

# 2018 Outlook: Through the Looking Glass

Presented by Dr. Dave Yeske, CFP<sup>®</sup>

2018 Outlook  
Through the Looking Glass



L I V E B I G<sup>SM</sup>

# Red Queen Wisdom

“Why, sometimes I’ve believed as many as six impossible things before breakfast.”



# Territory to be covered

- U.S. and international economies
- U.S. and international markets
- The new tax law
- Managing change and uncertainty



# Major Themes

- Synchronized global economic growth
- Synchronized market advance
- How much room to grow?
- Employment, inflation, and interest rates
- Central bank policies
- The new tax law's impact on:
  - the economy, the markets, your finances



# U.S. Economic Developments

- Higher than expected economic growth
  - GDP rose 3.1% in Q2 and 3.2% in Q3 (annualized)
- Inflation is picking up steam
  - Core inflation rose 0.3% in December
- Interest rates have ticked up
  - 2-year Treasury highest since 2008
- Federal Reserve may raise Fed Funds rate four times in 2018
  - Current 1.5% may go to 2.5%
- Tax cuts may boost the economy somewhat
  - Low unemployment and rising rates could offset

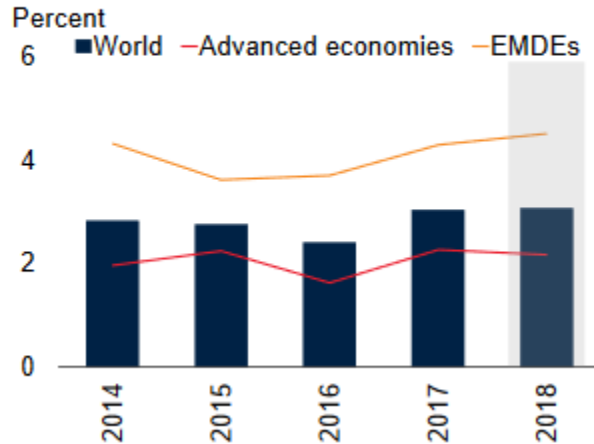


# Overseas Economic Developments

- World Bank forecasts global economic growth at 3.1%.
- Growth in Emerging Market and Dev. Economies at 4.5%.

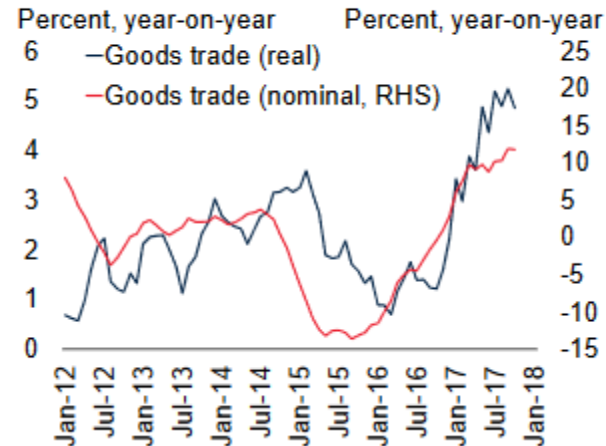
*The broad-based recovery should continue.*

## A. Growth



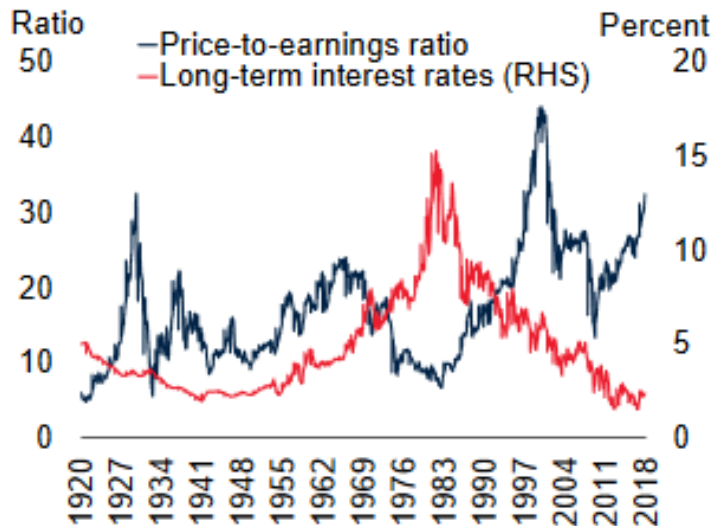
*Global trade has gained momentum.*

## B. Global goods trade growth



# Global Markets

- Markets rose worldwide in '17, non-US markets led the way (US ranked 35<sup>th</sup> out of 47 in ACWI)
- A note on US market valuations.



Source: World Bank



# Global Markets

	US Stock Market	International Developed Stocks	Emerging Markets Stocks	Global Real Estate
<b>2017</b>	<b>STOCKS</b>			
	21.13%	24.21%	37.28%	7.41%
	↑	↑	↑	↑
<b>Since Jan. 2001</b>				
Avg. Annual Return	8.4%	7.0%	14.8%	11.0%
Best Year	33.6% 2013	39.4% 2003	78.5% 2009	37.4% 2006
Worst Year	-37.3% 2008	-43.6% 2008	-53.3% 2008	-45.7% 2008





# The New Tax Law

- Eliminates personal exemptions and increases the standard deduction (sort of): old standard deduct + 3 exemptions was higher.
- Eliminates or limits many itemized deductions.
  - \$10,000 max deduction for state, local, and property taxes.
  - Interest deductible on max \$750,000 mortgage.  
(current mortgages are grandfathered)
- Lowers rates and raises brackets.
- Most individuals will pay same or less.
- Individual rates sunset in 2025.
- Lowers corporate rate to 21%.



# The New Tax Law

- Impact on the markets:
  - May boost economic growth slightly through increased corporate investment, or we may see more share buybacks.
  - Impact on economic growth, however, may be offset by low unemployment and rising interest rates.
  - Improvement to corporate bottom line is already “priced in” to the market (share buybacks may create a tailwind).
  - Bottom line: on a forward-looking basis, “it won’t hurt you.”



# The New Tax Law

## Old vs. New Tax Brackets for Single Filers

Old Brackets		New Brackets	
Taxable income	Tax rate	Taxable income	Tax rate
\$0 - \$9,325	10%	\$0 - \$9,525	10%
\$9,326 - \$37,950	15%	\$9,526 - \$38,700	15%
\$37,951 - \$91,900	<b>25%</b>	\$38,701 - \$82,500	<b>22%</b>
\$91,901 - \$191,650	<b>28%</b>	\$82,501 - \$157,500	<b>24%</b>
\$191,651 - \$416,700	<b>33%</b>	\$157,501 - \$200,000	<b>32%</b>
\$416,701 - \$418,400	<b>35%</b>	\$200,001 - \$500,000	<b>35%</b>
\$418,401+	<b>39.6%</b>	\$500,001+	<b>37%</b>

# The New Tax Law

Old vs. New Tax Brackets for Marrieds Filing Jointly			
Old Brackets		New Brackets	
Taxable income	Tax rate	Taxable income	Tax rate
\$0 - \$18,650	10%	\$0 - \$19,050	10%
\$18,651 - \$75,900	15%	\$19,051 - \$77,400	15%
\$75,901 - \$153,100	<b>25%</b>	\$77,401 - \$165,000	<b>22%</b>
\$153,101 - \$233,350	<b>28%</b>	\$165,001 - \$315,000	<b>24%</b>
\$233,351 - \$416,700	<b>33%</b>	\$315,001 - \$400,000	<b>32%</b>
\$416,701 - \$470,700	<b>35%</b>	\$400,001 - \$600,000	<b>35%</b>
\$470,701+	<b>39.6%</b>	\$600,001+	<b>37%</b>

# The New Tax Law

Long-Term Capital Gains Rate	Single Taxpayers	Married Filing Jointly
0%	Up to \$38,600	Up to \$77,200
15%	\$38,600-\$425,800	\$77,200-\$479,000
20%	Over \$425,800	Over \$479,000

- Rates remain the same but retains the old brackets.



# The New Tax Law

- Impact on individuals:
- Fewer itemized deductions and higher standard deduction means fewer taxpayers will itemize.
  - New standard deduction = \$12,000 individuals / \$24,000 marrieds
  - “Bunching” strategies will be worth a look.
- Most taxpayers will see taxable income go up but tax bill stay the same or go down as lower rates offset loss of deductions.
- Fewer taxpayers will be subject to AMT.



# Strategies

## ■ Bunching

	<u>2017</u>	<u>2018</u>
State Income Tax Paid	\$9,000	\$9,000
Real Estate Taxes	\$7,000	\$7,000
Home Mortgage Interest	\$10,000	\$10,000
Charity	\$4,000	\$4,000
Miscellaneous	\$0	\$0
Allowable Deductions	\$30,000	\$24,000
Exemption	\$8,100	\$0
		<b>STD DED</b>

A bracket on the right side of the table groups the first two rows (State Income Tax Paid and Real Estate Taxes) with a callout bubble containing the value \$10,000. The value \$24,000 in the Allowable Deductions row for 2018 is also circled.

# Strategies

## ■ Bunching

	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
State Income Tax Paid	\$9,000	\$9,000	\$9,000	\$9,000
Real Estate Taxes	\$7,000	\$7,000	\$7,000	\$7,000
Home Mortgage Interest	\$10,000	\$10,000	\$10,000	\$10,000
Charity	\$4,000	\$8,000	\$0	\$8,000
Miscellaneous	\$0	\$0	\$0	\$0
Allowable Deductions	\$30,000	\$28,000	\$20,000	\$28,000
Exemption	\$8,100	\$0	\$0	\$0
		ITEMIZE	STD DED	ITEMIZE
Additional Deductions		\$4,000	\$0	\$4,000

Using a donor-advised fund allows annual giving to remain the same even as contributions are doubled-up every other year





# Managing Change & Uncertainty

- “It’s tough to make predictions, especially about the future” - Yogi Berra
- Interest rates, inflation, renewed volatility, central banks, animal spirits . . . ???
- Building resilience is the best strategy:
  - Adequate cash needs for emergencies
  - Adequate stable reserves for spending needs
  - Broad diversification and rebalancing
  - Control what you can control.

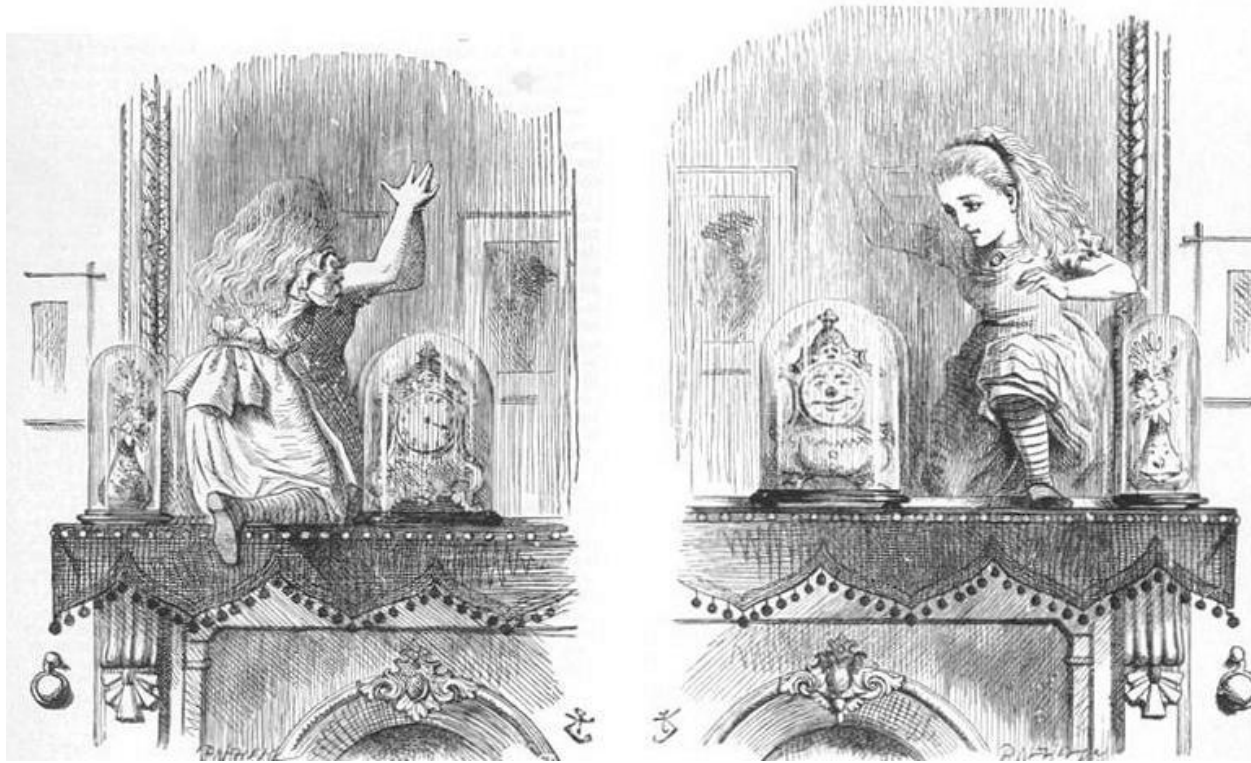


# Questions?



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# Thank you!



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