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The Financial Solutions Advisor

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Economic & Market Perspectives

The year 2017 was eventful, to say the least. President Trump and Congress tried, without success, to repeal the Affordable Care Act, known as Obamacare. However, the new year-end tax law included the elimination of the individual health insurance mandate. The U.S. economy started slowly but picked up steam as the year progressed. Ten years after its onset, the financial crisis officially came to an end in 2017. The gross domestic product expanded at an annual rate of 3.2% in the third quarter. The unemployment rate fell from 4.7% to 4.1%, while upwards of 2 million new jobs were added. The Federal Reserve, based on the strength of the economy and labor market, began to roll back its stimulus program and raised interest rates three times during the year. The stock market reached several historic highs in 2017. Consumer income rose and purchases increased, but inflation remained stubbornly below 2.0%. Business investment expanded in 2017 and is expected to surge in 2018. The year ended with the passage of sweeping tax reform legislation.

The Markets

•Equities: The stock market saw several benchmark indexes reach record highs throughout 2017. Strong corporate profits and a general upswing in domestic and global economic growth helped push equities to new highs. Market volatility was generally low throughout the year.

•Bonds: As stock prices soared for much of 2017 and interest rates moved incrementally higher, the demand for long-term bonds was marginal. Yields on 10-year Treasuries were volatile for the second straight year, ultimately falling below their 2016 year-end totals.

•Oil: It took almost the entire year, but oil prices began to surge at the end of 2017, reaching over $60.00 per barrel. Retail regular gasoline prices closed the year around $2.472 per gallon on December 25, about $0.163 more than a year ago.

•Interest Rates: The Fed raised interest rates three times during 2017. The first increase occurred in March, followed by a rate increase in June and another in December. Each rate increase was 25 basis points for a total rate increase of 75 basis points. The Committee forecasts three 25 basis point rate increases in 2018.

The Economy

•Employment: Overall, the U.S. labor market endured a few bumps during the year, but closed 2017 in relatively good shape. Employment growth averaged 174,000 new jobs per month in 2017, compared with an average monthly increase of 187,000 new jobs in 2016. The unemployment rate ended the year (as of November 2017) at 4.1% — lower than the 4.6% rate at the close of 2016.

•GDP: Economic growth, as measured by the gross domestic product, expanded throughout the year, increasing at an annual rate of 3.2% in the third quarter of 2017. The third-quarter annual rate of growth is the highest since the first quarter of 2015.

•Inflation/consumer spending: Inflationary trends did not keep up with economic growth in 2017. Inflation, as it relates to the consumer, remained below the Federal Reserve's stated target rate of 2.0%. Indications are that inflation is expanding, albeit at a deliberate pace.

•Housing: The housing market had been relatively strong for much of the year, although a lack of inventory may have impacted sales and prices. Through November, existing home sales are up 3.8% over a year ago.

•International markets: The global economy was relatively stable in 2017 amid low inflation and easing of accommodative monetary policies. In Europe, negotiations continued to progress, leading to Britain's exit from the European Union. Britain's economy expanded at a subdued 1.5% rate, effectively pushing its economy behind that of France in the world rankings. Eurozone inflation increased by 1.5% over a year earlier, prompting a reduction in stimulus measures including an interest rate hike. China's GDP enjoyed a 6.5% annualized growth rate.

Eye on the Year Ahead

The year 2018 is off to a rousing start, with the passage of major tax overhaul legislation that could impact consumer and business income and equities. The U.S. economy, which got off to a slow start in 2017, picked up steam throughout the year and enters 2018 in pretty good shape. The U.S. economy as well as major world economies are expected to continue to grow this year. The Fed has indicated that it expects to raise interest rates three times this year despite stubborn inflationary expansion. The housing market should continue to grow, especially if builders pick up the pace of new residential construction to add to dwindling inventory. However, political unrest continues to plague Washington, with the cloud of the Russian investigation hanging overhead as we begin 2018.

2017 Returns

S&P 500	*21.83%*
NASDAQ	*32.99%*
Russell Small Cap	*14.65%*
Russell Mid Cap	*18.52%*
MSCI EAFE	*25.03%*
MSCI World	*22.40%*
Barclay US Agg. Bond	*3.54%*
Barclay Municipal Bond	*5.45%*

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Key Retirement and Tax Numbers for 2018

Every year, the Internal Revenue Service announces cost-of-living adjustments that affect contribution limits for retirement plans, thresholds for deductions and credits, and standard deduction and personal exemption amounts. Here are a few of the key adjustments for 2018.*

Employer retirement plans

- Employees who participate in 401(k), 403(b), and most 457 plan can defer up to $18,500 in compensation in 2018 (up from $18,000 in 2017); employees age 50 and older can defer up to an additional $6,000 in 2018 (the same as in 2017).

- Employees participating in a SIMPLE retirement plan can defer up to $12,500 in 2018 (the same as in 2017), and employees age 50 and older can defer up to an additional $3,000 in 2018 (the same as in 2017).

IRAs

The limit on annual contributions to an IRA remains unchanged at $5,500 in 2018, with individuals age 50 and older able to contribute an additional $1,000. For individuals who are covered by a workplace retirement plan, the deduction for contributions to a traditional IRA is phased out for the following modified adjusted gross income (AGI) ranges:

	2017	2018
Single/head of household (HOH)	$62,000 - $72,000	$63,000 - $73,000
Married filing jointly (MFJ)	$99,000 - $119,000	$101,000 - $121,000
Married filing separately (MFS)	$0 - $10,000	$0 - $10,000

The modified AGI phaseout ranges for individuals to make contributions to a Roth IRA are:

	2017	2018
Single/HOH	$118,000 - $133,000	$120,000 - $135,000
MFJ	$186,000 - $196,000	$189,000 - $199,000
MFS	$0 - $10,000	$0 - $10,000

The 2018 phaseout range is $189,000 - $199,000 (up from $186,000 - $196,000 in 2017) when the individual making the IRA contribution is not covered by a workplace plan but is filing jointly with a spouse who is covered.

Estate and gift tax

- The annual gift tax exclusion for 2018 is $15,000, up from $14,000 in 2017.

- The gift and estate tax basic exclusion amount for 2018 is $11,200,000, up from $5,490,000 in 2017.

Personal exemption

There is no personal exemption amount for 2018; it was $4,050 in 2017. For 2018, there is no phaseout of personal exemptions or overall limit on itemized deductions once AGI exceeds certain thresholds.

For 2017, personal exemptions were phased out and itemized deductions were limited once AGI exceeded $261,500 (single), $287,650 (HOH), $313,800 (MFJ), or $156,900 (MFS).

Standard deduction

	2017	2018
Single	$6,350	$12,000
HOH	$9,350	$18,000
MFJ	$12,700	$24,000
MFS	$6,350	$12,000

The additional standard deduction amount for the blind or aged (age 65 or older) in 2018 is $1,600 (up from $1,550 in 2017) for single/HOH or $1,300 (up from $1,250 in 2017) for all other filing statuses. Special rules apply if you can be claimed as a dependent by another taxpayer.

Alternative minimum tax (AMT)

	2017	2018
Maximum AMT exemption amount		
Single/HOH	$54,300	$70,300
MFJ	$84,500	$109,400
MFS	$42,250	$54,700
Exemption phaseout threshold		
Single/HOH	$120,700	$500,000
MFJ	$160,900	$1,000,000
MFS	$80,450	$500,000
26% rate on AMTI* up to this amount, 28% rate on AMTI above this amount		
MFS	$93,900	$95,750
All others	$187,800	$191,500
*Alternative minimum taxable income		

How Much Risk Can You Take?

Many market shocks are short-lived once investors conclude the event is unlikely to cause lasting economic damage. Still, major market downturns such as the 2000 dot-com bust and the 2008-09 credit crisis are powerful reminders that we cannot control or predict exactly how, where, or when precarious situations will arise.

Market risk refers to the possibility that an investment will lose value because of a broad decline in the financial markets, which can be the result of economic or sociopolitical factors. Investors who are willing to accept more investment risk may benefit from higher returns in the good times, but they also get hit harder during the bad times. A more conservative portfolio generally means there are fewer highs, but also fewer lows.

Your portfolio's risk profile should reflect your ability to endure periods of market volatility, both financially and emotionally. Here are some questions that may help you evaluate your personal relationship with risk.

How much risk can you afford?
Your capacity for risk generally depends on your current financial position (income, assets, and expenses) as well as your age, health, future earning potential, and time horizon. Your time horizon is the length of time before you expect to tap your investment assets for specific financial goals. The more time you have to keep the money invested, the more likely it is that you can ride out the volatility associated with riskier investments. An aggressive risk profile may be appropriate if you're investing for a retirement that is many years away. However, investing for a teenager's upcoming college education may call for a conservative approach.

How much risk may be needed to meet your goals?
If you know how much money you have to invest and can estimate how much you will need in the future, then it's possible to calculate a "required return" (and a corresponding level of risk) for your investments. Older retirees who have sufficient income and assets to cover expenses for the rest of their lives may not need to expose their savings to risk. On the other hand, some risk-averse individuals may need to invest more aggressively to accumulate enough money for retirement and offset another risk: that inflation could erode the purchasing power of their assets over the long term.

How much risk are you comfortable taking?
Some people seem to be born risk-takers, whereas others are cautious by nature, but an investor's true psychological risk tolerance can be difficult to assess. Some people who describe their personality a certain way on a questionnaire may act differently when they are tested by real events.

Moreover, an investor's attitude toward risk can change over time, with experience and age. New investors may be more fearful of potential losses. Investors who have experienced the cyclical and ever-changing nature of the economy and investment performance may be more comfortable with short-term market swings.

Brace yourself
Market declines are an inevitable part of investing, but abandoning a sound investment strategy in the heat of the moment could be detrimental to your portfolio's long-term performance. One thing you can do to strengthen your mindset is to anticipate scenarios in which the value of your investments were to fall by 20% to 40%. If you become overly anxious about the possibility of such a loss, it might be helpful to reduce the level of risk in your portfolio. Otherwise, having a plan in place could help you manage your emotions when turbulent times arrive.

All investing involves risk, including the possible loss of principal, and there is no guarantee that any investment strategy will be successful.

What You Can Do With a Will

A will is often the cornerstone of an estate plan. Here are five things you can do with a will.

Distribute property as you wish
Wills enable you to leave your property to a surviving spouse, a child, other relatives, friends, a trust, a charity, or anyone you choose. There are some limits, however, on how you can distribute property using a will. For instance, your spouse may have certain rights with respect to your property, regardless of the provisions of your will.

Transfers through your will take the form of specific bequests (e.g., an heirloom, jewelry, furniture, or cash), general bequests (e.g., a percentage of your property), or a residuary bequest of what's left after your other transfers. It is generally a good practice to name backup beneficiaries just in case they are needed.

Note that certain property is not transferred by a will. For example, property you hold in joint tenancy or tenancy by the entirety passes to the surviving joint owner(s) at your death.

Nominate a guardian for your children
In many states, a will is your only means of stating who you want to act as legal guardian for your minor children if you die. You can name a personal guardian, who takes personal custody of the children, and a property guardian, who manages the children's assets. The probate court has final approval, but courts will usually approve your choice of guardian unless there are compelling reasons not to.

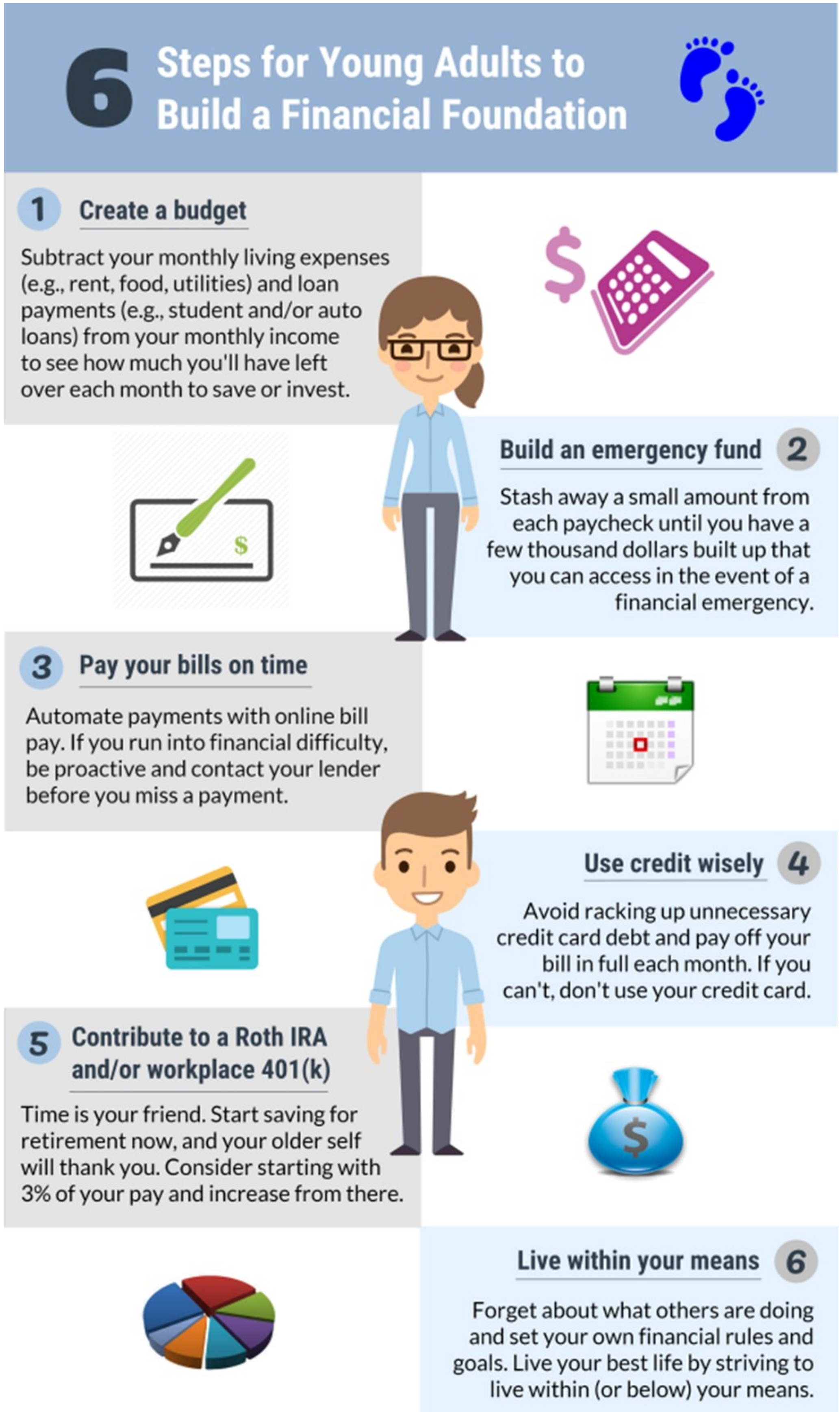
Nominate an executor
A will allows you to designate a person as your executor to act as your legal representative after your death. An executor carries out many estate settlement tasks, including locating your will, collecting your assets, paying legitimate creditor claims, paying any taxes owed by your estate, and distributing any remaining assets to your beneficiaries. As with naming a guardian, the probate court has final approval but will usually approve whomever you nominate.

Specify how to pay estate taxes
The way in which estate taxes and other expenses are divided among your heirs is generally determined by state law unless you direct otherwise in your will. To ensure that the specific bequests you make to your beneficiaries are not reduced by taxes and other expenses, you can provide in your will that these costs be paid from your residuary estate.

Create a testamentary trust or fund a living trust
You can create a trust in your will, known as a testamentary trust, that comes into being when your will is probated. Your will sets out the terms of the trust, such as who the trustee is, who the beneficiaries are, how the trust is funded, how the distributions should be made, and when the trust terminates. This can be especially important if you have a spouse or minor children who are unable to manage assets or property themselves.

A living trust is a trust that you create during your lifetime. If you have a living trust, your will can transfer any assets that were not transferred to the trust while you were alive. This is known as a pourover will because the will "pours over" your estate to your living trust.

6 Steps for Young Adults to Build a Financial Foundation



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