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TILIA NEWS

INVESTMENT MANAGEMENT | FIDUCIARY ADVICE | RETIREMENT PLANNING

Tax Plan Makes 529 Plans More Attractive

Since they were created in 1996, 529 savings plans have been a popular way for parents & grandparents to save money for college expenses of a minor. These plans benefit from a tax shelter that allows contributions to grow tax-free & be distributed without taxes on the back-end, as long as they go towards "qualified higher education expenses."

Under the new tax bill, the benefit has been expanded to include distributions up to $10,000 per year for private school tuition and books, from K-12. It is worth noting that much of the value of the tax shelter comes from investing money over many years, so distributing money from a 529 for your child's 1st grade expenses may not be especially rewarding from a tax perspective. The most compelling use might be for parents that are considering preporatory schools during the high school years, in order to boost a student's chances of gaining entry to a top-tier university.

Following North Carolina's reversal of the front-end tax deductibility of contributions to 529s in 2014, our view has been neutral in most cases on the choice between 529s & custodial accounts. For some families, this may tilt the scales in favor of 529 plans. As always, talk to us about your

Reminder: Sell-offs Happen Fast

Following an unusually calm period for financial markets, this February has served as a stark reminder that sell-offs happen extraordinarily fast. The old adage that stocks climb the stairs on the way up and take the elevator down has held true.

Stock investing has never been easy. Even bright periods in stock market history are often filled with gut-churning swings in value. It's important to remember that one of the most powerful investment factors in the short-term is human sentiment, which can change in a matter of hours or even minutes. These days, program or algorithmic trading only adds to the volatility, as data points, headlines, or changes in price can trigger outsized short-term moves in financial markets.

The most successful investors are able to keep a level head, not giving in to greed as prices appear to be moving up relentlessly, and not succumbing to fear when stocks are tumbling. We do our best to align your individual portfolio with your tolerance for market swings, making it easier to stay level. If recent market moves have made you question your allocation to stocks, please let us know.

As far as the direction of markets moving forward, it's impossible to predict. The economy is on strong footing, as evidenced by continued record traffic at U.S. ports, strength in housing, strong hotel occupancy, healthy auto sales, the strongest January ever for intermodal rail traffic, low unemployment & low levels of mortgage deliquencies. Partly as a by-product of this strength, we are seeing labor market tightness, which is leading to wage growth & modest inflation. Interest rates are ticking up, but are still too low to stymie economic activity, in our opinion.

It's difficult to deny that the current landscape looks pretty rosy for investors. Good news is easy to find, and most corporations in which we invest will benefit in the future from the recently-passed tax cut. According to the latest NFIB survey of small business optimism, 32% of owners suggested that now is a good time to expand, an all-time record high. All of that said, markets attempt to look forward, and more investors are starting to wonder how much better the picture can get. After all, the highest returns are delivered individual situation and we'll evaluate which option makes the most sense for you.

One Welcomed Side-Effect of a Tight Job Market

Faced with a growing economy & very low unemployment, companies are having to get more creative with the hiring process. One very positive development stemming from this hiring hurdle is the breaking down of pre-packaged requirements & automated candidate screening.

One program that is leading the way in workforce development is the *Skillful State Network*, based on a pilot program from Colorado that is being expanded to 19 other states. Backed by the Markle Foundation, this program shares information between employers on how to retrain workers from specific industries to do other jobs, and encourages participants to remove many educational or lengthy experience requirements in favor of transferrable skills and apprenticeship programs.

Every person that has submitted online applications during a tough job market can attest to the utter ridiculousness of being screened out of candidate pools for not fitting into a perfect box. At the same time, most employers will tell you that they'd rather have a smart person with a ton of ambition, but lacking in applicable experience, to a candidate that is extremely experienced, but lacks ambition or soft skills that are difficult to screen out.

Only time will tell if programs like these remain popular once the economic tide turns. As the world becomes more automated and the speed at which new technologies gain adoption increases, re-development & re-imaging of our workforce and the way we hire becomes more important each year.

Source: The Wall Street Journal "To Fill Jobs in a Tight Labor Market, Employers May Need to Get Creative" Feb 15, 2018.

on investments made when unemployment is high and the outlook is gloomy, while investing new money when everything appears all-clear has historically yielded lower results.

Why Bond Investors Shouldn't Fear Rising Rates

The sleepy market for bonds has gained attention as of late, as rising interest rates dented the prices of existing bond holdings. This presents a problem for many investors. After 30+ years of strong performance, the bull market in bonds has likely come to a close. Those that have grown accustom to such gains will be in for a rude awakening next time they examine the current value of those holdings. Bonds also suffered in tandem with stocks during the early February sell-off, reigniting arguments about whether bonds will continue to be a good hedge against stock declines.

In our opinion, disciplined bond investors should welcome the move towards higher interest rates. While bond mutual funds & certain index funds could cause lasting harm to a portfolio, a laddered portfolio of individual corporate &/or municipal bonds should perform as intended in a rising rate environment. While some of your bonds will lose value in the short-term, you will receive an income raise as old bonds mature and are reinvested. High quality bonds that suffer in the short-term due to rising rates will recover in value as their maturity date approaches, recapturing the return given up during the earlier period. As with investing in general, having a plan & sticking to it is the key. At Tilia, we've designed our bond portfolios with the prospect of rising rates in mind. We're excited that investors are now able to earn a little more interest on their bonds investments.

While stocks & bonds falling at the same time isn't comforting in the short-run, we do firmly believe that bonds will continue to be a valuable hedge against large downturns in the stock market. The impact of diversification has to be looked at over years, rather than weeks and months. Most bonds pay interest twice a year, so comparing returns over anything less than 6-12 months is a worthless exercise. A great example for this occured in the fall of 2008. As recession fears grew into a full-blown financial panic, high-quality corporate bonds briefly tumbled alongside stocks. Investors that bought bonds during that period locked in returns of 6.5% - 8%+ for years to come. Those that held bonds going into that period watched the value of their holdings decline sharply in a matter of weeks. While that episode was extremely worrying in the moment, bonds quickly recovered the losses. The major indexes tracking investment-grade corporate bonds & the broader bond market went on to post positive returns for the year, successfully protecting investors during the worst downturn since the Great Depression.