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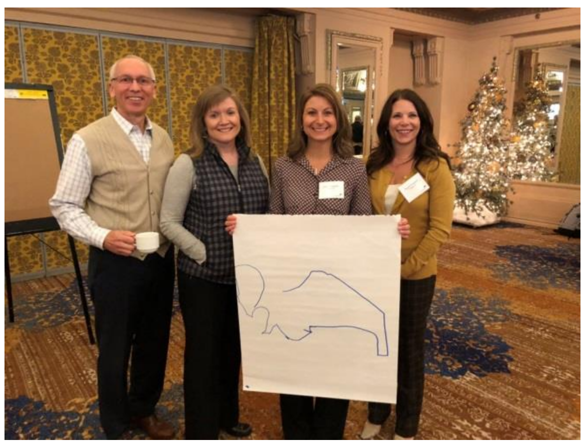
The Strength of Advice®

4th Quarter 2017 Update

*** New Year, Similar Challenges***

Happy New Year! It was a good year for investors, pretty much across the board. Our cash balances (which we hold as protection against high stock/bond valuations) proved to be unnecessary as stock prices moved surprisingly higher throughout the year, virtually uninterrupted.



Our team wrapped up 2017 with a brief visit to Seattle where this photo was taken. We were invited to participate in a workshop with several other D.A. Davidson teams from around the country. We shared ideas for improving our advisory practices and became better acquainted with the resources we have available at Davidson. I was thinking about this picture recently while reading all the customary beginning of the year market predictions from those with well reasoned, smart sounding forecasts, on what to expect in 2018. Isn't it remarkable that year after year our predictions rarely pan out and yet we can't help believing (hoping) that someone somewhere might have an unclouded crystal ball. Of course it's difficult to have any sort of coherent long term investment strategy if you're constantly reacting to what others are recommending. We've found that more information is not always best when it comes to making sound decisions. Which brings me to the above photo. In case you didn't recognize it, the drawing we are holding up is actually our attempt at the firm's Bison logo. Susan was the artist, but she was blindfolded and instructed by the rest of us (Kelli & Jennifer say mostly by me) on where to move her pen. And voila, bison drawing by committee! A good example of too much input by too many. Something I suppose our wise mothers figured out long ago, regarding the number of cooks in the kitchen. Jane Pauley was recently in Omaha interviewing Warren Buffet over lunch at Don & Millie's when they briefly touched on this very subject. "I tell the students, if you've got 150 IQ and you're in my business go sell 20 or 30 points to somebody else, because you really don't need it. What you need is emotional stability. You need to be able to detach yourself from the fear and greed that prevails in the markets. You've gotta be able to come to your own opinions and ignore other people."

So as we enter 2018 we will try to keep our focus on your unique financial (and life) circumstances and to occasionally adjust your portfolio so as to give you a reasonably good chance for financial security and peace of mind. We won't ignore all "other people" but we will be selective in who and what inputs we use to influence our decisions. And who knows, if successful, you might one day be able to afford a signed print from Susan!

Tax Simplification…An Oxymoron?

We often feel like busy elves in the D.A. Davidson workshop as each year comes to a close and 2017 was no exception! In addition to our regular tasks and deadlines, trying to track and follow the unfolding tax bill posed extraordinary challenges. The new law is wide reaching and will likely impact us and many of our clients. We think the reduction in corporate tax rates will initially benefit shareholders. We also found these provisions[1] especially interesting and less known:

1. <u>529 College Savings Plans.</u> Many of our clients have these accounts for their children or grandchildren. I also have a 529 account for each of my two children. Traditionally, these accounts allow families to save for college in a tax-free account. Depending on your state, there's typically a state income tax deduction for contributions and the withdrawals are tax-free if used for "qualified higher education" expenses (i.e. four-year colleges and universities, community colleges, technical schools or graduate programs). *Beginning with the 2018 tax year under federal law, account owners can use assets to pay for K-12 tuition at public, private and parochial schools up to $10,000 per year, per beneficiary.* In other words, account owners can treat K-12 withdrawals for tuition as qualified expenses, which means that earnings on the withdrawals will not be subject to federal tax or a 10% penalty. If you think this might fit your situation, let's visit about it at our next meeting or please give us a call.

2. <u>Federal Estate Tax.</u> The vast majority of Americans will not pay federal estate tax at their death and the recent tax law increases that vastness. In 2017, each person could transfer $5,490,000 free from federal estate tax. In 2018, that amount increased to $11,200,000! For those of our clients in-between or close to that range, we think it makes sense to continue your good planning with the estate plan attorneys because that amount is a moving target that can go up or down.

3. <u>Real Estate Deductions.</u> Homeowners have been able to deduct interest on their mortgages, home-equity loans and property taxes, but the new tax law makes several changes. First, it limits the mortgage interest deduction up to $750,000 of loan balances. Most people have home loans less than this threshold, so the change probably won't impact the majority. Also, home equity loans for purchases like cars, vacations, etc. are no longer deductible. So if you have been undecided whether to pay off any home equity loans, let's discuss at our next

meeting or give us a call. Lastly, the deduction for state and local taxes (including property tax and state income tax) is capped at $10,000. This is the reason why you or someone you know might have been advised to pay their property taxes (otherwise due in 2018) by December 31, 2017.

4. <u>Charitable Deductions.</u> Under the new law, taxpayers CAN continue to deduct their charitable contributions, but many won't use the deduction. This is because the Standard Deduction nearly doubled to $24,000 for married couples filing jointly and $12,000 for single filers. I wonder how this will affect charitable organizations? Here's a simple example: A married couple makes a $10,000 donation to a public charity in 2018, they have other deductions (i.e. mortgage interest, real estate taxes and some state income tax) that total $10,000. Since their total deduction of $20,000 is less than the $24,000 Standard Deduction, their tax outcome is the same even if they hadn't donated anything to charity. For those of you that typically donate to charity and also have to take a Required Minimum Distribution (RMD) from your IRAs (because you are at least 70 ½ years young), you may want to ask your tax return preparer if you should donate all or part of your RMD directly to charity instead of using cash or appreciated securities.

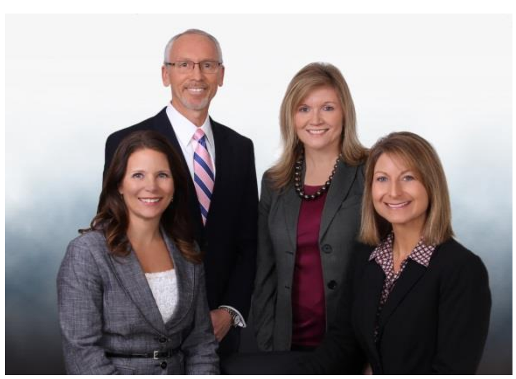
While there are many aspects of this new tax law and everyone's tax situation is different, this list is only intended to start conversations with your trusted advisors.

We'll continue to be understudies of the ever-changing rules and busy elves as each year comes to an end. The new tax law is set to sunset and revert back to pre-existing law after 2025, so we're already looking forward to the hussle, bussle and confusion leading up to that year-end!

Susan

[1] Tax Cuts and Jobs Act

D.A. Davidson does not provide tax or legal advice. Please consult with your tax and/or legal professional for guidance on your specific situation.



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