Blue Bell
PRIVATE WEALTH MANAGEMENT

SUMMER NEWSLETTER 2018

Tuning Out the Noise

In our last newsletter, I wrote about what moves the stock markets. My conclusion was simple, if there are more sellers demanding higher prices, the market goes up. Conversely, when we have more buyers demanding lower prices, the market will fall. The first six months of the year seemed to have lots of both, especially when measured by the Dow Jones Industrial Average (-1.10%) and the S&P 500 (+1.67%) as of the close on June 29th.

Naturally while the number of buyers versus sellers is the most straightforward explanation for equity price movement there are several factors that influence the aggregate number of buyers versus sellers including: corporate earnings, projected economic growth, interest rates, inflation, wage growth, politics, emotions, confidence, employment, to name a few.

Let's examine several of these factors. Recently the economy has been growing at an unprecedented rate and continues to accelerate. Employment is at an all-time high and the unemployment rate is at its lowest levels in 50 years. Wages are rising, albeit slowly, as is inflation. Interest rates are also rising but at a rather moderate pace. Corporate share buybacks continue and dividend payouts are rising. In addition, corporations are investing for the future once again. US real GDP growth is also at its highest level in 10 years. All of these factors seem very promising for stock market investments. Yet, when you consider recent performance of the Dow Jones and S&P 500, we see muted results. A contradiction? Perhaps or maybe some of the gains were accelerated into the previous year which is not uncommon and another reason to rethink market timing.

It has been a full six years or so since the US stock market has lagged corporate earnings growth. While earnings estimates for 2018 predict a 20.10% year over year growth, our markets are still only slightly positive. There are many reasons why this is happening, but it seems that unless earnings estimates are way over-exaggerated equities remain attractive versus many of the alternatives. So what gives? Is it Fed tightening, lack of confidence in our leaders, a growing economy (which some predict to be unsustainable), daily negative headlines, immigration policy, rising energy prices, unnerving 200 to 300 point swings in the Dow almost weekly, Government debt, the upcoming elections or the absolutely horrible performance from the rest of the world?

It seems it is the pending trade wars dominating the headlines, causing havoc, not only in the United States but around the world. As a result, Asia, Latin America, Emerging Markets and European markets have all recently suffered. Is this the Black Swan event which will change the direction of the world economy? Both the EU and China have warned of a global recession should actual trade wars occur. Currently, we are enjoying one of the longest bull markets in history with very few 10% or greater pull-backs. No wonder more and more professionals continue to predict a significant correction adding to the volatility in our markets.

Yes, the fears of many are certainly worth keeping in mind. Yet, I have still not met anyone whom I can confirm has been able to “time the stock market” over the long term. With this in mind, what investments are there which provide better safety with acceptable returns. I can’t think of one industry which works in the long run that is not affected by the economy and market cycles. There are many very successful investors who have taken a long-term view without succumbing to the emotional highs and lows which effect so many investors. Emotional decisions in the stock market yield unreliable results.

Similar to modern portfolio theory, we use various asset classes to construct our portfolio. It may be worth reviewing our structured investments which are tied to a specific index and provide a 10% cushion in falling markets with frequent maturities that can capture the upside. We believe these investments help calm investor fears and keep investors on track. A ladder approach allows us to continue to monitor the markets and make decisions based on current facts.

Closed-end funds are rather predictable in that many produce above-average returns in a bull market yet see discounts widen in bear markets. When bear markets occur, they are better buys and yet only educated investors totally understand this apparent contradiction. Discounts are at their highest in a bear market and are at their lowest in a bull market. Buying low and selling high allows us to effectively manage both markets. ETFs with covered call options will certainly provide one of the best returns in a flat market, outperform in a down market and continue to produce acceptable returns in a higher market. This approach, like structured products, will underperform in rapidly rising markets. Our approach is intended to outperform in a flat or down market with acceptable returns in up markets. After all is said and done, we expect higher returns for the rest of the year and continue our positive stance using the aforementioned downside protection.

To review your account activity, to better understand our approach, or update us on your current financial position, please contact us to make an appointment for a face to face meeting. As always we appreciate the confidence you place in us and hope to continue positive returns in the future.

Charitable Donations: Consider Gifting Your RMD

The Tax Cuts and Jobs Act of 2017 that passed through the Senate and House of Representatives this past December will have a wide range of effects on taxpayers. The new tax law is nearly doubling the standard deduction to $12,000 for single filers, $18,000 for heads of households and $24,000 for married couples that file jointly. On top of this, taxpayers 65 and older can claim an extra standard deduction of $1,600 if filing single and $2,600 for married couples who are both at least 65 and filing jointly. With the increase in standard deduction and decrease in many itemized deductions, it will often be less beneficial to itemize deductions; however, there are still ways to benefit from charitable contributions, which have historically been itemized. For taxpayers over 70.5 who must take required minimum distributions each year, donating directly from your IRA account to charity will decrease your overall adjusted gross income as well as satisfy a percentage or all of your required minimum distribution. Without the benefits of itemizing deductions, it is important to understand how charitable giving can still benefit you.

For those who currently itemize deductions, this new tax law increases the standard deduction but also places limits on the amount that can be deducted for State and Local Taxes (SALT). There are also limits on interest deductions for homeowners with a mortgage—both of which are itemized. Because of these new laws, the nonpartisan Tax Policy Center estimates that the number of taxpayers that itemize deductions will fall 75% for a total of 5% of all tax returns. Even if you continue to itemize deductions, it is likely that a direct gift of your RMD will prove more beneficial than donating non-appreciated assets, such as cash, to charities.

In the year that you turn 70.5, you must begin taking a Required Minimum Distribution (RMD) from each of your IRA accounts. You can gift your RMD or a portion of your RMD tax-free after you reach this age, which affords you the chance to take advantage of the change in tax code. For those who like to donate a part of their income to charity on an annual basis, you can donate the money tax-free directly through your IRA account and have this count as a portion of your RMD for the year. An individual can transfer up to $100,000 to qualified (501(c)(3)) charities tax-free each year—even if this is more than your RMD—and if you file a joint tax return, each person is able to transfer up to this amount.

As a result of the new tax code, less taxpayers will itemize deductions because it will not make sense to do so. However donating your RMD or a portion of it directly to a qualified charity will continue to benefit tax payers in two significant ways. First, you don't need to itemize your deductions to get a tax benefit from any charitable RMD gifts which in turn saves you time and money. It simplifies the process for you as you can take the standardized deduction instead of following the tedious process of itemizing all contributions you have made throughout the year. Second, the direct contributions to charity serve to keep this money out of your adjusted gross income. If you were to take the money out directly and then gift it to charity, it would be factored into your adjusted gross income which could potentially place you into a higher tax bracket, make more of your social security benefits taxable, and increase your Medicare surcharge.

Taking a qualified charitable distribution is only available through IRAs and to individuals who have reached RMD age, yet these distributions both count toward your RMD requirement and reduce the taxable amount of your IRA distribution—resulting in lower overall tax liability. To see how this may affect you, let's look at an example:

> Under pre-2018 tax code, a 72-year old couple filing jointly has an Adjusted Gross Income of $80,000 and pays $2,456 in state income tax, $5,000 in property tax, and $10,000 in charitable gifts would typically itemize deductions. This couple's total itemized deductions equal $17,456 while the standard deduction that they would receive would only be $12,700. Because itemized deductions are more than $4,500 greater than the standard deduction, there would be no reason not to itemize.
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> Under the new tax code, with taxable income, state income tax, property tax, and the charitable gift amount staying the same, the deduction for state and local taxes (both income and property combined) is capped at $10,000. The itemized deductions that this couple could receive stays at $17,456 while the standard deduction is now at $26,600. The new tax code makes the standard deduction much more attractive to the couple and they would take this standard deduction.

This example not only demonstrates how the standard deduction is often larger than itemized deductions, but this doesn't even factor in gifting the charitable contributions from your IRA. Gifting from your RMD would not only lower the itemized deductions, but it would serve to lower your adjusted gross income and provide even more benefits. Continuing with this example:

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Tax Code	Adjusted Growth Income	Tax Bracket	Federal Income Tax	Property Tax	Charitable Contributions	Itemized Deductions	Standard Deduction
Pre-2018	$80,000	22%	$17,600	$5,000	$10,000	$17,456	$12,700
2018	$70,000	12%	$8,400	$5,000	$10,000	$17,456	$26,600

If this couple gifted the $10,000 donation to charity directly from their IRA, their adjusted gross income will decrease from $80,000 down to $70,000 which pushes them from the 22% federal tax bracket to the 12% federal tax bracket. This will save them $9,200 in federal income taxes and still allow them to take the standard deduction that has increased.

Making a QCD is as easy as contacting the charity of your choice to see who the check should be made payable to and then contacting us. We will guide you through the process to ensure that the QCD is handled properly. We even have the ability to issue a checkbook linked to your IRA account for the sole purpose of making QCD donations. Be sure to obtain the acknowledgement from the charity stating the amount of the donation after you send it and remember, it must be a charity that qualifies for a charitable income tax deduction of an individual.

Three Things to Consider About Credit Card Debt

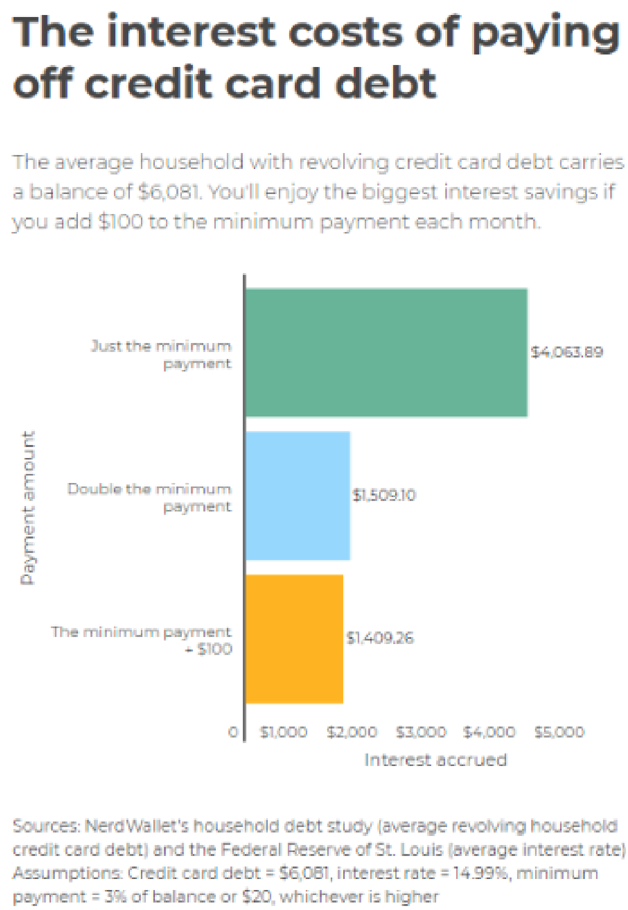
Credit card debt is on the rise; as of 2017 nearly half of Americans have been carrying a credit card balance for two or more years. The average household carries revolving debt of $6,081 and makes minimum payments when the bill comes.

Carrying credit card debt for long periods can have costly implications on your finances over the long term. Here are some things to consider:

1.) Minimum Payments = Maximum Costs

Credit Card Companies do not offer the ability to make minimum payments out of kindness. They bank on you making minimum payments so they are able to collect interest payments for a longer period of time. The chart to the right is from Nerd Wallet and shows the interest costs when paying the minimum.

With the national average of 14.90% APR credit card debt can rake up incredible amounts of interest when making minimum payments. As you can see, doubling the minimum monthly payment will save you $2,554 in interest. If you were to make just the minimum payment on the balance, it would take you 169 months to pay it off in full. Doubling the minimum payment will bring that down to 65 months, saving you nearly 9 years of payments.



2.) Credit Score Issues

30% of your credit score is made up of how much debt you carry in relation to your credit limits. Carrying too much debt could negatively affect your credit score which in turn could affect your ability to borrow and the rates you borrow at.

3.) Debt Is Borrowing From Your Future Income

Credit Card Debt can be detrimental when preparing for retirement. Paying interest on debt diverts cash away from your investments causing you to miss out on that money and its growth in the future. So every time you forego a 401k or IRA contribution for a credit card payment, you are negatively affecting your future.

Scott Miller Sr.
Partner
jsmiller@bluebellpwm.com

Scott Miller Jr.
Partner
smiller@bluebellpwm.com

Justin Capetola
Partner
jcapetola@bluebellpwm.com

Jon Sobotkin
Partner
jsobotkin@bluebellpwm.com

Miguel Biamon
Senior Investment Advisor
mbiamon@bluebellpwm.com

Hank Fox
Investment Advisor Representative
hfox@bluebellpwm.com

Jim Behr
Investment Advisor Representative
jbehr@bluebellpwm.com

Tom Monzo
Associate
tmonzo@bluebellpwm.com

Bonnie Indelicarto
Executive Assistant
bindelicarto@bluebellpwm.com

Alex LaRosa
Associate
alarosa@bluebellpwm.com

Maureen Dever
Assistant

Dana Turner
Intern
Saint Joseph's University

Chris Zion
Intern
University of Virginia

Contact Us

Blue Bell Executive Campus,
Suite 305
470 Norristown Road
Blue Bell, PA 19422

Tel: 610.825.3540

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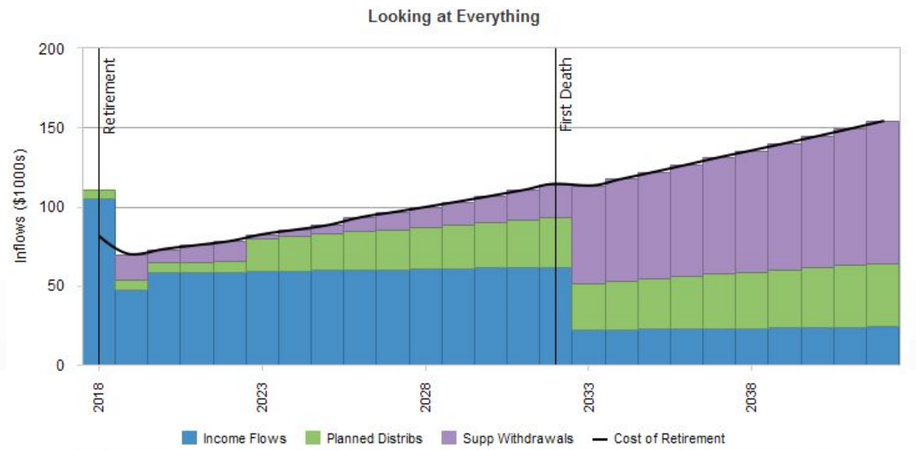

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Reminders

- If you mail a check, please make the check payable to "Charles Schwab & Co, Inc." with your account number written on the check.
- Talk to your children about the benefits of investing in a Roth IRA account.
- SAVE NOW! Please consider setting up online access to view your accounts online and to receive your statements and trade confirmations electronically.
- Mention to your friends and family about signing up for our weekly blog posts and personal weekly reads about retirement, investing and more on our website!