



## Investing For The Long Run Amid Volatility

### A Newsletter For Just About Everyone

**W**ith stocks surging one moment and plunging the next, it's good to remember that, from 1926 through 2016, a portfolio diversified across stocks, bonds and cash averaged a 9.6% annual return, with a better risk-reward ratio than any one of the four investments with large liquid markets.

Ninety-one years goes back to when stock returns were first recorded on Wall Street, but most people don't invest for 91 years. The bar chart shows returns of the four investments versus the diversified four-asset portfolio over more realistic holding periods.

you were to experience the 91-year results. While holding the diversified portfolio for five years beat the 91-year return of 9.6% in 56% of the 12-month rolling periods over the 91 years, holding the four-asset portfolio for 35 years beat the 91-year results in 88% of the 12-month rolling periods. Diversification neither assures a profit nor guarantees against loss in a declining market and past performance is not a guarantee of future results, but these results show that the longer you invest, the more likely you are to experience the 91-year return and risk statistics.

I've included a hodgepodge of articles this quarter, with some helpful hints for folks worried about the recent market volatility, folks scared to open their email, folks with kids nearing college, and folks who pay taxes. So, just about everyone.

When it comes to volatility, the *Investing for the Long Run* article does a good job of providing statistical examples of why diversification matters, but the real lesson here is "diversify, diversify, diversify." Diversification truly is the "free lunch" of investing and a fundamental principal underlying how Snowball Wealth Management builds portfolios.

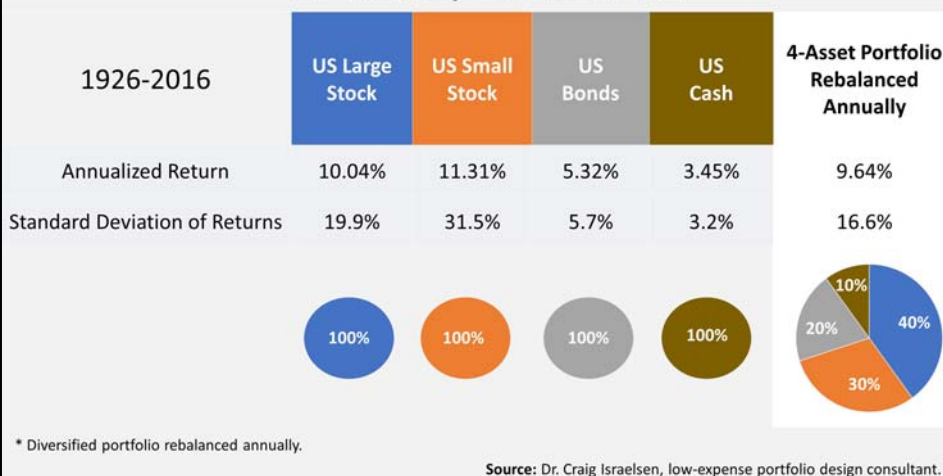
Regarding the phishing article, the best defense is common sense. Don't open an attachment from an unknown source. When in doubt, examine the sender's email address, then copy and paste the sender's email into Google and search. Most of the time you'll find a scam article within the first few results. And NEVER respond to an email from the IRS. The IRS does not contact taxpayers electronically - whether by text, email or social media - to request personal or financial information.

The financial aid article answers some basic FAQs, but I'd like to emphasize that everyone -no matter your financial wherewithal - should complete the FAFSA every year. Aid packages change and your 1099 may change enough to impact your eligibility.

While our dreams of filing future tax returns on a postcard didn't come to fruition, there are significant changes to the new tax code worth noting. Summarizing them isn't easy to do given the complex nature of the tax code, so if you're going to read one article from this newsletter, read *A Guide to the New Rules on Tax Deductions in 2018*. We'll do our best to demystify the changes when we talk.

Until we meet again...

### 91-Years, 1926-2016



Over 35 years, large-company stocks beat their long-term average return over 91 years in a whopping 88% of the 35-year rolling periods! In contrast, over all of the 10-year rolling periods between 1926 and 2017, large-company stocks beat their 91-year return in only 46% of the 12-month rolling period.

In addition, the longer you stayed in the diversified portfolio, the more likely

Recently, volatility surged after investors were spooked by rising inflation and lending rates, and growing concern over the long-term U.S. debt. Statistically, the chance of a bear market decline of 20% or more increases as the eight-and-a-half-year bull market grows older, and the new tax law increased the chance of a

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# Six Tips To Avoid Phishing Scams

“Fake news” has exacted a high cost to American culture and political discourse, but the internet fakery that costs you time and money is phishing, emails diabolically aimed to trick you into opening your personal data to crooks and miscreants.

Phishing is the practice of emailing people purporting to be a reputable company to fool people into revealing passwords, credit card numbers, contacts, emails, internet accounts, and your most personal digital data. It's rampant. Whether you're using a smartphone, tablet, or computer, here are some tips for protecting yourself:

**Mistakes.** Phishing emails often are generated by teens or crooks with weak skills in English punctuation, grammar, and spelling. The phishing email from Office uses an improper style in “24hrs” and the capitalization of the phrase, “Kindly Click here” should arouse suspicion. When you look at this email's bottom line, the copyright is “Office Outlook.” The logo is off. The product name is

Office 365 and there is no mention of Microsoft in the copyright notice. Does the sentence Terms of Use Privacy & Cookies Developers make sense? It's a hint that this is a fake.

**Reply email address.** In this phishing email, the reply address at the top left says “Microsoft support,” but if you look closer, the reply email address is “support@simpur.net.bn” and that is not a Microsoft address. The “bn” suffix is the internet country code for Brunei, and that's another telltale sign of fraud. Clever phishing emails often fake reply addresses in other ways. The easiest way to verify a reply email address is to double click on it and look

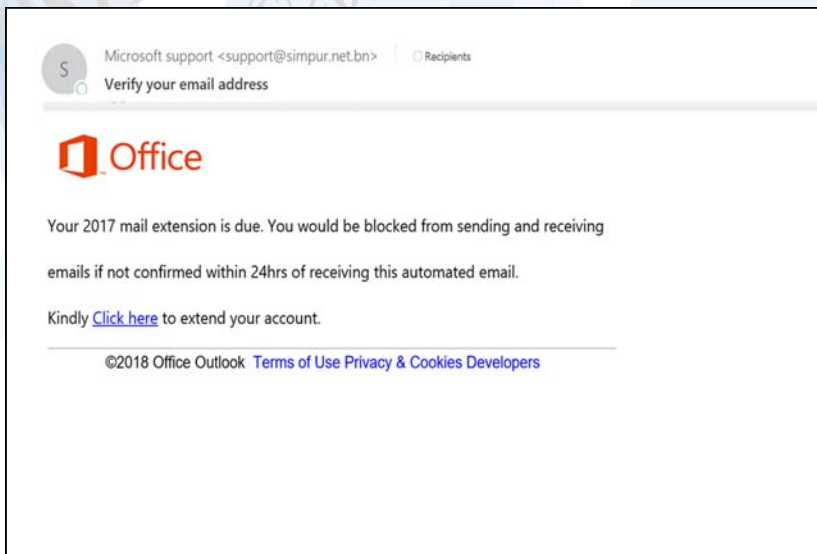
at its properties. If the email purports to be from Microsoft or Google, will hitting reply send an email to a Microsoft or Google email account? If not, it's fake.

**Links.** Don't click on links in a suspicious email without being deliberate. The link could be a malicious website. Right click on the link and check its properties and see if the link goes to the company.

**Slow down.** The grammar, misspelling, bad links, and other telltale signs are easily overlooked when you're in a rush, and that's perhaps the reason why people become ensnared by phishing emails.

**Verify before you trust.** Trust but verify works for some things but not with internet security. First verify and then you can trust.

**Secure Software.** Microsoft and Apple release updates to computer operating systems continually and those are essential to staying secure. Anti-virus and anti-malware programs are also essential and they need to be kept updated with the latest fixes. ●



## Q's And A's About Financial Aid

**W**ill your teenaged child be applying to colleges soon? Although you may be concerned about the ever-rising cost of higher education, your student may qualify for financial aid through various sources. In fact, billions of dollars are handed out each year, and more than half of full-time students get aid through grants and scholarships and roughly one-third via loans.

Here are the answers to some common questions about financial aid:

**Q.** Do we make too much money to qualify?

**A.** This is a concern for many parents, but don't assume you won't

qualify for aid, which can come in many different forms. Your child's eligibility will depend on your family income, whether you have other family members, medical expenses, and other circumstances. Your chances may be better than you think.

**Q.** How do we apply for aid?

**A.** If you want to get financial help, your child needs to submit a Free Application for Federal Student Aid (FAFSA). The FAFSA determines eligibility for federal and state grants to students, work-study programs, and federal loans. You should complete the form as soon as possible after October 1 of the year before your child

will enter college.

**Q.** Are there other forms to complete?

**A.** Possibly. Some schools also require students to submit the CSS Financial Aid PROFILE. And certain colleges and state agencies may request that other forms be filled out.

**Q.** How can I estimate the financial aid we will receive?

According to the College Board, the best way to estimate how much financial aid a college will offer you is to use the college's "net price" calculator, usually posted on its website. A net price calculator provides an estimate of your net price at the

# A Guide To The New Rules On Tax Deductions In 2018

**U**ncle Sam giveth, and Uncle Sam taketh away. The new federal tax code, which went into effect in 2018 and affects the return you'll file in spring 2019, lowers taxes by expanding some deductions, but restricts or outright eliminates others.

Deductions lower your taxable income so you pay less tax. Here's how deducting items from your income were expanded, restricted, or eliminated.

## EXPANDED DEDUCTIONS

**Standard deduction.** The standard deduction is the amount you can subtract from your taxable income if you don't itemize — that is, individually deduct items like mortgage interest, charitable donations, and car loans. Nearly doubling the standard deduction to \$24,000 for joint filers and \$12,000 for singles pushes it up from \$12,700 and \$6,350, respectively. Fewer than half of taxpayers who itemized their 2017 return are expected to itemize their 2018 return. If you file using the standard deduction, preparing your return will be much simpler. If the standard deduction is less than the total of your itemized deductions, you'll still want to file by itemizing, subject to the rules below.

**Medical expenses.** If you itemize deductions, medical expense deductions will be more generous. For tax years 2017 and 2018, medical outlays in excess of 7.5% of your adjusted gross income are deductible. Starting in 2019, the threshold rises to the previous level of 10%. Congress is widely expected to

college (i.e., the cost of attendance minus the financial aid).

**Q.** Does my child have to be an A student to receive aid?

**A.** Not necessarily. While some colleges offer merit scholarships based on performance in high school, most governmental aid is need-based. But your kid can't be flunking out, either. In addition, to retain financial aid through college, your child needs to remain in good academic standing.

**Q.** Does applying for financial aid affect the chances of being admitted?

**A.** Usually not, although some

consider extending the 7.5% threshold or making it permanent.

**Alternative minimum tax.** This very unpopular parallel tax system has been reined in and will zap fewer Americans in 2018. The AMT started in 1982 as an effort to reduce loopholes open to ultra-high-income earners, but its net gradually spread and it affected more individuals. In the 1990s, Congress hiked the AMT tax rate, stiffening its cost. Under the AMT, the standard deduction and deductions for state and local income taxes are lost. With the new law, your exemption — the amount you can subtract from your AMT liability — is much larger. Previously, \$54,300 was exempt for a single-filer and \$84,500 for a married couple filing jointly. Respectively, the exemptions increased by almost a third, to \$70,300 and \$109,400.

**Child tax credit.** This actually is not a deduction against your income. It's a credit on your tax bill. A credit reduces your tax bill dollar for dollar. The credit for children under age 17 was raised to \$2,000 from \$1,000.

## RESTRICTED DEDUCTIONS

**State and local taxes.** Lawmakers placed a \$10,000 cap per return on deductions for state and local taxes (SALT). Till now, the amount you could deduct for SALT levies was unlimited. If you live in a place with high state and local taxes and home prices, you're hit hard. If you earn more than \$100,000 in adjusted gross income and live in California, Connecticut, Maryland, New

schools may favor applicants who can pay the full cost of education. Normally schools base admission decisions on other factors, including academic performance and activities. But keep in mind that a school's available aid can be exhausted quickly, so have your child apply promptly.

**Q.** Can financial aid be revised?

**A.** Yes. This year's determination may not apply to future years,

and colleges may review your financial aid package if your personal situation changes. If you have a pressing need for additional aid, you should let the financial aid office know. ●

Jersey, New York or Oregon, you're very likely to see a material hike in your annual federal tax liability for at least the next decade.

**Mortgage interest.** You can continue to deduct this interest for first and second homes. The change: For mortgages dated after Dec. 14, 2017, only the interest on the first \$750,000 of debt is deductible. Before that date, the \$1 million ceiling still applies. In places where home prices and, thus, mortgages, are low, that is not as much of a concern. In high-price locales, it is.

**Home equity interest.** You no longer can deduct interest paid on home equity loans, unless it is used to improve the dwelling. Many people use such loans, which are secured by their homes, to pay for college tuition or new cars. If a home equity loan and the mortgage totals more than \$750,000, the amount over that limit can't be deducted.

## ELIMINATED DEDUCTIONS

**Personal exemption.** Exemptions, which lowered your income by \$4,050 per person — usually family members — are gone. For some families with children over 17, who can't take advantage of the expanded tax credit, the elimination of the personal exemption will be a net loss.

**Alimony.** For divorce and separation agreements made after 2018, alimony payments will no longer be deductible. The deduction is helpful to a paying ex-spouse who is short on funds.

**Casualty and theft losses.** If your house burned down or a crook took your wallet, you could deduct the loss not covered by insurance to the extent it exceeded 10% of your income. Under the new law, only casualty losses suffered in a natural disaster declared by the president are deductible.

**Job expenses.** Continuing education, medical tests and licensing fees previously were write-offs. Not anymore.

**Moving expenses.** Before, you could deduct these if you moved to start a new job and it was a good distance (that varies by circumstances, but typically meant 50 miles away) from your old home. Now, that is gone, unless you are in the military.

**Tax prep.** Depending on the complexity of the return, these fees can amount to more than \$500. Uncle Sam no longer will let you deduct them, though. ●

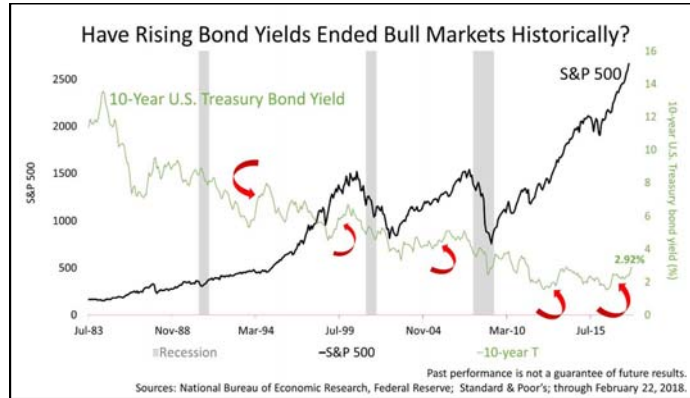


# Understanding Economic Fundamentals

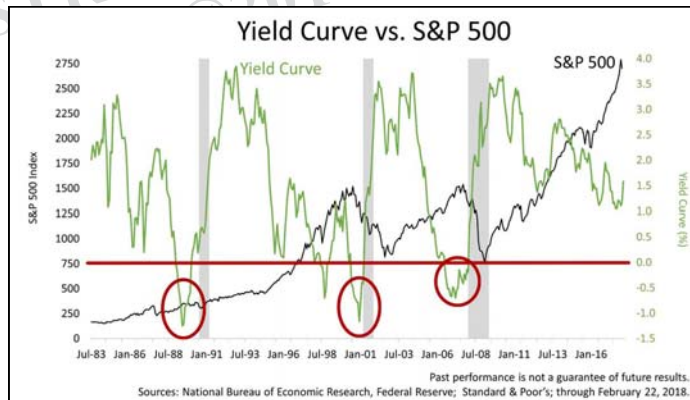
**A**t 105-months-old, this is the second-longest economic cycle in post-World War II America. For the last couple of years, a new phase of the expansion marked by rising interest rates began. Shifting fundamentals underpinning the economy can cause jitters in investment markets or spark changes in sentiment. In fact, the most recent correction — a loss of about 12% — was caused by fears of rising interest rates and inflation. So, let's set the record straight.

While no one can predict the stock market's near-term ups and downs, what we do know is that history shows rising rates are not bad for stocks. Actually, rising bond yields have often coincided with bull markets in stocks. The red arrows point to five periods since the 1990s when the yield on the 10-year U.S. Treasury bond rose sharply and stock prices rose at the same time.

A more reliable economic and financial indicator is the yield curve — the difference



between long-term bond yields and short-term interest rates. When the difference between the yield on 10-year U.S. Treasury Bond and the 30-Day U.S.



Treasury Bill is more than zero, an expansion could continue just fine. However, when the yield curve is inverted — when a 30-Day Treasury yields more than a 10-year Treasury — that has been bad for the economy and stocks. Before each of the last three recessions, the yield curve went into negative territory.

Currently, the yield curve isn't near inversion. It's not signaling an end to the eight-and-a-half-year expansion and bull market. This 105-month old economic expansion is approaching the length of the longest

expansion, the 120-month cycle in the 1990s, and it's still got legs. Of course, indicators are not a guarantee and must be considered in the context of history and your personal situation. But the yield curve is key to watch as this expansion nears the 120-month longest-ever cycle in the 1990s. Please let us know if you'd like to receive our email newsletter about wealth management. ●

## Investing For The Long Run

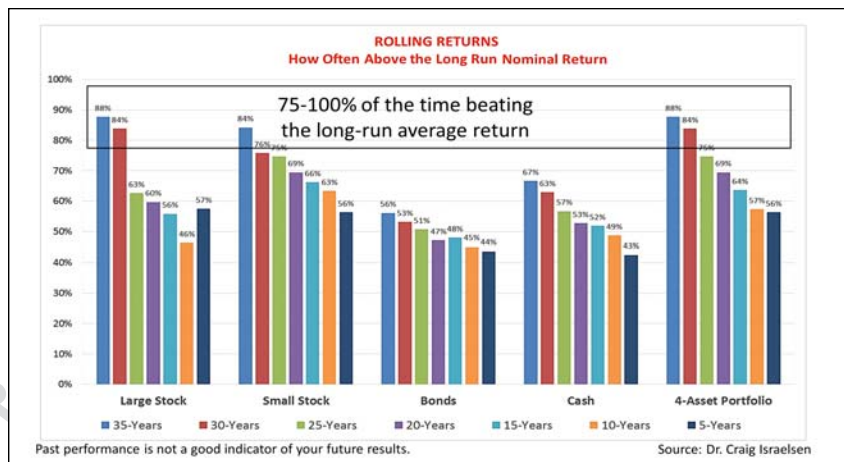
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Federal Reserve interest-rate policy mistake quashing growth for allowing inflation to surge. Fed mistakes caused every recession in post-World War II history.

However, earnings drive stocks and earnings expectations have recently surged. When the tax law was signed on December 22, 2017, the average

company in the S&P 500 was expected to earn \$131 a share in 2018, but that was revised to \$152 and could be boosted

again. S&P 500 operating earnings per share as of February 7, 2017 were \$132.40 for 2017, \$155.26 in 2018, and



\$170.93 in 2019, according to data from Yardeni Research, Inc. and Thomson Reuters I/B/E/S. According to

independent economist Fritz Meyer, 2018 and 2019 estimates were revised up in December 2017 from, respectively, \$146.19 and \$160.69.

With real wages continuing to grow, consumers are spending and consumers account for 69% of economic growth. So, despite the recent correction, the bull market and economic expansion could strengthen and last many months longer. ●

US Large Cap represented by S&P 500 Total Return Index; US Small Cap represented by S&P Small Cap600 Total Return Index; US Bonds represented by Barclays US Aggregate Bond Index TR USD; Cash represented by USTREAS Stat UST-Bill 90 Day TR.