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**While 2018 is almost over, there is still time for year-end tax planning, Roth IRA conversions, required minimum distributions, qualified charitable distributions, and IRA/401(k) rollovers.**

**Please contact us soon if you are in need of any of these year-end planning services.**

**Wishing you a very happy, healthy and prosperous Holiday Season!**

### Fall 2018

Ten Year-End Tax Tips for 2018

On the Road to Retirement, Beware of These Five Risks

Should I enroll in a health savings account?

How can I protect my personal and financial information from credit fraud and identity theft?



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## The Tech Sector Could Be Dominating Your Portfolio



The biggest names in technology powered stock market gains and bouts of volatility in 2017, and the trend continued into 2018. The S&P Information Technology sector index posted a 13.19% total return from January

through July 2018, compared with 6.47% for the broader S&P 500 index.<sup>1</sup>

Wall Street analysts and the business media often refer to well-known technology companies Facebook, Apple, Amazon, Netflix, and Google (now officially Alphabet) collectively with the acronym FAANG. Others use FAAMG, which substitutes Microsoft for Netflix. Apple, Microsoft, Amazon, and Facebook, respectively, are the four most valuable companies by market capitalization in the S&P 500 index; Alphabet is ranked eighth and ninth (based on two different share classes).<sup>2</sup>

These tech giants are household names because they already play a huge role in everyday life, but they are also bold innovators with lots of cash on hand. They aim to expand their influence further by developing new products (such as self-driving cars and virtual reality) and disrupting established industries.<sup>3</sup>

### The problem with popularity

Many benchmark indexes are weighted by market capitalization (the value of a company's outstanding shares), which gives larger companies an outsized role in index performance. The same large-cap tech stocks dominate the index mutual funds and exchange-traded funds (ETFs) that track these indexes, and can also be found among the largest holdings of many actively managed funds.

Spreading investments among the 11 different sectors is a common way to diversify stock holdings. However, investors holding a mix of different funds for the sake of diversification

could be surprised by the heavy concentration of popular technology stocks if they eventually fall out of favor and prices fall.

Asset allocation and diversification are methods used to help manage risk; they do not guarantee a profit or protect against investment loss.

### Mind your sector exposure

Over time, a core portfolio of diversified equity funds can become overweighted in a sector that has been outperforming the broader market. Some investors with large positions in technology stocks may not be aware of the concentration level in their portfolios. Others could be ignoring the risk, possibly because they are overly optimistic about the sector's future prospects.

Each business cycle is unique, which makes it difficult to predict which sectors stand to benefit in the months ahead. Although there's little you can do about the returns delivered by the financial markets, you *can* control the composition of your portfolio. For this reason, you may want to review the sector allocation and risk profile of your investment portfolio, if you have not done so lately.

All investments are subject to market fluctuation, risk, and loss of principal. Shares, when sold, may be worth more or less than their original cost. Investments seeking to achieve a higher return may involve greater risk. Sector funds tend to be more volatile than the market in general and may carry additional risks.

*Mutual funds and ETFs are sold by prospectus. Please consider the investment objectives, risks, charges, and expenses carefully before investing. The prospectus, which contains this and other information about the investment company, can be obtained from your financial professional. Be sure to read the prospectus carefully before deciding whether to invest.*

<sup>1-2</sup> S&P Dow Jones Indices, 2018

<sup>3</sup> *The Economist*, June 2, 2018

# Ten Year-End Tax Tips for 2018



## **Timing of itemized deductions and the increased standard deduction**

*The Tax Cuts and Jobs Act, signed into law in December 2017, substantially increased the standard deduction amounts and made significant changes to itemized deductions, generally starting in 2018. (After 2025, these provisions revert to pre-2018 law.) It may now be especially useful to bunch itemized deductions in certain years; for example, when they would exceed the standard deduction.*

## **IRA and retirement plan contributions**

*For 2018, you can contribute up to \$18,500 to a 401(k) plan (\$24,500 if you're age 50 or older) and up to \$5,500 to a traditional or Roth IRA (\$6,500 if you're age 50 or older). The window to make 2018 contributions to an employer plan generally closes at the end of the year, while you typically have until the due date of your federal income tax return (not including extensions) to make 2018 IRA contributions.*

Here are 10 things to consider as you weigh potential tax moves between now and the end of the year.

### **1. Set aside time to plan**

Effective planning requires that you have a good understanding of your current tax situation, as well as a reasonable estimate of how your circumstances might change next year. There's a real opportunity for tax savings if you'll be paying taxes at a lower rate in one year than in the other. However, the window for most tax-saving moves closes on December 31, so don't procrastinate.

### **2. Defer income to next year**

Consider opportunities to defer income to 2019, particularly if you think you may be in a lower tax bracket then. For example, you may be able to defer a year-end bonus or delay the collection of business debts, rents, and payments for services. Doing so may enable you to postpone payment of tax on the income until next year.

### **3. Accelerate deductions**

You might also look for opportunities to accelerate deductions into the current tax year. If you itemize deductions, making payments for deductible expenses such as medical expenses, qualifying interest, and state taxes before the end of the year, instead of paying them in early 2019, could make a difference on your 2018 return.

### **4. Factor in the AMT**

If you're subject to the alternative minimum tax (AMT), traditional year-end maneuvers such as deferring income and accelerating deductions can have a negative effect. Essentially a separate federal income tax system with its own rates and rules, the AMT effectively disallows a number of itemized deductions. For example, if you're subject to the AMT in 2018, prepaying 2019 state and local taxes probably won't help your 2018 tax situation, but could hurt your 2019 bottom line. Taking the time to determine whether you may be subject to the AMT before you make any year-end moves could help save you from making a costly mistake.

### **5. Bump up withholding to cover a tax shortfall**

If it looks as though you're going to owe federal income tax for the year, especially if you think you may be subject to an estimated tax penalty, consider asking your employer (via Form W-4) to increase your withholding for the remainder of the year to cover the shortfall. The biggest

advantage in doing so is that withholding is considered as having been paid evenly through the year instead of when the dollars are actually taken from your paycheck. This strategy can also be used to make up for low or missing quarterly estimated tax payments. With all the recent tax changes, it may be especially important to review your withholding in 2018.

### **6. Maximize retirement savings**

Deductible contributions to a traditional IRA and pre-tax contributions to an employer-sponsored retirement plan such as a 401(k) can reduce your 2018 taxable income. If you haven't already contributed up to the maximum amount allowed, consider doing so by year-end.

### **7. Take any required distributions**

Once you reach age 70½, you generally must start taking required minimum distributions (RMDs) from traditional IRAs and employer-sponsored retirement plans (an exception may apply if you're still working for the employer sponsoring the plan). Take any distributions by the date required — the end of the year for most individuals. The penalty for failing to do so is substantial: 50% of any amount that you failed to distribute as required.

### **8. Weigh year-end investment moves**

You shouldn't let tax considerations drive your investment decisions. However, it's worth considering the tax implications of any year-end investment moves that you make. For example, if you have realized net capital gains from selling securities at a profit, you might avoid being taxed on some or all of those gains by selling losing positions. Any losses over and above the amount of your gains can be used to offset up to \$3,000 of ordinary income (\$1,500 if your filing status is married filing separately) or carried forward to reduce your taxes in future years.

### **9. Beware the net investment income tax**

Don't forget to account for the 3.8% net investment income tax. This additional tax may apply to some or all of your net investment income if your modified adjusted gross income (AGI) exceeds \$200,000 (\$250,000 if married filing jointly, \$125,000 if married filing separately, \$200,000 if head of household).

### **10. Get help if you need it**

There's a lot to think about when it comes to tax planning. That's why it often makes sense to talk to a tax professional who is able to evaluate your situation and help you determine if any year-end moves make sense for you.



***No investment strategy can guarantee success. All investing involves risk, including the possible loss of your contribution dollars.***

***There is no assurance that working with a financial professional will result in investment success.***

## On the Road to Retirement, Beware of These Five Risks

On your journey to retirement, you'll likely face many risks that have the potential to throw you off course. Following are five common challenges retirement investors face. Take some time now to review and understand them before your journey takes an unplanned detour.

### 1. Traveling aimlessly

Setting out on an adventure without a definitive destination can be exciting, but probably not when it comes to saving for retirement. As you begin your retirement strategy, one of the first steps you'll need to take is identifying a goal. While some people prefer to establish one big lump-sum accumulation amount — for example, \$1 million or more — others find that type of number daunting. They might focus on how much their savings will need to generate each month during retirement — say, the equivalent of \$5,000 in today's dollars, for example. ("In today's dollars" refers to the fact that inflation will likely increase your future income needs. These examples are for illustrative purposes only. They are not meant as investment advice.)

Regardless of the approach you follow, setting a goal may help you better focus your investment strategy. In order to set a realistic target, you'll need to consider a number of factors — your desired lifestyle, pre-retirement income, health, Social Security benefits, any traditional pension benefits you or your spouse may be entitled to, and others. Examining your personal situation both now and in the future can help you determine how much you may need to accumulate.

### 2. Investing too conservatively...

Another key to determining how much you may need to save on a regular basis is targeting an appropriate rate of return, or how much your contribution dollars may earn on an ongoing basis. Afraid of losing money, some retirement investors choose only the most conservative investments, hoping to preserve their hard-earned assets. However, investing too conservatively can be risky, too. If your investment dollars do not earn enough, you may end up with a far different retirement lifestyle than you had originally planned.

### 3. ...Or too aggressively

On the other hand, retirement investors striving for the highest possible returns might select investments that are too risky for their overall situations. Although you might consider investing at least some of your retirement portfolio in more aggressive investments to potentially outpace inflation, the amount you invest in such higher-risk vehicles should be

based on a number of factors. Appropriate investments for your retirement savings mix are those that take into consideration your total savings goal, your time horizon (or how much time you have until retirement), and your ability to withstand changes in your account's value. Would you be able to sleep at night if your portfolio lost 10%, 15%, even 20% of its overall value over a short time period? These are the types of scenarios you must consider when choosing an investment mix.

### 4. Giving in to temptation

On the road to retirement, you will likely face many financial challenges as well — the unplanned need for a new car, an unexpected home repair, an unforeseen medical expense are just some examples.

During these trying times, your retirement savings may loom as a potential source of emergency funding. But think twice before tapping your retirement savings assets, particularly if your money is in an employer-sponsored retirement plan or an IRA. Consider that:

- Any dollars you remove from your portfolio will no longer be working for your future
- You may have to pay regular income taxes on distribution amounts that represent tax-deferred investment dollars and earnings
- If you're under age 59½, you may have to pay an additional penalty tax of 10% to 25% (depending on the type of plan and other factors; some exceptions apply)

For these reasons, it's best to carefully consider all of your options before using money earmarked for retirement.

### 5. Prioritizing college saving over retirement

Many well-meaning parents may feel that saving for their children's college education should be a higher priority than saving for their own retirement. "We can continue working, if needed," or "our home will fund our retirement," they may think. However, these can be very risky trains of thought. While no parent wants his or her children to take on a heavy debt burden to pay for education, loans are a common and realistic college-funding option — not so for retirement. If saving for both college and retirement seems impossible, consider speaking with a financial professional who can help you explore the variety of tools and options.

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## Should I enroll in a health savings account?

A health savings account (HSA) is a tax-advantaged account that you can establish and contribute to if you are enrolled in a high-deductible health plan (HDHP). Because you shoulder a greater portion of your health-care costs, you'll usually pay a much lower premium for an HDHP than you would pay for traditional health insurance. This allows you to contribute the premium dollars you're saving to your HSA. Then, when you need medical care, you can withdraw HSA funds to cover your expenses, or opt to pay your costs out-of-pocket if you want to save your account funds. An HSA can be a powerful savings tool, especially if your health expenses are relatively low, since you may be able to build up a significant balance in your HSA over time. Before you enroll in an HSA, ask yourself the following questions:

*What will your annual out-of-pocket costs be under the HDHP you're considering?* Estimate these based on your current health expenses. The lower your costs, the easier it may be to accumulate HSA funds.

*How much can you afford to contribute to your HSA every year?* Contributing as much as you

can on a regular basis is key to building a cushion against future expenses. For 2018, you can contribute up to \$3,450 for individual coverage and \$6,900 for family coverage.

*Will your employer contribute to your HSA?* Employer contributions can help offset the increased financial risk that you're assuming by enrolling in an HDHP rather than traditional employer-sponsored health insurance.

*Are you willing to take on more responsibility for your own health care?* For example, to achieve the maximum cost savings, you may need to research costs and negotiate fees with health providers when paying out-of-pocket.

*How does the coverage provided by the HDHP compare with your current health plan?* Don't sacrifice coverage to save money. Read all plan materials to make sure you understand benefits, exclusions, and all costs.

*What tax savings might you expect?* HSA funds can be withdrawn free of federal income tax and penalties provided the money is spent on qualified health-care expenses. Depending on the state, HSA contributions and earnings may or may not be subject to state taxes. Consult your tax adviser for more information.



## How can I protect my personal and financial information from credit fraud and identity theft?

In today's digital world, massive computer hacks and data breaches are common occurrences. And chances are, your personal or financial information is now susceptible to being used for credit fraud or identity theft. If you discover that you are the victim of either of these crimes, you should consider placing a credit freeze or fraud alert on your credit report to protect yourself.

A credit freeze prevents new credit and accounts from being opened in your name. Once you obtain a credit freeze, creditors won't be allowed to access your credit report and therefore cannot offer new credit. This helps prevent identity thieves from applying for credit or opening fraudulent accounts in your name.

To place a credit freeze on your credit report, you must contact each credit reporting agency separately either by phone or by filling out an online form. Keep in mind that a credit freeze is permanent and stays on your credit report until you unfreeze it. This is important, because if you want to apply for credit with a new financial institution in the future, open a new bank account, or even apply for a job or rent an

apartment, you will need to "unlock" or "thaw" the credit freeze with each credit reporting agency.

A less drastic option is to place a fraud alert on your credit report. A fraud alert requires creditors to take extra steps to verify your identity before extending any existing credit or issuing new credit in your name. To request a fraud alert, you only have to contact one of the three major reporting agencies, and the information will be passed along to the other two.

Recently, as part of the Economic Growth, Regulatory Relief and Consumer Protection Act of 2018, Congress made several changes to credit rules that benefit consumers. Under the new law, consumers are now allowed to "freeze" and "unfreeze" their credit reports free of charge at all three of the major credit reporting bureaus, Equifax, Experian, and TransUnion. In addition, the law extends initial fraud alert protection to one full year. Previously, fraud alerts expired after 90 days unless they were renewed.



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