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Asset Management • Retirement, Tax and Estate Planning • Fee Only • No Commissions • Independent Advisor

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Here is our newsletter for the 2nd Quarter of 2018

The Markets Update
While there was a big increase in daily volatility in the 1st quarter, the overall net market movements for the quarter were comparatively small. Eight of twelve asset classes had moderate losses. Emerging markets continue to do better with small gains. Cash and commodities also had small gains.

Asset Class Returns- Ending 3/30/18	
Asset Class	**1st Qtr 2018**
US Large Cap Stock	-0.8
US Small Cap Stock	-0.1
Foreign -Developed Mkts Stock	-1.2
Emerging Mkts Stock	2.1
US Intermediate-Term Bond	-1.5
Emerging Markets Local Bond	0.8
High Yield Bond	-1.4
Inflation-Protected Bond (TIPS)	-0.9
Cash	0.4
US Real Estate	-8.1
Natural Resource Stocks	-6.4
Commodities	1.9

U.S. bonds suffered losses with the rise in interest rates, with the Intermediate-term Bond Index losing 1.5%. While bad news in the short run increases in yields will enable higher returns in the future.

Cash In
One positive change that has occurred over the last year is the big rise in cash yields. You may not have noticed as most yields in savings and money markets at your local or the big money center banks are not keeping up. Go to Bankrate.com to get a list of online savings and money market rates. There are many that are now yielding 1.5 to 2.0%. Be careful to get into one with no fees; some have monthly and/or limits on the number of free transfers per month. Also, understand a savings account has <u>no</u> market risk, meaning you will never lose any principal. While it is rare, a money market account can, and has in the past, broken the buck during financial crisis. So all things being equal, use a savings account for your emergency fund and cash for short-term needs.

While we do not manage clients cash for short-term needs, our portfolios do hold cash positions, meaning fixed income with a maturity of less than one year. We have a short-term bond fund with Vanguard where yields have increased to 2.6% with a duration of 2.7 years. This and many of our other bond funds are designed to give us a decent yield without taking a lot of interest rate risks, so that as rates rise the bond fund prices will not drop as much as the market averages.

Tax Planning for 2018
Our financial planning system has been updated with changes from the new tax law. Helping clients reduce their tax bill will be a big priority this year.

Evaluating the impact of the elimination and reduction of several itemized deductions will be one important task. Another concerns the new deduction for Qualified Business Income (QBI). Under the new law if you own a business you may be able to deduct up to 20% of your income from taxation. Of course the devil is in the details as there are qualifications as to the type of business you have, ordering rules and phase outs income limits.

Most important, if you are in a "specified services" business you can only take the full 20% deduction if your taxable income (on your personal tax return where tax is applied) is less than $157,500 for individuals, or $315,000 for married couples filing jointly. The deduction is phased out between these limits and $207,500 for singles and $415,000 for married filing jointly. Exactly what is a specified services business will be one of the items we hope the Treasury Department will clarify, perhaps in June.

Getting qualified for the full 20% deduction will save you a bunch. Reducing your taxable income in the phase out range will reduce your Federal taxes by almost 50 cents for every dollar of reduction. There are many ways to make this happen. Increasing retirement plan contributions, using company paid health insurance are a couple. Another strategy could be for a married couple who both work to file separately instead of jointly.

Give me and your CPA a call to discuss. I have already done my own planning and determined I can reduce my tax bill by changing my business from an S-corporation to an LLC.

How to Deal with Rising Health Insurance Costs

Everyone has been seeing their health insurance and out-of-pocket medical costs going way up. I talked about how to keep your out-of-pocket costs down in my July 2015 newsletter here. But are there options to traditional health insurance? If you have group coverage with your employer or are on Medicare, count your blessings. If you are not so lucky there is another option you could consider.

So called Healthcare Sharing Programs are an alternative that has been used since the early 1980s by a small group of Americans. Their popularity has been increasing in the last few years and there are now over 1,000,000 families using one of these plans. Here are some of the most important features of these plans.

- All of them are set up as a non-profit organization by religious organizations. All of them, to varying degrees, have restrictions such as being Christian, not using tobacco, limited alcohol use and other religious principles.
- You are not buying insurance. It is not regulated by governmental insurance agencies. You cannot write off the cost on your taxes as health insurance.
- Unlike insurance, there is no contractual guarantee of cost coverage; all is voluntary.
- There are exclusions to coverage which could be substantial. Many exclude any care related to alcohol or drug abuse, abortions, limits of dollar amounts per incident and others. These do not have the coverage requirements under the Obamacare plans.
- The good news: the cost to get a family covered ranges from about $300 to $500 per month, several times less than traditional insurance.

- The plans are exempt from the Obamacare mandate to have health insurance (although currently this mandate is going away in 2019 under current law).

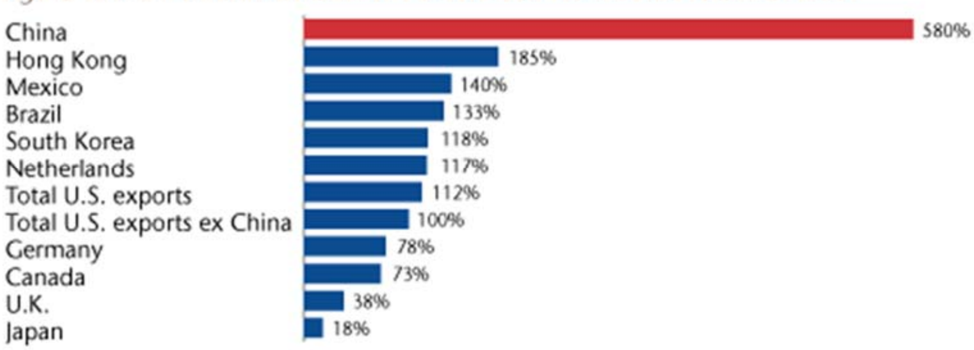
There are four main providers of Healthcare Sharing Programs.

1. Christian Healthcare Ministries. Oldest and Christians only.
2. MediShare. The most like traditional insurance.
3. Liberty HealthShare. Most inclusive in that no religious church affiliation required. My wife was in this plan for some time.
4. Samaritan Ministries. Most restrictive to get in.

World Trade and Tariffs
The most disruptive event going on currently in the worldwide economy is the escalating trade war. One of your mutual fund managers, Mathews, presented some data concerning U.S. trade.

China is 3rd biggest buyer of American products, behind Canada and Mexico. Since China became a member of the World Trade Organization (WTO) 15 years ago, exports from the U.S. to China have grown by 580%. See the chart below and compare with other countries.

Figure 1. U.S. EXPORT GROWTH TO THE TOP 10 MARKETS SINCE 2001



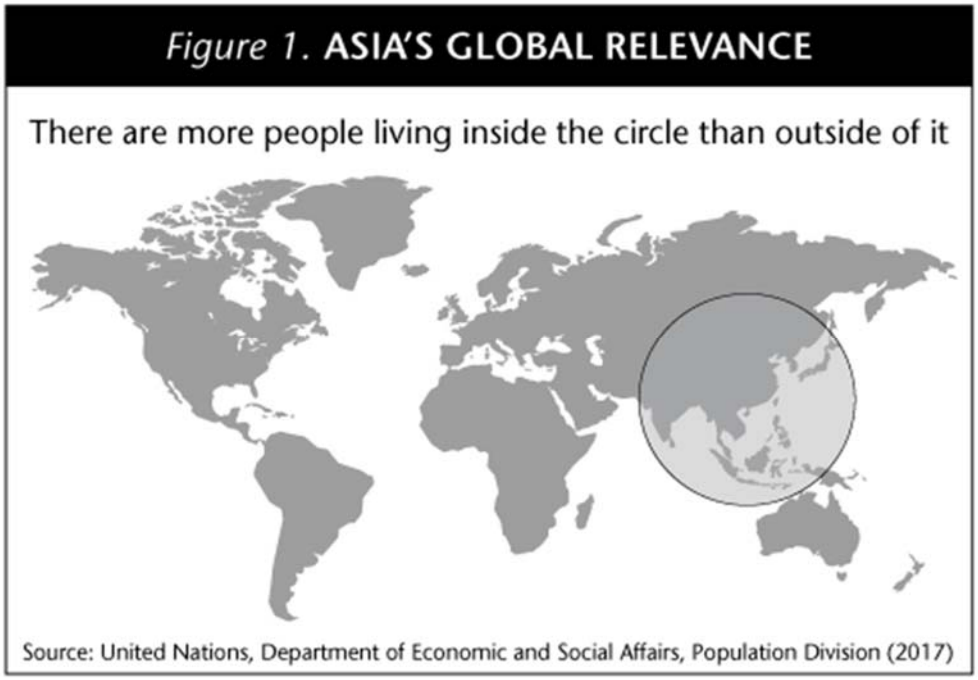
Source: CEIC; Data as of December 31, 2017

It is true the U.S. has a big trade deficit with China (we import more than we export to them). The US takes 19% of China's total exports. But total exports only count for 2% of China's GDP, having been transitioning away from an export led economy for many years. But here is an example of why our trade deficit with China is overstated.

When the U.S. imports an iPhone from China the total value of the assembled phone counts as an import. However, since the phone is only assembled in China their contribution to the phone only represents 3-6% of total value. The phone is designed in the U.S., the chips come from Japan, the screen from South Korea, and so on.

Putting widespread tariffs on imports from our neighbors, allies and even China is a big mistake. The WTO has been an effect organization in working out trade disputes. The U.S. has won about 2/3 of the disputes we have brought before them.

Another big mistake is getting out of the Trans-Pacific Partnership (TPP) which we signed in 2016 with many South East Asian and South American countries. Here is a picture I found interesting.



Much of the world's population and economic growth has been occurring inside the circle and in other developing parts of the world. Continuing to increase our foreign trade will be a net win for all, and in more ways than just economic.

For the first time in several years, every major economy around the world is growing (no recessions anywhere). Here is hoping we don't screw it up.

Sincerely,

Stan Johnson
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Registered Investment Advisor
NAPFA Registered Financial Advisor