



# ON THE FINANCIAL HORIZON

THE VAUGHN MCLAUGHLIN TEAM

Quarterly Newsletter for Friends & Clients

THIRD QUARTER 2018

## Our mission...

To build a partnership that will help our clients meet their financial goals and enjoy a more secure future. Our goal is your 100% satisfaction with the advice and service you receive.

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## FROM JIM'S DESK: June 20, 2018

This missive will be shorter than usual. As suggested in my Spring notes we expected a choppy market following the bona fide correction last February. We reported that historically following a correction you get a market that "roils" around on average about 200 days before making a decisive move one way or the other. We believe that decisive move will be to the upside for all the reasons we've discussed consistently for a long time. Add to that an earnings season just completed that was nothing short of stellar, which adds to our confidence in making that call and investing accordingly.

Only a black swan event would dissuade us at this point and by definition, those are totally unforeseen. They are also very rare. What about the tariff wranglings? Well, they rarely do any good in the aggregate but do adversely affect pockets and some countries more than others. At this point, much of this is viewed as posturing. I'll reserve judgement about the efficacy of such tactics other than what I said already. Unless we devolve into an all-out trade war, this too will wilt as a major factor and the *better than good* fundamentals will once again put a heavy thumb on the scales toward higher equity prices.

There is one word of warning I think I would be remiss not to once again mention. Sectors that are particularly sensitive to rising interest rates should be underweighted going forward. These would include utilities and real estate investment trusts (REITS). In addition, the asset class of fixed income (bonds) will very likely come under pressure in the coming months and years.

## FROM TRACY'S DESK: Know What You Own

Recently, I was fortunate enough to attend a conference and spend some time with our Chairman Emirates Tom James. Most clients are keenly interested in what Tom has to say, so I thought it would be appropriate to share his message.

As is his custom, Tom opens our meetings in the morning with his thoughts about the business environment, the markets, and things that we should keep an eye on. Over the years, I have come to know that Tom has been able to steer us clear of many of the pitfalls that our industry succumbed to, and has also been able to identify the opportunities that are presented to investors. He was wise in encouraging us to avoid some of the risky behaviors in the financial crisis, and cautions us today in areas that may not be recognized as risky.

One such focus, is the area of Exchange Traded Funds (ETFs). Some ETFs have become a popular investment vehicle, as they allow people to be invested in the markets with very little cost. Tom cautions that many of these products do not behave like more traditional stocks and bonds. Sometimes these investments are packaged in a way that we may not understand, and Tom's advice is to "know what you own", and be mindful of the way investments behave. We should take the time to understand the risks that we are taking, and not always go the "cheaper route".

On the opportunity side, Tom and has also been able to identify the undervalued areas presented to investors that sometimes go overlooked. Today, he encourages us to be certain that our portfolios are well diversified, and for those in a moderate growth mode, to include small and medium sized companies. Tom knows that in today's environment, many of our clients' portfolios have become concentrated in large companies here in the US, which can have unintended consequences. This is often a result of cautious investors not wanting to take too much risk. In fact, most agree that being concentrated in any asset can bring additional risks- even US "Blue Chip" companies. For moderate investors, Tom is encouraging us to consider the benefits of diversification and how all assets classes can work together in a portfolio.

Of course, these are not investment recommendations, but something to consider as we review your accounts and goals. I think we can take the good advice that comes to us from seasoned investors like Tom James, and many others, and weave those principals into a plan that will help you and your family for the long-term. My team and I are looking forward to the next review we have with you, and in the meantime, have a safe and enjoyable summer!

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## COMMUNITY SPOTLIGHT: Q&A with Don Shook



**Position:** Electrical Engineer (retired) for 35 Years. Member of Rotary for 27 years with perfect attendance. **Family:** Wife Barbara and two children James and Julie.

**How long have you lived in Citrus County? What do you like most about Citrus County?** Twenty-three years. It is a small, close community, friendly.

**Hobbies/Interests:** Rotary and woodworking. Barbara plays tennis.

**Community Involvement / Causes you are passionate about?** Rotary and Interact. Rotary liaison to Interact at Crystal River High, attending their weekly meetings and arranging activities for them to participate with Rotary, including Christmas shopping, tree planting, Manatee Festival, and Literacy Night. I've been the lead for scholarships; this year the Rotary Club gave six \$1,000 scholarships and two \$3,500 scholarships. Current Rotary Club Foundation Chairman and annual fund chair for Rotary District (48 Clubs) 6950— over \$400,000 was raised!

**Favorite place you've travelled to?** Keys, Idaho, and Ohio. Barbara enjoys anywhere in Florida.

**How old were you when you became interested in your profession? Career that interests you besides your own?** Seventh grade. Financial activities.

**Accomplishments most proud of?** Husband, father, charitable giving, helping others, being involved, helping college students.

**Biggest challenge in your profession or charitable organization?** Staying up to date with electrical profession. Staying current with ways to give to charities.

**What do you want to learn more about?** Finances.

**If you had complete financial security, how would you spend your time?** Helping others, working with students, being part of family.

**What do you strive for most in life? Keeping good health and a good mind. Barbara strives for happiness. What do you try to avoid?** Dying

**How would you like to be remembered?** Helping others, as a good husband and father. **What values or philosophies would you like to pass on?** Understand what you do and how it impacts others. Look forward, do not dwell on the past.

**Upcoming Rotary fundraisers & programs?** Plant an additional 50 trees to the existing farm of 350 trees in October 2018, Christmas shopping with 100 kids in December, Manatee Festival in January 2019, and Beast Feast in March 2019.

## FROM NANCI, KRIS & SUZANNE: 529 Plans Expanded

With back-to-school season approaching, be aware that 529 plans were recently expanded to allow K-12 expenses. 529 savings plans make a great gift for children, grandchildren, great grandchildren or other important family members or students in your life.

In December 2017, as part of the Tax Cuts and Jobs Act, the definition of a 529 plan "qualified education expense" has been expanded to include K-12 expenses. Starting this year, annual withdrawals of up to \$10,000 per student can be made from a



529 college savings account for tuition expenses in connection with enrollment at an elementary or secondary public, private, or religious school (excluding home schooling).

Such withdrawals are now tax-free at the federal level. At the state level, roughly 20 states and the District of Columbia automatically update their state legislation to align with federal 529 legislation, but the remaining states will need to take legislative action to include K-12 expenses as a qualified education expense and, if applicable, extend other state tax benefits

to K-12 expenses; for example a deduction for K-12 contributions. 529 account owners who are interested in making K-12 contributions or withdrawals should understand their state's rules regarding how K-12 funds will be treated for tax purposes. In addition, account owners should check with the 529 plan administrator to determine whether a K-12 withdrawal request should be made payable to the account owner, the beneficiary, or the K-12 institution. It's likely that 529 plans will further refine their rules to accommodate the K-12 expansion and communicate these rules to existing owners.

The expansion of 529 plans to allow K-12 expenses will likely impact Coverdell Education Savings Accounts (ESAs). Coverdell ESAs let families save up to \$2,000 per year tax-free for K-12 and college expenses. Up until now, they were the only game in town for tax-advantaged K-12 savings. Now the use of Coverdell ESAs may decline as parents are likely to prefer the much higher lifetime contribution limits of 529 plans — generally \$350,000 and up — compared to the relatively paltry \$2,000 annual contribution limit for Coverdell accounts. Coverdell ESAs do have one important advantage over 529 plans, though — investment flexibility. Coverdell owners have a lot of flexibility in terms of what investments they hold in their account, and they may generally change investments as often as they wish. By contrast, 529 account owners can invest only in the investment portfolios offered by the plan, and they can exchange their existing plan investments for new plan investments only twice per year. A list of 529 plans offered, by state, and a comparison tool are available at [collegesavings.org](http://collegesavings.org).

The new tax legislation also allows 529 account owners to roll over (transfer) funds from a 529 plan to an ABLE plan without federal tax consequences. This ability to transfer funds will expire at the end of 2025 unless a future Congress acts to extend the law. An ABLE plan is a tax-advantaged account that can be used to save for disability-related expenses for individuals who become blind or disabled before age 26. Like 529 plans, ABLE plans allow funds to accumulate tax deferred, and withdrawals are tax-free when used to pay the beneficiary's qualified disability expenses, which may include (but are not limited to) housing, transportation, health care and related services, personal assistance, and employment training and support. ABLE accounts have annual and lifetime contribution limits. Contributions from all donors combined during the year cannot exceed the annual gift tax exclusion (\$15,000 in 2018). As for lifetime limits, each state sets its own limit, which is also the state's maximum for its 529 savings plan contributions. In most states, this limit is at least \$350,000. A list of ABLE plans offered, by state and comparison tools available at [ablenrc.org](http://ablenrc.org).

Investors should carefully consider investment objectives, risks, charges, and expenses associated with 529 plans and ABLE plans before investing. Specific information is available in each plan's official statement. Participating in a 529 plan or ABLE plan may involve investment risk, including possible loss of principal, and there is no guarantee that any investment strategy will be successful. Before investing, consider whether your state offers residents favorable state tax benefits for 529 or ABLE plan participation, and whether those benefits are contingent on joining the in-state plan. Other state benefits for 529 plans may include financial aid, scholarship funds, and protection from creditors. This information was developed by Broadridge, an independent third party. It is general in nature, not a complete statement of all information necessary for making an investment decision, and not a recommendation or solicitation to buy or sell any security. Investments and strategies mentioned may not be suitable for all investors. Past performance may not be indicative of future results. Raymond James & Associates, Inc. member New York Stock Exchange/SIPC does not provide advice on tax, legal or mortgage issues. These matters should be discussed with an appropriate professional. Raymond James is not affiliated with and does not endorse Stuff the Buss or independent third parties named herein.



**July 28: Stuff the Bus, 10:00am-2:00pm, Winn Dixie stores in Beverly Hills, Crystal River & Inverness, as well as Walmart stores in Inverness & Homosassa. Donate school supplies for our county kids in need. All donated school supplies appreciated. Suggested items: scissors, pens, No. 2 pencils, water-based markers, rulers, backpacks, spiral notebooks, glue sticks, erasers, three-ring binders, index cards, notebook paper, pencil sharpeners, packet folders, post-it notes. School supplies can also be dropped off at our office & we will deliver to the school district for distribution.**

## AMY'S COMMUNITY CORNER: *Exploring Donor Advised Funds*

Giving creates positive change in people, institutions and communities. It sustains a multitude of worthwhile organizations. It launches innovative new programs and services. Plus it makes us feel good and it gives us cause to celebrate. But even the simple act of giving can get complicated, especially if you are exceptionally generous. If your charitable gifts amount to \$10,000 or more annually, you may be overwhelmed by requests for support from well-meaning charities. Saying yes to one and no to others isn't always easy.

Donors also have to be tax experts to know exactly when to give and how to deduct. It takes time and money to administer gifts properly. And if the charity changes its policies or philosophy, donors often lose control of their gift. That's a lot to worry about when all you want to do is make a simple gift. *Raymond James Charitable* simplifies giving by making grants to charitable organizations on your behalf, so that you enjoy giving without the hassle of timing, tax concerns, expenses and recordkeeping. Because the fund is a tax-qualified public charity, it provides you with immediate and full tax deductions and, at the same time, seeks to increase the value of your original gift through prudent investing. You can even name your account – for example, “The Smith Family Foundation” – and pass it on to your children and grandchildren so that your gift keeps on giving for generations to come. You can honor a cherished family member – “The Margaret Smith Memorial Foundation” – or you can highlight your personal charitable goals – “The Smith Family Foundation for the Performing Arts.”

**Contributions:** To establish a *Raymond James Charitable* account, you can contribute as little as \$10,000 in cash, marketable securities or mutual fund shares. Subsequent contributions can be made in amounts of \$500 or more. *Raymond James Charitable* can also assist companies and small businesses with their charitable giving. The minimum contribution for companies is the same as it is for individuals. The fund lets individuals or businesses outsource the administrative responsibilities, leaving more time and resources to focus on grant making and addressing the company's strategic goals. Whether individuals or corporations make them, all gifts to *Raymond James Charitable* are irrevocable, so it's important for you to consider your long-range needs before choosing to give. Before you make your initial gift, you will be asked to complete and sign a donor account application and name your account.

**Investments:** Unlike many other donor advised funds, *Raymond James Charitable* invests in mutual funds other than those offered by a sponsoring firm, providing you with greater choices of investment options. For account balances under \$500,000, you may recommend that your donation be invested in one of six investment objectives, comprised of a portfolio of mutual funds. Additional investment options are available for accounts of \$500,000 or more.

**Choosing the Charities & Causes You Want to Support:** You may recommend grants to any combination of nearly 1 million U.S. charities that qualify as 501(c)(3) public organizations under the Internal Revenue code. If you'd rather be more general in your giving, you can grant in support of children's health, the environment, women's issues or any cause important to you. The board will ensure that your gift is used in support of that purpose. Grants cannot be used to fund a private foundation or for political or lobbying purposes and the board retains the right to disapprove recommendations. Grants can be made at any time, whenever it's most advantageous for you. And you can take the full tax deduction – up to the limit of the law – immediately. Unlike private foundations, the fund does not ordinarily require individuals to make a 5% distribution annually, however the fund in aggregate must give away 5% of its assets each year. Once you've chosen your charities and you're ready to give, subject to board approval, the fund will review recommendations and make grants from your account in amounts of \$250 or more to as many qualified charities as you wish. The fund will send a letter with the grant check recognizing that you recommended the gift, or, if you wish, you can remain anonymous.

### A Wide Range of Benefits

- ◆ **Immediate Tax Deduction:** One of the most appealing benefits of the fund is that you can take an immediate tax deduction – up to the maximum allowed by law – for the amount you've donated. Then, you can recommend the fund make grants to your favorite charities at any time in the future – next week, next year or 10 years from now. You avoid the pressure of having to make snap year-end decisions because of an income tax deadline, and you can spread your giving over time. And because the fund is a public charity, you may be able to take a larger deduction within a given year than you would for a donation or contribution to a private foundation.
- ◆ **No Capital Gains Tax:** If you contribute long-term appreciated securities to the fund, you'll avoid capital gains tax on the appreciated portion and receive an immediate charitable tax deduction for the full fair market value of your gift. This is particularly useful for shares bought at a very low price (or other basis) that have appreciated greatly over the years.
- ◆ **No Estate Taxes:** Assets donated to the fund during your lifetime are no longer part of your estate and, therefore, not subject to probate. To gain additional estate-planning benefits from the fund, you may leave a bequest to the fund or name the fund as beneficiary of a charitable remainder trust, an IRA or other retirement assets. And your gifts have the potential to grow. Depending on the investment objectives you select and the number of grants you make, it's likely that your gift may earn interest and grow over time, so you may be able to give even more than the value of your original gift.
- ◆ **Creating a Tradition of Giving:** You can't live forever, but your passion for helping others can. The fund enables you to create a legacy of giving in your family name, see the benefits in your lifetime and designate a successor donor – your children, grandchildren or other important people in your life – to recommend grants for you after your death. Alternatively you may name specific charities to receive grants beyond your lifetime.
- ◆ **The Pleasure of Giving Without the Burden:** *Raymond James Charitable* provides all the administration and reporting services you need for your giving program, including the documentation you need to calculate and support income tax deductions. Unlike private foundations, there are no startup costs, no tax on the fund's investment income, no individual payout requirement and the *Raymond James Charitable* provides all recordkeeping services and account activity status reports.



PRIVATE FOUNDATION	RAYMOND JAMES CHARITABLE
Legal and accounting fees to establish	No startup costs
Foundations need to manage assets, maintain records and prepare tax returns	All administrative, investment and recordkeeping services are provided by the fund
Current year tax benefit limited to 30% of adjusted gross income for cash gifts and 20% of adjusted gross income for fair market value of marketable securities held long term	Current year tax benefit limited to 50% of adjusted gross income for cash gifts and 30% of adjusted gross income for fair market value of marketable securities held long term
Excise tax of 2% of investment income annually	No tax on fund investment income
5% of foundation assets must be distributed annually to avoid income taxes	No individual payout required, however 5% of the total fund must be distributed each year
Must verify tax deductibility of charity	Fund verifies the tax status of all recipients.

\* Although your charitable contributions are usually fully tax deductible, every individual's tax situation is unique. Before donating to the fund, you may wish to consult your attorney or accountant with respect to questions about your tax liability.



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## SAVE the DATE

### UNIT INVESTMENT TRUSTS



*For our next thematic quarterly coffee club meeting (Wednesday, July 11, 9:30am at the College of CF in Lecanto) we will be joined by Paul Peterson, Regional Vice President for First Trust Portfolios L.P. Attendees will learn about UITs (Unit Investment Trusts). UIT's can be a practical solution to add tactical exposure to already well-allocated portfolios in a more diversified manner. Instead of trying to single out one or two specific stocks within a given sector, UITs give you access to a pool of securities within that sector or theme.\* To reserve your seat, please call 352.795.6155 or email amy.barbieri@raymondjames.com*

**July 4:** The office and markets will be closed in observance of Independence Day. Markets will also close early (1:00pm) on July 3.

**July 5:** Wall Street Coffee Club, 10:00am, Citrus County YMCA, Lecanto.

**July 11:** Thematic Wall Street Coffee Club with Special Guest Expert, 9:30am, College of CF, Lecanto (see above).

**July 14:** Citrus County Chronicle's *Best of the Best* Showcase, 9:00am-2:00pm, Citrus County Auditorium, Lecanto.

**July 17:** Wall Street Coffee Club, 9:30am, Juliette Falls Clubhouse, Dunnellon.

**July 24-29:** Team members to attend educational conference, Orlando.

**July 28:** Stuff the Bus, 10:00am-2:00pm, Winn Dixie stores in Beverly Hills, Crystal River & Inverness, Walmarts in Inverness & Homosassa (see page 2).

**August 2:** Wall Street Coffee Club, 10:00am, Citrus County YMCA, Lecanto.

**August 21:** Wall Street Coffee Club, 9:30am, Juliette Falls Clubhouse, Dunnellon.


**September 3:** The office and markets will be closed in observance of Labor Day.

**September 6:** Wall Street Coffee Club, 10:00am, Citrus County YMCA, Lecanto.

**September 18:** Wall Street Coffee Club, 9:30am, Juliette Falls Clubhouse, Dunnellon.

**September 22:** Women's Health & Fitness Expo, 9:00am-1:00pm, National Guard Armory, Crystal River.

**Call us with questions on any of the above events or if you would like to feature your organization's upcoming events in our next newsletter.**

\*Investors should carefully consider the investment objectives, risks, charges and expenses of unit investment trusts (UITs) before investing. The prospectus contains this and other information about UITs. The prospectus is available from our financial advisor and should be read carefully before investing. The information contained herein is not a recommendation of any specific security or strategy, and does not constitute a solicitation of the purchase of securities. There is no guarantee that the issuers of the securities included in the portfolios will declare distributions in the future or that, if declared, they will either remain at current levels or increase over time. Past performance is no guarantee of future results. Diversification doesn't assure a profit or protect against a loss in declining markets. There is no assurance that the objective will be met. Not FDIC Insured, Not Bank Guaranteed. May lose value. Many of these fully invested portfolios employ a "buy and hold to term" philosophy and emphasize the long term approach to investing by rolling/reinvesting into successive portfolios, if available. It's important to remember that diversification does not ensure against loss. It is also important to note that portfolios concentrated in an individual sector are subject to additional risks. Raymond James & Associates, Inc., Member New York Stock Exchange/SIPC. Certified Financial Planner Board of Standards Inc. owns the certification marks CFP®, CERTIFIED FINANCIAL PLANNERTM and  which it awards to individuals who successfully complete initial and ongoing certification requirements. Investing always involves risk and you may incur a profit or a loss. Past performance does not guarantee future results. Raymond James financial advisors do not render legal or tax advice. Please consult a qualified professional regarding legal or tax advice. The information in this newsletter has been obtained from sources considered to be reliable, but we do not guarantee that the foregoing material is accurate or complete. Any opinions are those of the author and are not necessarily those of Raymond James. Expressions of opinion are subject to change without notice. Links are being provided for information purposes only. Raymond James is not affiliated with and does not endorse, authorize or sponsor any of the listed web sites or their respective sponsors. Raymond James is not responsible for the content of any web site or the collection or use of information regarding any web site's users and/or members. The S&P 500 is an unmanaged index of 500 widely held stocks. An investment cannot be made directly in this index.