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TILIA NEWS

INVESTMENT MANAGEMENT | FIDUCIARY ADVICE | RETIREMENT PLANNING

Tax Thoughts

Now that tax season has arrived, here are a few things to keep in mind ahead of April 15th:

- Traditional IRA & Roth IRA contribution limits remain at $5,500 for 2018. Even if you are covered by a retirement plan at work, you may still be eligible to deduct an IRA contribution if you fall below certain adjusted gross income levels.
- With the new $10,000 cap on state and local tax deductions, and higher standard deductions, retirement plan (401k, SEP, IRA, etc.) deductions are even more valuable. Talk to us to make sure you are maximizing your available options for tax deferral.
- **Hurricane losses.** If you are itemizing deductions, unreimbursed losses from the storm, i.e., your insurance deductible, could be deductible. (Talk to your CPA)
- Student loan interest of up to $2,500 can be deducted up to adjusted gross income phase-out levels ($80k for individuals, $165k for married filing jointly).
- Teachers - if you have unreimbursed classroom expenses during the year, you can deduct the first $250 of those, and higher amounts potentially if you itemize deductions.

How Tilia is Managing Client Money in the Current Market Environment

The rapid downturn of stock values in the 4th quarter led to the worst December for large U.S. stocks since 1931. The speed and relentlessness of the downswing felt a lot like the fall of 2008. The major difference was the economic backdrop. With no signs of an imminent economic downturn, the prospects for the downdraft being short-lived were much better. Less than two months later, U.S. stocks have recovered rapidly in a "V" shaped pattern.

December's market action provided a good trial run for what a serious panic in markets will feel like. If your portfolio's volatility made you consider doing something drastic like "going to cash", then the current recovery is the perfect opportunity to lower risk levels within your portfolio. If this is the case, and we haven't already talked with you, or heard from you - please reach out and let us know!

While the whip-sawing markets aren't a good reason for us to make substantial changes to client portfolios, we are not sitting idle. When we take on clients, we assign a range that we feel your portfolio should usually fall between. For example, we'll say we have a new client in the accumulation phase, contributing at a moderate pace with hopes of retiring in 10 years. Based on some inputs about current & future goals, and conversations about risk tolerance, we'll assign them a range ~ let's say 70% stocks on the high side, and 50% stocks on the low side. During this stage of the client's investment life, we will likely keep them within that range, with market factors or in some cases, client outlook, driving us to make adjustments to the portfolio within that range.

What market factors drive us to make changes within client ranges? 1) Relative attractiveness of more conservative alternatives to stocks, i.e, bonds. Generally speaking, the higher interest we can earn on bonds, the more we want to own versus stocks. 2) Economic indicators. While some of our stock holdings have historically been resilient in the face of economic softness, corporate earnings drive the stock market's value and overall they are heavily tied to economic growth. Some of the things we keep an eye on are U.S. port traffic reports, manufacturing & purchasing manager surveys, home starts, railroad data, retail sales & loan delinquencies. This data can be lumpy and fluctuates month to month, but signs of a downside momentum across multiple reports are a reason to cut back stocks. 3) Stock valuations. We are not overly sensitive to this, especially with our individual stock holdings. Stocks that appear expensive are often expensive for a good reason and will continue to perform for us. In certain instances though, individual stocks or the overall market will get extremely elevated versus historical levels & that gives us another reason to dial back. 4) Rebalancing is the most common reason we make changes. Clients that have been with us for a while will see their stock allocations drift with the market and move out of the intended range, or get higher or lower than we would them to be in the present environment. This has meant trimming stock holdings back for many people over the last year to keep them within the comfort range.

While every client's situation is unique, if you laid out a chart of where the average client was in their range, with 0 being at the low end, and 10 being the high end, the average client is probably an 8 at the moment. *(continued in the bottom left)*

- If you have started a small business in the recent past, or you have a side-gig that has expanded, please make sure you are working with a well-qualified CPA to minimize your tax burden as much as possible. If you are in need of a good CPA, let us know &we can provide some recommendations!

Wal-Mart Provides a Health Check on the U.S. Consumer

Wal-Mart's quarterly earnings release always provides one of the best insights into the health of the U.S. economy.

The retail behemeth's latest report showed that comparative sales in the U.S. over the last two years have seen the strongest growth in 9 years. The last time Wal-Mart was growing this fast in the U.S. was when they were recovering from the financial crisis lows! 4th quarter U.S. sales were + 4.6% year-over-year, with higher customer traffic and higher average receipts.

Wal-Mart sited broad-based strength in grocery sales and strong year-over-year holiday sales of toys, home goods, seasonals & electronics.

While other economic data points may be better indicators of the future trajectory of the U.S. economy, the picture that Wal-Mart painted of the U.S. consumer in their latest report should not be overlooked. The average American is earning and spending more money these days. The average American doesn't alter their economic contribution based on political headlines, or interest rate policy & it will take more than that to stop the current momentum.

(Market environment continued) We'd like to see higher stock valuations, higher interest rates, or both before dialing clients back to the middle of the range. In the meantime, we'll be watching # 2 & # 4 for other reasons to dial things down or up.