 percent versus a long-term bond with a yield of 5 percent is a perfect example. Many investors will seek the higher-yielding security but do not see the inherent risk.

Using this example, let's say the short-term bond has a duration of two years, and the long-term bond has a duration of eight years. If rates rise by 1 percent, the short-term bond price will fall by roughly 2 percent, and the longer-term bond will fall by roughly 8 percent. The total return of the short-term bond would be 0.50 percent (2.5 percent yield minus 2 percent decline). The longer-term bond fund would have a total return of –3 percent, (5 percent yield minus 8 percent decline). While people think they are getting a better yield, the total return is what investors see in their pockets. The longer-term bond has more risk to the total return.

As rates rise, having shorter-term and shorter-duration fixed income is key to navigating a rising-interest-rate environment. A portfolio of 80/20 with all short-term fixed income can be less risky than a 70/30 portfolio that has longer-term fixed income and is being used to enhance yield. We belive that investing in shorter-duration fixed income, senior bank loans and convertibles can be an effective way to navigate the current fixed-income environment.

The same consideration applies to the equity (stock) side of a portfolio. An 80 percent equity portfolio made up of diversified companies may be more conservative than a 50 percent equity allocation made up of just emerging-market securities.

We develop customized asset allocations based on your personal needs, objectives and risk tolerance and with a view of the broader markets. We work to reallocate your portfolio on a proactive basis based on changes to your situation which take into consideration the current interest rate and equity market conditions. ***Please contact us with questions or whenever we can otherwise be of service.***

FOCUS ON YOUR GOALS - NOT BEATING THE S&P

The Standard & Poor's 500 index, or S&P 500, is a leading indicator of U.S. equities and is meant to reflect the risk/return characteristics of the large-cap equities universe. The question of why someone is not beating the S&P index generally comes up when the markets have continued to move higher, which is what we experienced in 2017.

MAYBE THAT'S THE WRONG QUESTION

There are many answers to that question, which we get into below. But is this is even the right question to ask? A better question might be, is your goal to beat the index or to maintain your lifestyle and standard of living? Is your goal to beat the index mathematically or to accumulate real wealth? Are you happy making more than the S&P when it's going up but potentially losing more when it goes down?

We believe a broadly diversified portfolio can provide a potentially greater level of return for any given level of volatility than a single asset class like the S&P 500 can over meaningful periods of time. Historical facts support this idea. When markets do well (or poorly) over one or two years, that is not indicative of long-term performance. Also, we believe that a portfolio must be designed to meet both your near-term and long-term income and growth needs — not just to earn a given rate of return.

So how long is "long term"? James Glassman, a Kiplinger columnist, says, "When you purchase a stock, you should think of yourself as a partner in the business forever — or until you need the cash. But forever, or even 30 years, is way out on the dim horizon. A more manageable view might be 15 years. If you invest $10,000 today in a stock that returns an average of 12 percent per year (a return that is 2 percentage points higher than the historic long-term return of S&P's 500 stock index), you'll end up with about $55,000." [1]

A DIVERSIFIED PORTFOLIO CAN OUTPERFORM LARGE-CAP EQUITIES ALONE

The S&P index has been one of the strongest-performing asset classes recently. Therefore, if someone has a diversified portfolio, they are likely making slightly less than they would if they invested only in large-cap equities. On the other hand, when the S&P has gone down in the past, the diversified portfolio has likely outperformed large-cap equities and provided continued income to maintain investors' standards of living.

It is also important to consider what your net income is for tax purposes. A properly managed portfolio can help mitigate income tax issues, whereas simply buying an index proxy (like an S&P index fund) cannot.

FOCUS ON YOUR PERSONAL NEEDS, NOT ON INDEXES

We view a portfolio as a tool for helping you maintain and enhance your standard of living. So we are looking at maintaining the income you need over time, regardless of what the broader markets, including the S&P 500, do. We are also looking at returns over longer periods, which will include negative markets. November 2017 was the 13th consecutive "up" month, the best run for the S&P 500 since it ran off 15 straight months of gains from March 1958 through May 1959.[2] While we are optimistic about the longer-term trend of the markets, there will be corrections, and we want to make sure these don't impact your income or lifestyle.

With our practice the allocation of your portfolio is based on your needs, risk tolerance, tax situation and long-term goals. A portfolio that is just in the S & P 500 can be more volatile than a more broadly diversified portfolio, provide less income and may have negative tax consequences.

In the 70 years from 1947 to 2016, the S&P 500 had 27 declines of at least 10 percent but less than 20 percent, or once every 2.6 years. In the same 70-year period, the S&P 500 had 11 declines of at least 20 percent, or once every 6.4 years. The last "10 percent correction" for the S&P 500 was a 13.3 percent drop over the three months that ended on February 11, 2016. The last "20 percent or more bear" for the S&P 500 was a 56.8 percent drop over the 17 months that ended on March 9, 2009 (source: Yahoo! Finance).

We believe it is not what you make that is important, but what you keep net of taxes, fees and expenses. The S&P does not take these numbers into consideration.. If you earn 10 percent and the S P earns 12 percent, you may still be beating the S&P if you are in a 25 percent tax bracket. You cannot invest directly in the S&P index; you must invest in an investment that tracks it. Index funds and other proxies may have funds and expenses not reflected in the index itself. This adds additional expense and may have negative tax consequences.

COME TO THE CARVER TEAM FOR CUSTOM ALLOCATION

So why would someone maintain a portfolio lagging the S&P? Most likely because it's not designed to beat the S&P Index — nor should it be. Unlike many practices, we do not use models. Instead we custom-allocate your portfolio based on your income needs, risk tolerance, tax situation and myriad other factors. Moreover, the portfolio is just one tool that can help you achieve your personal goals and vision. When the broader markets are doing well, it's natural to compare your returns to the best index, but it's not the best way to judge how you are doing and how you are positioned for the future.

Please contact us, without cost or obligation, to discuss your personal vision and how we can help you achieve it:

Randy.carver@raymondjames.com or (440) 974-0808

1 . James K. Glassman, "7 Stocks to Buy and Hold for the Next 15 Years," Kiplinger, October 2014, https://www.kiplinger.com/article/investing/T052-C016-S002-7-stocks-to-buy-and-hold-for-the-next-15-years.html.

2 . Victor Haghani and James White, "The Message in the S&P 500's 12-Month Winning Streak," Bloomberg L.P., November 14, 2017, https://www.bloomberg.com/view/articles/2017-11-14/this-stock-rally-really-is-improbable.