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Your Source for Financial Well-Being

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The Tech Sector Could Be Dominating Your Portfolio



The biggest names in technology powered stock market gains and bouts of volatility in 2017, and the trend continued into 2018. The S&P Information Technology sector index posted a 13.19% total return from January

through July 2018, compared with 6.47% for the broader S&P 500 index.¹

Wall Street analysts and the business media often refer to well-known technology companies Facebook, Apple, Amazon, Netflix, and Google (now officially Alphabet) collectively with the acronym FAANG. Others use FAAMG, which substitutes Microsoft for Netflix. Apple, Microsoft, Amazon, and Facebook, respectively, are the four most valuable companies by market capitalization in the S&P 500 index; Alphabet is ranked eighth and ninth (based on two different share classes).²

These tech giants are household names because they already play a huge role in everyday life, but they are also bold innovators with lots of cash on hand. They aim to expand their influence further by developing new products (such as self-driving cars and virtual reality) and disrupting established industries.³

The problem with popularity

Many benchmark indexes are weighted by market capitalization (the value of a company's outstanding shares), which gives larger companies an outsized role in index performance. The same large-cap tech stocks dominate the index mutual funds and exchange-traded funds (ETFs) that track these indexes, and can also be found among the largest holdings of many actively managed funds.

Spreading investments among the 11 different sectors is a common way to diversify stock holdings. However, investors holding a mix of different funds for the sake of diversification

could be surprised by the heavy concentration of popular technology stocks if they eventually fall out of favor and prices fall.

Asset allocation and diversification are methods used to help manage risk; they do not guarantee a profit or protect against investment loss.

Mind your sector exposure

Over time, a core portfolio of diversified equity funds can become overweighted in a sector that has been outperforming the broader market. Some investors with large positions in technology stocks may not be aware of the concentration level in their portfolios. Others could be ignoring the risk, possibly because they are overly optimistic about the sector's future prospects.

Each business cycle is unique, which makes it difficult to predict which sectors stand to benefit in the months ahead. Although there's little you can do about the returns delivered by the financial markets, you *can* control the composition of your portfolio. For this reason, you may want to review the sector allocation and risk profile of your investment portfolio, if you have not done so lately.

All investments are subject to market fluctuation, risk, and loss of principal. Shares, when sold, may be worth more or less than their original cost. Investments seeking to achieve a higher return may involve greater risk. Sector funds tend to be more volatile than the market in general and may carry additional risks.

Mutual funds and ETFs are sold by prospectus. Please consider the investment objectives, risks, charges, and expenses carefully before investing. The prospectus, which contains this and other information about the investment company, can be obtained from your financial professional. Be sure to read the prospectus carefully before deciding whether to invest.

¹⁻² S&P Dow Jones Indices, 2018

³ *The Economist*, June 2, 2018

4th Quarter 2018

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Ten Year-End Tax Tips for 2018



Timing of itemized deductions and the increased standard deduction

The Tax Cuts and Jobs Act, signed into law in December 2017, substantially increased the standard deduction amounts and made significant changes to itemized deductions, generally starting in 2018. (After 2025, these provisions revert to pre-2018 law.) It may now be especially useful to bunch itemized deductions in certain years; for example, when they would exceed the standard deduction.

IRA and retirement plan contributions

For 2018, you can contribute up to \$18,500 to a 401(k) plan (\$24,500 if you're age 50 or older) and up to \$5,500 to a traditional or Roth IRA (\$6,500 if you're age 50 or older). The window to make 2018 contributions to an employer plan generally closes at the end of the year, while you typically have until the due date of your federal income tax return (not including extensions) to make 2018 IRA contributions.

Here are 10 things to consider as you weigh potential tax moves between now and the end of the year.

1. Set aside time to plan

Effective planning requires that you have a good understanding of your current tax situation, as well as a reasonable estimate of how your circumstances might change next year. There's a real opportunity for tax savings if you'll be paying taxes at a lower rate in one year than in the other. However, the window for most tax-saving moves closes on December 31, so don't procrastinate.

2. Defer income to next year

Consider opportunities to defer income to 2019, particularly if you think you may be in a lower tax bracket then. For example, you may be able to defer a year-end bonus or delay the collection of business debts, rents, and payments for services. Doing so may enable you to postpone payment of tax on the income until next year.

3. Accelerate deductions

You might also look for opportunities to accelerate deductions into the current tax year. If you itemize deductions, making payments for deductible expenses such as medical expenses, qualifying interest, and state taxes before the end of the year, instead of paying them in early 2019, could make a difference on your 2018 return.

4. Factor in the AMT

If you're subject to the alternative minimum tax (AMT), traditional year-end maneuvers such as deferring income and accelerating deductions can have a negative effect. Essentially a separate federal income tax system with its own rates and rules, the AMT effectively disallows a number of itemized deductions. For example, if you're subject to the AMT in 2018, prepaying 2019 state and local taxes probably won't help your 2018 tax situation, but could hurt your 2019 bottom line. Taking the time to determine whether you may be subject to the AMT before you make any year-end moves could help save you from making a costly mistake.

5. Bump up withholding to cover a tax shortfall

If it looks as though you're going to owe federal income tax for the year, especially if you think you may be subject to an estimated tax penalty, consider asking your employer (via Form W-4) to increase your withholding for the remainder of the year to cover the shortfall. The biggest

advantage in doing so is that withholding is considered as having been paid evenly through the year instead of when the dollars are actually taken from your paycheck. This strategy can also be used to make up for low or missing quarterly estimated tax payments. With all the recent tax changes, it may be especially important to review your withholding in 2018.

6. Maximize retirement savings

Deductible contributions to a traditional IRA and pre-tax contributions to an employer-sponsored retirement plan such as a 401(k) can reduce your 2018 taxable income. If you haven't already contributed up to the maximum amount allowed, consider doing so by year-end.

7. Take any required distributions

Once you reach age 70½, you generally must start taking required minimum distributions (RMDs) from traditional IRAs and employer-sponsored retirement plans (an exception may apply if you're still working for the employer sponsoring the plan). Take any distributions by the date required — the end of the year for most individuals. The penalty for failing to do so is substantial: 50% of any amount that you failed to distribute as required.

8. Weigh year-end investment moves

You shouldn't let tax considerations drive your investment decisions. However, it's worth considering the tax implications of any year-end investment moves that you make. For example, if you have realized net capital gains from selling securities at a profit, you might avoid being taxed on some or all of those gains by selling losing positions. Any losses over and above the amount of your gains can be used to offset up to \$3,000 of ordinary income (\$1,500 if your filing status is married filing separately) or carried forward to reduce your taxes in future years.

9. Beware the net investment income tax

Don't forget to account for the 3.8% net investment income tax. This additional tax may apply to some or all of your net investment income if your modified adjusted gross income (AGI) exceeds \$200,000 (\$250,000 if married filing jointly, \$125,000 if married filing separately, \$200,000 if head of household).

10. Get help if you need it

There's a lot to think about when it comes to tax planning. That's why it often makes sense to talk to a tax professional who is able to evaluate your situation and help you determine if any year-end moves make sense for you.



Recent tax reform legislation may have reduced the tax benefits of homeownership for some by (1) substantially increasing the standard deduction, (2) lowering the amount of mortgage debt on which interest is deductible, and (3) limiting the amount of state and local taxes that can be deducted. On the other hand, the tax benefits of homeownership may have increased for some because the overall limit on itemized deductions based on adjusted gross income has been suspended. You generally can choose between claiming the standard deduction or itemizing certain deductions (including the deductions for mortgage interest and state and local taxes). These changes are generally effective for 2018 to 2025.

Tax Benefits of Homeownership After Tax Reform

Buying a home can be a major expenditure. Fortunately, federal tax benefits are still available, even after recent tax reform legislation, to help make homeownership more affordable. There may also be tax benefits under state law.

Mortgage interest deduction

One of the most important tax benefits of owning a home is that you may be able to deduct the mortgage interest you pay. If you itemize deductions on your federal income tax return, you can deduct the interest on a loan secured by your home and used to buy, build, or substantially improve your home. For loans incurred before December 16, 2017, up to \$1 million of such "home acquisition debt" (\$500,000 if married filing separately) qualifies for the interest deduction. For loans incurred after December 15, 2017, the limit is \$750,000 (\$375,000 if married filing separately).

This interest deduction is also still available for home equity loans or lines of credit used to buy, build, or substantially improve your home. [Prior to 2018, a separate deduction was available for interest on home equity loans or lines of credit of up to \$100,000 (\$50,000 if married filing separately) used for any other purpose.]

Deduction for real estate property taxes

If you itemize deductions on your federal income tax return, you can generally deduct real estate taxes you pay on property that you own. However, for 2018 to 2025, you can deduct a total of only \$10,000 (\$5,000 if married filing separately) of your state and local taxes each year (including income taxes and real estate taxes). For alternative minimum tax purposes, however, no deduction is allowed for state and local taxes, including property taxes.

Points and closing costs

When you take out a loan to buy a home, or when you refinance an existing loan on your home, you'll probably be charged closing costs. These may include points, as well as attorney's fees, recording fees, title search fees, appraisal fees, and loan or document preparation and processing fees. Points are typically charged to reduce the interest rate for the loan.

When you buy your main home, you may be able to deduct points in full in the year you pay them if you itemize deductions and meet certain requirements. You may even be able to deduct points that the seller pays for you.

Refinanced loans are treated differently. Generally, points that you pay on a refinanced loan are not deductible in full in the year you pay them. Instead, they're deducted ratably

over the life of the loan. In other words, you can deduct a certain portion of the points each year. If the loan is used to make improvements to your principal residence, however, you may be able to deduct the points in full in the year paid.

Otherwise, closing costs are nondeductible. But they can increase the tax basis of your home, which in turn can lower your taxable gain when you sell the property.

Home improvements

Home improvements (unless medically required) are nondeductible. Improvements, though, can increase the tax basis of your home, which in turn can lower your taxable gain when you sell the property.

Capital gain exclusion

If you sell your principal residence at a loss, you can't deduct the loss on your tax return. If you sell your principal residence at a gain, you may be able to exclude some or all of the gain from federal income tax.

Capital gain (or loss) on the sale of your principal residence equals the sale price of your home minus your adjusted basis in the property. Your adjusted basis is typically the cost of the property (i.e., what you paid for it initially) plus amounts paid for capital improvements.

If you meet all requirements, you can exclude from federal income tax up to \$250,000 (\$500,000 if you're married and file a joint return) of any capital gain that results from the sale of your principal residence. Anything over those limits may be subject to tax (at favorable long-term capital gains tax rates). In general, this exclusion can be used only once every two years. To qualify for the exclusion, you must have owned and used the home as your principal residence for a total of two out of the five years before the sale.

What if you fail to meet the two-out-of-five-year rule or you used the capital gain exclusion within the past two years with respect to a different principal residence? You may still be able to exclude part of your gain if your home sale was due to a change in place of employment, health reasons, or certain other unforeseen circumstances. In such a case, exclusion of the gain may be prorated.

Other considerations

It's important to note that special rules apply in a number of circumstances, including situations in which you maintain a home office for tax purposes or otherwise use your home for business or rental purposes.

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What's so great about a college net price calculator?

If you're saving for a child's college education, at some point you'll want to familiarize yourself with a college net price calculator, which is an invaluable tool for estimating financial aid and measuring a college's affordability. Available on every college website, a net price calculator gives families an estimate of how much grant aid a student might expect at a particular college based on his or her personal financial and academic profile and the college's specific criteria for awarding grant aid. A college's sticker price minus grant aid equals a family's "net" price, hence the name.

The idea behind a net price calculator is to give families who are researching colleges a more accurate picture of what their out-of-pocket costs are likely to be, rather than having them rely on a college's published sticker price. The figures quoted by a net price calculator aren't guarantees of grant aid, but the estimates are meant to be close, so running the numbers is an excellent way for parents to see what their net price might be at different colleges.

Keep in mind that each college has a different sticker price and formula for determining how

much grant aid it distributes, so every calculator result will be different. For example, after entering identical financial and family information on three separate net price calculators, you might find that College A has a net price of \$25,000 per year, College B has a net price of \$30,000, and College C is \$40,000.

A net price calculator typically asks for the following information: parent income and assets, student income and assets, and the number of children in the family, including how many will be in college at the same time. (Generally, the more children in college at the same time, the more grant aid.) It may also ask more detailed questions, such as a student's class rank and/or test scores, how much money parents have saved in employer retirement plans in the most recent tax year, current home equity, and how much parents expect to pay in health-care costs in the coming year.

A net price calculator typically takes about 10-15 minutes to complete and is time well spent. Typing "net price calculator" in the search bar of a college's website should direct you to it.



How can I safely shop online this holiday season?

Shopping online is especially popular during the holiday season, when many people prefer to avoid the crowds and purchase gifts with a few clicks of a mouse. However, with this convenience comes the danger of having your personal and financial information stolen by computer hackers.

Before you click, you might consider the following tips for a safer online shopping experience.

Pay by credit instead of debit. Credit card payments can be withheld if there is a dispute, but debit cards are typically debited quickly. In addition, credit cards generally have better protection than debit cards against fraudulent charges.

Maintain strong passwords. When you order through an online account, you should create a strong password. A strong password should be at least eight characters long, using a combination of lower-case letters, upper-case letters, numbers, and symbols or a random phrase. Avoid dictionary words and personal information such as your name and address. Also create a separate and unique password

for each account or website you use, and try to change passwords frequently. To keep track of all your password information, consider using password management software, which generates strong, unique passwords that you control through a single master password.

Beware of scam websites. Typing one word into a search engine to reach a particular retailer's website may be easy, but it sometimes won't bring you to the site you are actually looking for. Scam websites may contain URLs that look like misspelled brand or store names to trick online shoppers. To help you determine whether an online retailer is reputable, research sites before you shop and read reviews from previous customers. Look for *https://* in the URL and not just *http://*, since the "s" indicates a secure connection.

Watch out for fake phishing and delivery emails. Beware of emails that contain links or ask for personal information. Legitimate shopping websites will never email you and randomly ask for your personal information. In addition, be aware of fake emails disguised as package delivery emails. Make sure that all delivery emails are from reputable delivery companies you recognize.