QUARTERLY NEWSLETTER • **4TH QUARTER 2018**

Praetorian Guard

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THIRD QUARTER 2018 MARKET REVIEW

By **Joe Clark**

U.S. equity markets continued their momentum from the 2nd quarter and posted solid 3rd quarter gains. International markets continued to underperform.

U.S. large cap stocks (as measured by the S&P 500 Index) rose 7.2% for the quarter to increase the YTD return to 9.0%. Small and mid-cap stocks posted gains of 4.4% and 3.1% to increase their YTD returns to 13.4% and 5.9% respectively. Small cap stocks have outperformed in 2018 overall and we continue to believe that is at least partly because these stocks (which derive most of their revenue from inside the U.S.) are less susceptible to negative impacts from tariffs and potential trade wars. Despite the ongoing trade dispute with China, large cap stocks had the largest gain for the 3rd quarter.

The primary reason for the increase is strong S&P 500 earnings growth (projected to be 24.9% and 21.6% for 2nd and 3rd quarter respectively when all companies have reported). International markets continued to underperform U.S. markets in the 3rd quarter. The emerging market segment posted a quarterly loss of 1.93% (down 9.5% overall YTD). International developed markets hovered just above even with a 0.71% return for the quarter, but the index is still down 3.8% for the full year.

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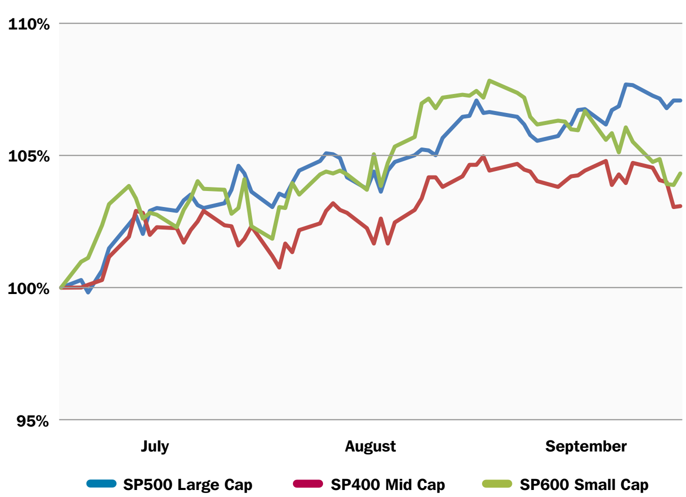
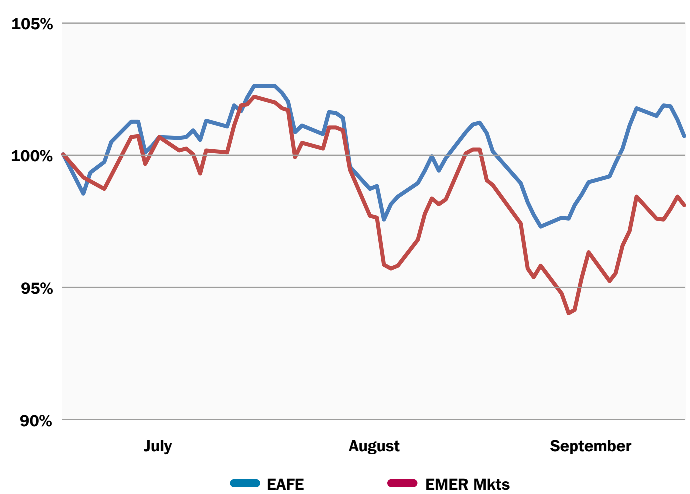
US Equity Market Performance Q3 2018



Source: Yahoo! Finance

International Equity Market Performance Q3 2018



Source: Yahoo! Finance

TAX PLANNING AND QUALIFIED CHARITABLE CONTRIBUTIONS

By **Marc Wehmeyer**

Charitable giving is a financial goal for many Americans. We donate to charitable organizations for many reasons and our tax code encourages giving by allowing people who itemize deductions to deduct charitable contributions from their income. However, tax planning for charitable contributions has fundamentally changed with the new Tax Cuts and Jobs Act of 2017 (TCJA). Two of the key provisions of the TCJA are the near doubling of the standard deduction and the reduction and/or elimination of many itemized deductions.

The standard deduction will rise from $6,350 in 2017 to $12,000 in 2018 for individuals and from $12,700 to $24,000 for married couples filing a joint return. If you are age 65 or older, individuals can add an additional $1,600 to the standard deduction. Married couples can add $1,300 if one spouse is at least 65 and $2,600 if both spouses are at least 65. Blind persons can add additional amounts to the standard deduction. The expanded standard deduction makes it more likely that taxpayers will be better off claiming the standard deduction than itemizing deductions. As a result, taxpayers who previously made charitable contributions with the expectation that they would lead to a lower tax bill may find this is no longer the case under the new tax law.

One way to retain the tax benefit of charitable contributions is to make a Qualified Charitable Distribution (QCD) from an Individual Retirement Arrangement (IRA). QCDs are available to IRA owners who are at least 70 ½ years old and therefore subject to Required Minimum Distributions (RMDs). A QCD occurs when an IRA owner makes a distribution from an IRA directly to a qualified charitable organization. QCDs can also be made from Roth IRAs but we wouldn't recommend doing so since Roth IRAs contain after-tax contributions and earnings. QCDs cannot be made from an active SEP-IRA or SIMPLE IRA.

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Filing Status	Standard Deduction Amount	
	2017	**2018**
Individual	**$6,350**	**$12,000**
Married Couple*	**$12,700**	**$24,000**
Individual *(65 or older)*	**$7,900**	**$13,600**
Married Couple *(One spouse is 65 or older)**	**$13,950**	**$25,300**
Married Couple *(Both spouses are 65 or older)**	**$15,200**	**$26,600**

*Filing a joint return

TAX PLANNING AND QUALIFIED CHARITABLE CONTRIBUTIONS (continued)

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QCDs are tax-free distributions and are therefore not included in the IRA owner's income, so they provide the same net tax benefit as a charitable contribution that qualifies as an itemized deduction. QCDs also have the added benefit of not raising Adjusted Gross Income (AGI) which may have other beneficial tax consequences for Social Security benefits, Medicare premium costs and medical expense deductions. QCDs can also count towards an IRA owner's annual RMD requirements. A person can make one or more QCDs per year up to a limit of $100,000 with no carry forward to future years. Therefore, a married couple could make up to $200,000 in QCDs per year if both spouses own IRAs.

QCDs are reported on Form 1099-R but are not reported separately from other IRA distributions. There are no special codes or boxes on the 1099-R for QCDs. The total QCD amount is included in the Gross Distribution in Box 1 and the Taxable Amount in Box 2. Box 2b should also be checked stating "taxable amount not determined." Therefore, it is essential that the taxpayer maintains documentation from the charity showing the date and amount of the QCD for use in preparing tax returns, and communicates this information to their tax professional or includes it in their personal tax preparation. You will also need to file Form 8606 (Nondeductible IRAs) if you make a QCD in addition to a normal distribution from an IRA that contains after-tax contributions.

Whether or not QCDs make sense depends on your unique situation and circumstances. If you would like to further explore using QCDs as part of your charitable giving plans, contact us and we would be happy to discuss the possibilities with you.

PRESIDENT'S COMMENTARY

Positive economic news continues to come in weekly but if you are too invested in the heated political battle of the moment you might miss it. I know, I too can be swept up in the three dimensional chess match that is national politics today.

The economy is growing, jobs are plentiful, and corporations are very profitable—not the case a few years ago. There are plenty of intractable issues on the global stage but I wager to bet that your individual economy is doing well and the future outlook is positive.

So the advice is to watch the run up to the mid-term elections with a level perspective and to remain pragmatic.

THIRD QUARTER 2018 MARKET REVIEW (continued)

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These two asset classes have been hurt by concern over tariffs, weakening global growth, and a strengthening U.S. dollar. We look at these foreign asset classes as potential buying opportunities as we perform regular rebalancing of accounts.

In the first week of October longer term interest rates rose to levels last seen prior to the "Great Recession." While this has added some market pressure, we view this as a net positive for several reasons. First, a return to rates last seen in 2011 still leaves the 10 year treasury rate at slightly over 3%—hardly the nosebleed rates of decades past. In addition, this decreases the likelihood of an inverted yield curve (short-term rates greater than long-term) which has in the past (and *may* now) presaged a recession. There are some negatives including housing and related construction costs being adversely impacted as mortgage rates rise; and U.S. annual deficit costs will increase.

We expect the fourth quarter to be filled with lots of activity (trade tensions, U.S. mid-term elections, etc.). We will continue to monitor our sector overweight positions to determine if changes should be made to investment models as we move into the fourth quarter of 2018 and beyond.

POLITICAL CRYSTAL BALL THOUGHTS

By **Dick Hewitt**

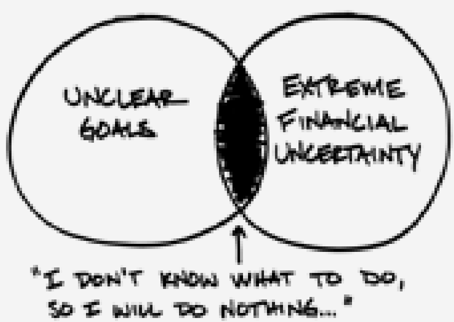
The bad news is that the 2020 Presidential Campaign will kick-off on November 7th of this year. But first we have to get through the mid-term election. Here are some thoughts on implications and a few predictions:

The most likely outcome is we end up with split government in Washington—Democrats take control of the House and Republicans gain seats in the Senate. Here's why: a mere change of 23 seats in the House switches control and over the last 21 mid-terms, the average loss for the President's party is 30. For the Senate the average is a loss of 4 but I predict a pickup of 2 for Republicans (North Dakota and Missouri).

My prediction is based on history (hence the House changes control) and the "political map" for this Senate election (which indicates to me that a pickup of 2 seats will be very challenging given *which* states are holding elections). Few elections are without a surprise (or two) and Democrats have 26 of the 35 seats up this year, including special elections. It will be another long night.

What does it mean for policy? There will be no repeal of the tax reform/cuts—the $10,000 SALT (State & Local Tax) deduction limit will remain through 2020 at a minimum. Individual rate reduction will NOT be made permanent before 2021, if ever.

UNCLEAR GOALS & FINANCIAL UNCERTAINTY



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CLOSING THOUGHT

"A positive attitude may not solve all your problems, but it will annoy enough people to make it worth the effort."

—***Herm Albright***

PRAETORIAN GUARD

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