



ON THE FINANCIAL HORIZON

THE VAUGHN MCLAUGHLIN TEAM

Quarterly Newsletter for Friends & Clients

FIRST 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: *January 11, 2018*

It seems to me that we tend to look at the beginning of each New Year as a "starting over" again rather than just an arbitrary date on a continuum. By now, I suspect almost everyone realizes what a terrific year 2017 was for the equity markets around the world, but in this "continuum" vein, I see no reason on the near horizon that is likely to interrupt the continued rise. Many astute money managers have already started labeling this bull market that started in 2009, the greatest of their lifetimes! Notwithstanding the fact that you can always find some naysayers often peddling fear in one form or another, their evidence for doom and gloom has significantly dissipated. We remain in the camp that posits continued upward movement of the equities markets and remain constructive in encouraging our clients to participate; we think we have years to run mostly to the upside.

No one has ever accused me of being a visionary, but I know one when I see one. Therefore, let us have a little fun and imagine our future mixed with a sprinkling of facts we know from history. My decision to write about this was prompted by several recent missives. Some of you may remember my enthusiasm about Pete Diamandis's book *Abundance: The Future Is Better Than You Think* a few years ago. Then, last night while listening to Bloomberg, an especially engaging strategist was talking about the incredible advances that are being attained in so many fields due to innovation and technology, leading to almost unimaginable gains. It once again occurred to me how difficult it is to look into the future on how it might be. His predictions boggle my mind.

Then, this morning, I find an article written by Warren Buffett, a treatise on the amazing progress seen in his lifetime. He begins the article as follows: "I have good news. First, most American children are going to live far better than their parents did. Second, large

See **JIM'S DESK** / Page 3

FROM TRACY'S DESK: *A new kind of resolution*

The first quarter newsletter is a natural place to talk about New Year's resolutions- a mindful intent to change a behavior, or begin a new one. While most Financial Planners are currently writing about the typical tasks of the new year, like becoming more organized, planning to increase retirement savings, look more closely at spending, or having the estate plan updated, our team believes there may be one more resolution that should be added to the list.

This year we ask the ladies in our readership to assess how involved they are in the family financial decisions. We certainly see many of our female clients who are quite sophisticated in financial affairs, however, many are not. This is partly a result of our society's investment culture being historically geared toward male investors, but we see things changing.

Women who have been widowed or divorced often find themselves in an overwhelming and uncertain situation. Fear of making the wrong decision, or being taken advantage of can create anxiety in an already stressful time. Good news- there is an easy way to put some of those fears to rest before it ever happens. Simply put- the solution is education. Our team prides ourselves on providing compassionate, patient education for everyone. Becoming more familiar with the financial world that impacts one's household is as essential as any other household responsibility, and can be no more difficult to learn. In fact, I believe it's easier to learn than many of the skills most of us have adapted to in our ever-changing world. Think about the first time you tried a smart phone or GPS navigation system. It may not have been intuitive at first, but soon the process made sense.

So as we begin 2018, ladies should look at their readiness to make financial decisions. Gentlemen, I hope you would encourage the wife, daughter or granddaughter in your life to be more involved in financial issues. One of the most rewarding parts of our profession is improving financial literacy in our community. It will probably be easier than that diet or exercise program that makes it on the list every year! Give us a call to discuss how we can help. As we take your family through the financial planning journey, nothing is more important than equipping everyone for the task.

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COMMUNITY SPOTLIGHT: Q&A with Accountant Terri Dallaire

Current Position: CPA / Principal in Dallaire & Associates CPA'S, PA, Crystal River, Florida. **Years in Position:** 13

Family: Husband - John, Daughter - Jennifer, Stepsons - John & Daniel, Grandchildren - Erin, Payton & Quinn.

How long have you lived in Citrus County? 36 years. **What do you like most about Citrus County?** All of my family is here, lots to do and beautiful scenery.

Hobbies/Interests: Scuba diving. **Community Involvement?** Member & Treasurer of the Kings Bay Rotary. Former member & Treasurer of Citrus Sertoma. Lots given back to the community through Rotary's Stone Crab Festival. **Favorite vacation destination?** Caribbean— we do a lot of cruising.

Career(s) that interests you besides your own? I never really considered any other career path. **Career accomplishments most proud of?** Becoming a CPA; owning my own practice; earning clients' trust and respect.

How old were you when you became interested in your profession, and what led you to pursue this career? 16. I was put into a bookkeeping class as an elective— think it had to do with the Dewey Decimal System— knew by the end of the first week that's what I wanted to do.

What do you enjoy most about your profession? Getting to know my clients. I enjoy tax preparation and bookkeeping. Also— the challenge of getting it right and doing the best possible job.

Biggest challenge in your profession? It's very demanding and long hours during tax season. Also— keeping up with all the new law changes.

Please describe any new tax laws affecting your clients the most? I'm really excited about the new tax law. It's going to lower individual taxes for my clients, but really give my business clients the break they have needed since the economy took its downturn 10 years ago.

What makes a good accountant in your opinion? An accountant that can look at what is best for their clients by listening to what they are trying to accomplish. Most importantly, trying to keep them out of trouble with the IRS.

If you had complete financial security, how would you spend your time? I would most likely still work at least part-time, but would like to do some travelling.

How would you like to be remembered? What values or philosophies would you like to pass on? As the accountant most trusted— living up to that. My hope is that my future successors will carry on with the same values and philosophies I have practiced with.

FROM AMY'S DESK: A Historic View of Volatility

Periods of market volatility, especially pullbacks, can trigger emotional responses. You may feel upset or worried about the results of the election or other headlines- it's normal. Volatility can also appear as rapid upswings causing sometimes-unbridled euphoria that can also impact judgment. That's why the best response to market volatility is to contact us for a conversation about what the numbers really mean.

Pullbacks Throughout History:

Pullbacks can make investors want to pull up stakes and pull out – a common reaction and a common mistake, especially for long-term investors. The right knowledge can help us avoid this mistake, and when we are willing to learn, there's no better teacher than history. By looking at the market over a long period of time, we're provided with a true testament of resiliency. Each decline along the way felt terrible. And declines today feel just as bad. But when we track the overall growth the market has achieved, we learn a lesson in persistence, patience and commitment. Remember:

- ◆ The stock market is cyclical.
- ◆ You will likely encounter numerous pullbacks and/or corrections as a long-term investor.
- ◆ A study of the stock market shows its resilience.
- ◆ Upturns have always been stronger than downturns in the long run.

Over Time, Returns Have Been Positive:

For every action, there's a reaction. While Newton applied this law in the physical world, it also holds true in the realm of human emotion. When we perceive that things aren't going our way, we react. And when coping with seemingly unpredictable returns, knowledge and time can once again be our allies. Returns over short periods of time have been typically unpredictable. But things tend to become less volatile when you expand the time horizon to 5 years or more using rolling returns.

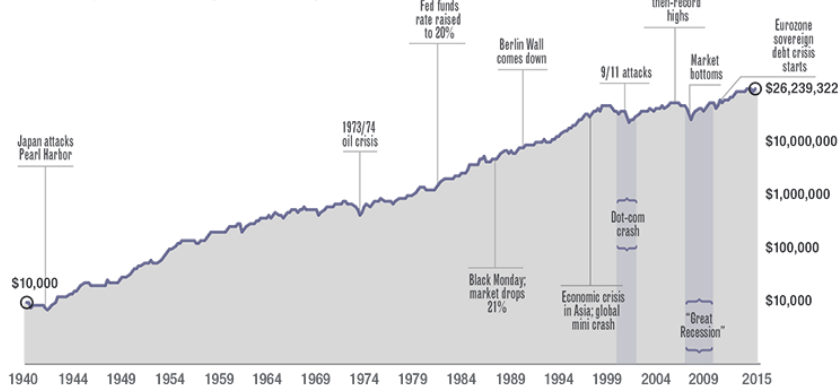
Rolling returns show the behavior of returns for holding periods like those experienced by long-term investors. In the chart to the right, we see positive returns over every 20-year period in the S&P 500. Remembering your long-term time horizon can help when facing short-term disappointments. Also remember:

- ◆ Returns have been less volatile over longer holding periods.
- ◆ Returns over time have been positive.
- ◆ Dollar-cost averaging can help take advantage of volatility.

Especially during declines, we can act as a sounding board for your concerns. By talking about current events in light of your overall financial plan, we can help provide a reassuring perspective to help you stay the course, even when the market seems relatively tumultuous.

STOCKS OVERCOME BUMPS IN THE ROAD

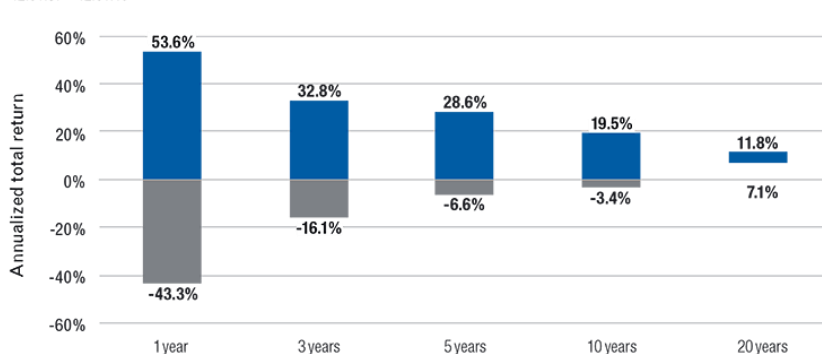
Growth of \$10,000 in the S&P 500 (1.31.40 – 12.31.15)



Source: Morningstar

RANGE OF S&P 500 RETURNS BASED ON TIME HORIZON

12.31.87 – 12.31.15



Source: Morningstar

FROM NANCI, KRIS & SUZANNE: *Tax Cuts and Jobs Act, Impact on individuals*

On December 22, 2017, President Trump signed into law the Tax Cuts and Jobs Act, a \$1.5 trillion tax-cut package that fundamentally changes the individual and business tax landscape. While many of the provisions in the new legislation are permanent, others (including most of the tax cuts that apply to individuals) will expire in eight years. Some of the major changes included in the legislation that affect individuals are summarized below; unless otherwise noted, the provisions are effective for 2018 through 2025.



Individual income tax rates: The legislation replaces most of the seven current marginal income tax brackets (10%, 15%, 25%, 28%, 33%, 35%, and 39.6%) with corresponding lower rates: 10%, 12%, 22%, 24%, 32%, 35%, and 37%. The legislation also establishes new marginal income tax brackets for estates and trusts, and replaces existing "kiddie tax" provisions (under which a child's unearned income is taxed at his or her parents' tax rate) by effectively taxing a child's unearned income using the estate and trust rates.

Standard deduction and personal exemptions: The legislation roughly doubles existing standard deduction amounts, but repeals the deduction for personal exemptions. Additional standard deduction amounts allowed for the elderly and blind are not affected by the legislation and will remain available for those who qualify. Higher standard deduction amounts will generally mean fewer taxpayers itemizing deductions going forward.

Itemized deductions: The overall limit on itemized deductions that applied to higher-income taxpayers (commonly known as the "Pease limitation") is repealed, and the following changes are made to individual deductions:

- ◆ *State and local taxes* - Individuals are only able to claim an itemized deduction of up to \$10,000 (\$5,000 if married filing a separate return) for state and local property taxes and state and local income taxes (or sales taxes in lieu of income).
- ◆ *Home mortgage interest deduction* - Individuals can deduct mortgage interest on no more than \$750,000 (\$375,000 for married individuals filing separately) of qualifying mortgage debt. For mortgage debt incurred prior to December 16, 2017, the prior \$1 million limit will continue to apply. No deduction is allowed for interest on home equity indebtedness.
- ◆ *Medical expenses* - The adjusted gross income (AGI) threshold for deducting unreimbursed medical expenses is retroactively reduced from 10% to 7.5% for 2017 and 2018, after which it returns to 10%. The 7.5% AGI threshold applies for calculating the alternative minimum tax (AMT) for the two years as well.
- ◆ *Charitable contributions* - The top AGI limitation percentage that applies to deducting certain cash gifts is increased from 50% to 60%.
- ◆ *Casualty & theft losses* - Deduction for personal casualty and theft losses is eliminated, except for such losses suffered in federal disaster areas.
- ◆ *Miscellaneous itemized deductions* - Miscellaneous itemized deductions that would be subject to the 2% AGI threshold, including tax-preparation expenses and unreimbursed employee business expenses, are no longer deductible.

Child tax credit: The child tax credit doubled from \$1,000 to \$2,000 for each qualifying child under the age of 17. The maximum amount of the credit that may be refunded is \$1,400 per qualifying child, and the earned income threshold for refundability falls from \$3,000 to \$2,500 (allowing those with lower earned incomes to receive more of the refundable credit). The income level at which the credit begins to phase out is significantly increased to \$400,000 for married couples filing joint and \$200,000 for all other filers. The credit will not be allowed unless a Social Security number is provided for each qualifying child. A new \$500 nonrefundable credit is available for qualifying dependents who are not qualifying children under 17.

Alternative minimum tax (AMT): The AMT is essentially a separate, parallel federal income tax system with its own rates and rules — e.g., the AMT effectively disallows a number of itemized deductions, as well as the standard deduction. The legislation significantly narrows the application of the AMT by increasing AMT exemption amounts and dramatically increasing the income threshold at which the exemptions begin to phase out.

Other noteworthy changes:

- ◆ The Affordable Care Act individual responsibility payment (the penalty for failing to have adequate health insurance coverage) is permanently repealed starting in 2019.
- ◆ Application of the federal estate and gift tax is narrowed by doubling the estate and gift tax exemption amount to about \$11.2 million in 2018, with inflation adjustments in following years.
- ◆ In a permanent change that starts in 2018, Roth conversions cannot be reversed by recharacterizing the conversion as a traditional IRA contribution by the return due date.
- ◆ For divorce or separation agreements executed after December 31, 2018 (or modified after that date to specifically apply this provision), alimony and separate maintenance payments are not deductible by the paying spouse, and are not included in the recipient's income. This is also a permanent change.

This information was developed by Broadridge, an independent third party. It is general in nature, is not a complete statement of all information necessary for making an investment decision, and is not a recommendation or a solicitation to buy or sell any security. Investments and strategies mentioned may not be suitable for all investors.

FROM JIM'S DESK: *Continued*

gains in the living standards of Americans will continue for many generations to come." I will not recreate much of his thoughts here as you can read them in Time magazine or online. Suffice to say, he makes a compelling case about GDP per capita as opposed to just absolute GDP.

Mr. Buffett also reminds us that if we had not made all this progress, we would still have about 80% of today's workers on farms instead of the actual 2% now to do the job. It would be remiss and naïve to not admit that despite the staggering wealth creation of this American experiment, we still haven't figured out how to translate the wealth to many stuck on an economical treadmill, so there's work to be done. The agriculture transformation Mr. Buffett uses is amazing when trying to imagine what the future may hold. In my life, in 37 years of assisting a much smaller group of people to learn the value of investing in a capitalistic economy has been most rewarding. Seeing this firsthand and combined with the ideas of true visionaries put me down on the very bright side of the future forecasting ledger. Happy Continuum New Year to all.



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SAVE *the* DATE



SAUT RETURNING TO CITRUS COUNTY: World-renowned investment strategist, Jeff Saut, will present on Thursday, March 29th, 3:00-5:00pm at the College of CF Conference Center in Lecanto, FL (3800 S. Lecanto Hwy). A disciple of the markets for more than 40 years, Jeff possesses a breadth of experience in the field few can match. He is well known for his insightful & colorful stock market commentary as seen on **PBS, NPR, CNBC, Bloomberg TV, USA Network, Fox News, The Wall Street Journal, The New York Times, Barron's, The Washington Post, BusinessWeek, U.S. News, Fortune, and SmartMoney.** The event is open to the public, free to attend and will include light refreshments. Reservations required. Please RSVP by phone or email ASAP as we expect to reach seating capacity. RSVP phone #800.443.4368 or email amy.barbieri@raymondjames.com

February 19: The office and markets will be closed in observance of Washington's Birthday.

February 20: Wall Street Coffee Club, 9:30am, Juliette Falls country club, Dunnellon.

March 1: Wall Street Coffee Club, 9:45am, Citrus County YMCA, Lecanto.

March 20: Wall Street Coffee Club, 9:30am, Juliette Falls country club, Dunnellon.

March 30: The office and markets will be closed in observance of Good Friday.

April 5: Wall Street Coffee Club, 9:45am, Citrus County YMCA, Lecanto.

April 7: 5th Annual Schoolhouse Hustle 5K-10K-1 Mile Walk with health expo & kid zone to benefit the Citrus County Education Foundation, 7:00-11:00am, CREST School / Lecanto complex (see www.schoolhousehustle.com for more information).

April 11: Thematic Wall Street Coffee Club with Special Guest Expert, 9:30am, College of CF, Lecanto.


April 17: Wall Street Coffee Club, 9:30am, Juliette Falls country club, Dunnellon.

April 21: 20th Annual Superintendent's Golf Classic to benefit the Citrus County Education Foundation, 8:30am, Sugarmill Woods Golf & Country Club, Homosassa, \$55 to play (includes golf lunch, door prizes & hole contests). Sponsor opportunities also available. Call 352.726.1931 x2240 for more information.

May 3: Wall Street Coffee Club, 9:45am, Citrus County YMCA, Lecanto.

May 12: 24th Annual Raymond James Symphony Under the Stars featuring the Florida Orchestra, 6:00pm, Raymond James Stadium, Tampa. Contact us for your complimentary tickets, while supplies last.

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.

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