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First Quarter 2018

Guide...Protect...Preserve

Investing For The Long Run Amid Volatility

With 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.

91-Years, 1926-2016

1926-2016	US Large Stock	US Small Stock	US Bonds	US Cash	4-Asset Portfolio Rebalanced Annually
Annualized Return	10.04%	11.31%	5.32%	3.45%	9.64%
Standard Deviation of Returns	19.9%	31.5%	5.7%	3.2%	16.6%

* Diversified portfolio rebalanced annually.

Source: Dr. Craig Israelsen, low-expense portfolio design consultant.

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 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. 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.

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 Federal Reserve interest-rate policy mistake quashing growth for allowing

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Good Riddance To The Alternative Minimum Tax

Perhaps the most despised federal levy is the alternative minimum tax, which Congress passed in 1969 to prevent the loophole-savvy ultra-wealthy from shortchanging Uncle Sam.

Over the years, AMT's reach expanded to include households with more than $200,000 in AGI (adjusted gross income) annually and two-earner couples with children in high-tax states.

Under the new tax law, starting in 2018, the AMT's damage radius is reduced considerably. This alternative tax calculation still requires some individuals to calculate their tax bill twice — under regular rules and then the AMT's, and pay the higher sum. In 2018, though, a fraction of tax-filers will fall into the clutches of the dreaded AMT.

With the tax code rewritten, only about 200,000 tax filers are expected to be required to pay the AMT in 2018, way down from the 5.25 million, according to the Tax Policy Center.

Congress increased income exempt from the AMT calculation. This expands to $109,400 for joint filers, up from $84,500, and to $70,300 for individuals, up from $54,300.

The happy outcome is that the changes permit many more households making more than $200,000 to bid the AMT a not-so-fond farewell.

Mary Jane Callaghan & Mitch Glicksman

Bitcoin, Chasing Your Tail, And Investing

Thinking about Bitcoin? Could be a good time to hop on, right? Wrong! Usually, by the time the average investor jumps on a gaudy, freewheeling bandwagon, it's too late. The price spike has already occurred. If the investment is a fad, a sickening plummet may well await you.

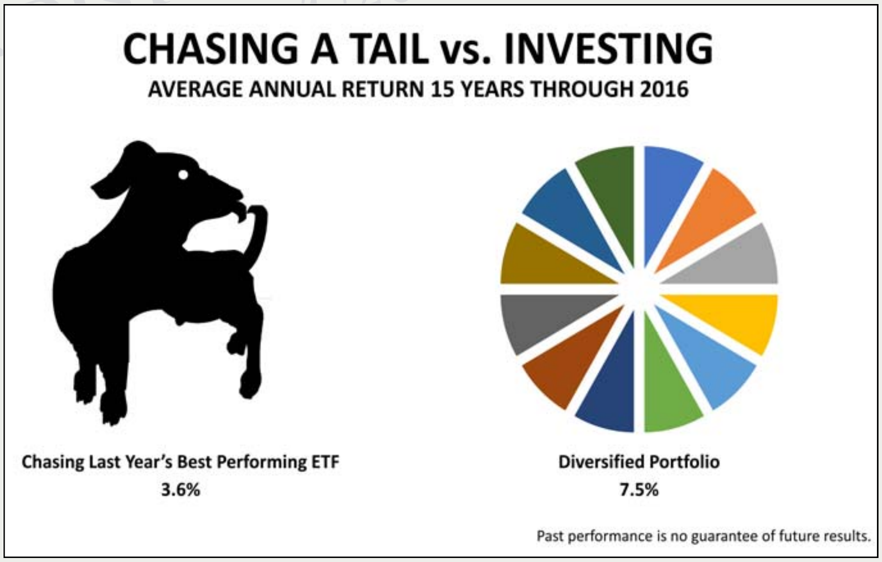
Bitcoin blasted to a record high at rocket speed, hitting $19,783 on December 17, 2017, before plunging 25% in the next 10 days. The crypt-currency may yet be destined for greatness over the long-term, but its supersonic ascent and subsequent nosedive look much like other notorious investment fads.

In 1637, Dutch investors lost their bloomers on tulip bulbs. During tulip-mania, prices for bulbs reportedly rose from November 1636 to February 1637 by 2000%, according to academic research published on Wikipedia.

These objects of desire were flowers. It made no sense. The crash of the bulbs shattered lives and has ever since served as a beacon in financial history, warning investors of the risk in chasing performance.

Investing in Bitcoin makes little sense considering that it is one of many crypto-currencies being mined on the Internet. The value of a crypto currency is set by supply and demand and supply is set by a software program that's not tied to a sovereign state. Transactions are easily hidden from tax authorities. Ultimately, crypto-currencies compete with sovereign nations, which is why some governments are starting to move to regulate them. In the time this was written, not only had the price of Bitcoin plunged 25%, but South Korea became the first nation to ban all anonymous crypto currencies and regulate the rest.

Bitcoin's ascent was easy to spot as a mania, but the modern-day danger inherent in chasing hot performing investments is often far less apparent. For example, say you bought the No. 1 performing Exchange Traded Fund annually for 15 years through 2016. Sound like it could be a strategy for success? Think again, according to Dr. Craig Israeslen, Ph.D., who teaches portfolio design techniques to financial professionals. Your average annual return was 3.6% — less than half the annual return of a broadly diversified portfolio invested across 12 different types of assets equally and rebalanced systematically every year over the same 15-year period through 2016.



Human nature makes people susceptible to investment manias, shiny bright objects like Bitcoin, and chasing last-year's winners. It's why people will always need investment professionals to stay focused on economic fundamentals, quantitative analysis, controlling fear and greed. ●

A Trust For Creditor Protection

Trusts come in many shapes and sizes and serve different purposes. For instance, you might set up a credit shelter trust to provide wealth for your children and grandchildren while minimizing estate taxes. Another specialized trust—the domestic asset protection trust (DAPT)—is intended to keep assets from the reach of creditors even if you're named as beneficiary of the beneficiary. DAPTs are available in more than a dozen states.

Although these trusts have been around for years, state laws that set the rules for them continue to evolve. Most state statutes allow a DAPT to be treated as a "grantor trust," meaning that you—the grantor—pay the income tax generated by the trust. Typically, you'll transfer to the DAPT securities, real estate, or other assets that could be targeted by creditors.

This arrangement may be ideal if you're in a "high-risk" profession—for example, if you're a physician, an attorney, or a business executive with sufficient wealth to make you a worthwhile target. Indeed, in today's litigious society, anyone with deep pockets could be sued. A DAPT can remove some of your concerns.

If the idea appeals to you, it's important to set up a DAPT before you need protection from creditors because most states that allow DAPTs have a required waiting period before protections kick in. Moreover, if you move assets into a DAPT after you've been sued or threatened with a suit, you could be accused of making a fraudulent transfer.

Yet as helpful as it can be a DAPT isn't a panacea for all your problems. For instance, most states' DAPTs include a "creditor exception" statute that might provide access to DAPT assets. Such provisions often protect a divorcing

You Don't Need Perfect Knowledge To Invest Well

If you had the power to predict which one of 12 types of investments representing wide range of assets was going to be No. 1 every year for each of the 15 years from 2002 through 2016, you would have averaged a 29.9% annual return.

Of course, no one has the power to predict which investments will be No. 1 every year. Surprisingly, accepting that you cannot predict the future and maintaining equally-weighted positions in the same 12 types of investments in the same period averaged a 7.5% annual return with less volatility.

To be clear, to get that 29.9% return every year from 2002 through 2016, you would have had to invest 100% of your portfolio in the No. 1% asset class on January 1 and held it until the end of the year, and then bought the coming year's leader. The yellow boxes highlight the No. 1 asset classes in each of those 15 years. On January 1, 2003, you would have had to choose which one of the 12 types of investments would be No. 1 again, and you would have had to do that annually for 15 years to average 30% return.

It's obviously totally unrealistic to have expected this. It would take a miracle to pull this off!

However, even more miraculous is that common sense, an understanding of the history of investing, and rebalancing annually, achieved an annualized total return of 7.5%, and that may be enough to achieve your financial goals in life.

This approach to investing is grounded in a large body of academic research developed over the past 70 years, generally called "modern portfolio theory." It's an approach we believe has merit, and it is very different from trying to predict the future or picking next year's No. 1 performer.

If You Had Perfect Knowledge And Picked The Top Asset Class Annually

29.88% Annualized, 2002 Through 2016

Year	Large U.S. Stock	Midcap U.S. Stock	Small-Cap U.S. Stock	Developed Non-U.S. Stock	Emerging Non-U.S. Stock	REIT	Natural Resources	Commodities	U.S. Bonds	TIPS	Non-U.S. Bonds	Cash
2002	(22.12)	(15.77)	(14.63)	(15.61)	(6.00)	7.88	(13.00)	22.01	10.25	16.57	19.59	1.65
2003	28.39	35.20	38.79	38.45	56.28	38.96	33.63	25.56	4.10	8.40	14.78	0.90
2004	10.75	16.14	22.65	19.75	25.95	33.80	24.24	36.38	4.34	8.21	10.33	1.11
2005	4.79	12.17	6.20	13.39	34.54	12.00	35.79	27.83	2.43	2.65	(6.66)	3.01
2006	15.69	10.05	19.40	26.00	29.53	35.20	16.30	11.47	4.33	0.29	6.44	4.88
2007	5.39	7.64	(6.96)	10.97	39.05	(16.38)	33.82	31.34	6.97	11.46	10.57	5.14
2008	(36.97)	(36.38)	(31.99)	(43.14)	(52.77)	(36.98)	(42.78)	(30.80)	5.18	(2.52)	4.41	2.77
2009	26.42	36.87	30.52	31.41	76.28	29.76	36.92	15.08	6.03	11.38	6.51	0.53
2010	14.93	26.17	24.97	7.52	18.99	28.44	23.23	11.86	6.51	6.10	4.13	0.06
2011	2.06	(1.99)	(4.05)	(12.18)	(18.68)	8.62	(7.81)	(2.71)	7.72	13.40	3.60	0.04
2012	15.84	17.58	18.78	17.22	18.84	17.67	1.71	3.31	4.04	6.80	5.85	0.04
2013	32.21	33.08	36.57	22.62	(5.00)	2.42	15.89	(7.57)	(2.15)	(8.65)	(3.66)	0.02
2014	13.53	9.42	10.55	(5.04)	0.60	30.29	(10.21)	(28.18)	1.32	(1.17)	8.83	0.01
2015	1.34	(2.40)	(4.67)	(0.90)	(15.35)	2.36	(24.52)	(18.64)	0.92	(0.15)	1.08	0.05
2016	11.80	20.33	24.80	0.96	11.75	8.53	30.13	4.27	1.42	2.69	4.67	0.33

Past performance is not a guarantee of your future results. Source: Dr. Craig Israelsen

The lesson here is that you do not need perfect knowledge to succeed financially in life. You do not need a miracle in your portfolio. Sticking with a plan for the long-term that is not based on miracles but, rather, on moderation, may be enough to pay for all you need in life.

Withdrawing money from leading investments and deploying it in lagging types of assets to reset a portfolio back to equilibrium at the end of every year, lowered the risk of this portfolio and returned enough to enable financial independence.

It's counterintuitive but those are the facts. The data is from Dr. Craig Israelsen, an expert of low-expense portfolio design, whose research we license to share with you. Of course, past performance is not a guarantee of your future results. Nor is a quantitatively-driven discipline infallible.

However, with stocks appreciating sharply in 2017 and early 2018, be sure you are rebalancing properly. You can call on us for prudent portfolio management based on economic fundamentals and quantitative analysis or with any questions about your portfolio. ●

US Large Cap represented by S&P 500 Total Return Index. US Mid Cap represented by S&P MidCap 400 Total Return Index. US Small Cap represented by S&P Small Cap 600 Total Return Index. Non-US Developed represented by MSCI EAFE Index NR USD. Emerging represented by MSCI EM Index GR USD. Real Estate represented by S&P Global REIT Index TR USD. Natural Resources represented by S&P North American Natural Resources Total Return Index. Commodities represented by Deutsche Bank Liquid Commodity Optimum Yield Diversified Commodity Index Excess Return. US Bonds represented by Barclays US Aggregate Bond Index TR USD. TIPS represented by Barclays US Treasury US TIPS Index TR USD. Non-US Bonds represented by Barclays Global Treasury Index TR. Cash represented by US-TREAS Stat US T-Bill 90 Day TR.

spouse who might otherwise lose out on assets that have been transferred to the trust.

Bankruptcy proceedings may also complicate your use of a DAPT, and again, the applicable laws vary from state to state. Finally, a DAPT is irrevocable—you can't undo it. Your attorney and other advisors can tell you whether this kind of asset protection would be worthwhile for you. ●

Foreign Intrigue In Estate Planning

Are you married to someone who isn't a U.S. citizen? If you are, special estate planning considerations may come into play.

Whether your spouse is a citizen or not, you can use the same basic estate planning documents without any reservations. You can create a will bequeathing assets to your spouse, name him or her as a beneficiary of retirement accounts, and designate your spouse as the agent under a power of attorney. No problems there.

But things get trickier when your spouse inherits assets. Normally, property transferred from one spouse to another, during your lifetimes or when one of you dies, is completely exempt from gift or estate tax thanks to an unlimited marital deduction. But that doesn't apply to non-citizen spouses.

Instead, you can make use of a $5.49 million unified gift and estate tax exemption that covers transfers to any beneficiaries, including a non-citizen spouse.

In addition, you can give a non-citizen spouse as much as $149,000 (in 2017; the amount is indexed for inflation) in gifts during your lifetimes.

Other ways to avoid being subject to the rules for non-citizen spouses may include:

1. Have your spouse become a U.S. citizen. This can be an obvious solution. It allows your spouse to qualify for the unlimited marital deduction by the time your federal estate tax return is due. That's generally nine months after death, but the IRS may grant a six-month extension.

Because it takes time to obtain citizenship—there is a waiting period before you can even apply—it's important to start sooner than later.

2. Rely on a QDOT trust. With a qualified domestic trust (QDOT), you can leave property to the trust, rather than directly to your spouse. Then your spouse can receive income from the QDOT that is exempt from estate tax.

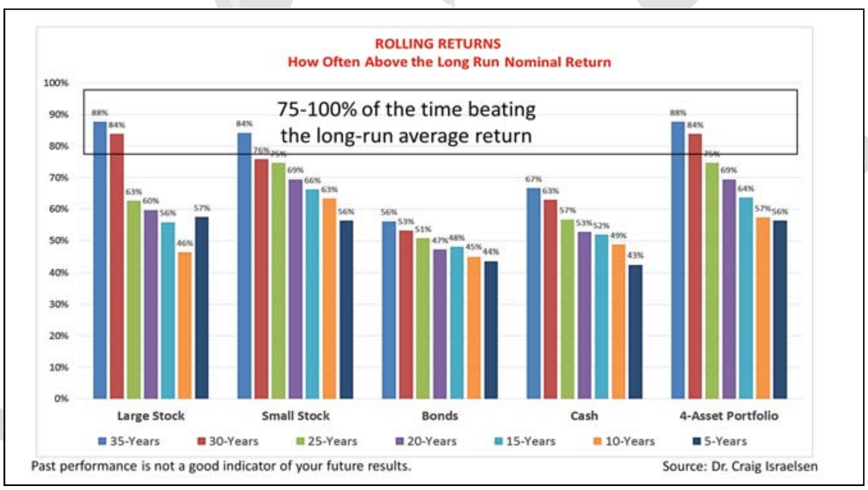
But there are a couple of extra wrinkles. If your non-citizen spouse withdraws principal from the QDOT, it will be taxed like a distribution from your taxable estate, which can increase estate tax liability. There are also limitations on investments made by QDOTs. In some cases, it could make sense to complement a QDOT with other kinds of transfers to your spouse. Finally, a QDOT can be structured to end if your spouse becomes a U.S. citizen. ●

Investing For The Long Run

(Continued from page 1)

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.

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