GATEWAY
INVESTMENT MANAGEMENT
OF
RAYMOND JAMES®

THE COMMUNIQUE

April 2018

MAJOR INDICES	CLOSE	MTD	QTD	YTD
S&P 500	2581.88	-2.34%	-2.34%	-3.43%
Dow Jones Industrials	23644.19	-1.90%	-1.90%	-4.35%
NASDAQ Composite	6870.12	-2.74%	-2.74%	-0.48%

U.S. TREASURIES	YIELD
5-yr Treasury Note	2.55%
10-yr Treasury Bond	2.74%
30-yr Treasury Bond	2.97%

Information as of April 2, 2018 Source: Thomson Reuter's Thomson One

MARKET COMMENT

Smooth-Hawley Tariff Redux

On June 6, 1930, Congress ratified the Smoot-Hawley Tariff Act, which placed tariffs on over 20,000 goods imported into America. Many economist at the time proclaimed this Act as the cause – or at least a magnification of – the 1930's Great Depression. However, many later studies revealed the Act had only a marginal effect on the impending depression due to the real issues at hand: an abundant domestic supply versus demand, a weak banking system, and misuse of debt (sound familiar). What ultimately caused the Great Depression is up for debate, but it would seem that the Smoot-Hawley Tariff Act was not the primary culprit. So, that leads us to the question, "how will the Trump tariffs affect the U.S. economy?" As was the case in the 1930's, many now worry that our President's recent tariffs on imported steel and aluminum will cause a trade war, strong nationalism, and lead to declining global economies – ultimately pushing us into a recession or something worse. **Especially now that the President has apparently focused his "sights" on Chinese trade**. It seems to me that tariffs cause more emotional angst among trading partners and, thereby, create sudden dislocations in the market. However, after temporary adjustments in prices, things typically return to business as usual. Of course, this only works if consumers are willing to buy at higher prices and, if the current strength of our global economies is any indication, it seems likely that the consumer will hang in there. But with strong employment in the U.S. and many other countries, employers may have to raise wages so that these consumers can afford the higher prices. That alone might lead to the big issue facing the Federal Reserve and the future of the U.S. economy - **"inflation**"

It's been many years since inflation was a relevant topic in America, so a brief definition may be helpful. According to *Investopedia*, i**nflation is the increase of the price of goods and services offered in an economy, as prices increase the consumer's purchasing power in each unit of the economies currency declines**. It should be noted, however, that moderate rates of increase in inflation do not usually affect our economy negatively. It is the continued increase over long periods of time, or a rapid increase over a short period of time, that usually cause economies to go into recessions and financial markets to decline.

As such, perhaps our focus for future market and economic performance should be directed toward interest rates and the cost of goods and services. In our experience, one of the best ways to monitor interest rates is watching the U.S. Treasury yield curve and the Federal Reserve's comments about the economy and interest rates. Of course, monitoring the cost of goods and services is fairly obvious when we participate as shoppers. However, we all don't buy or use the same goods and services that are figured into the inflation calculation, so we may be better served to want to watch the **Consumer Price Index** instead**.** Lastly, observing wages is an important component to inflation. And, because wage increase have been rather subdued over the past 10+ years, a meaningful increase in wages could drive up inflation rather quickly.

So why be concerned about the potential of increased inflation? Simply put, when the Federal Reserve increases interest rates, there is always the potential to "cut off" a growing economy by limiting consumers'(*e.g.* mortgages) and business' (*e.g.* corporate bonds) access to capital at affordable rates. Once that threshold is crossed, a recession typically ensues. As such, we will be keeping a close eye on the future of interest rate increases and the Federal Reserve's announcement about inflation.

As always, we highly appreciate and value your confidence. If we can be of service, please let us know.

PLANNING STRATEGY

Raymond James "Point of View" article. M18-2056859

New Realities for Modern Families

We've gone from "Leave it to Beaver" to "The Brady Bunch" to "Modern Family." Our favorite TV shows reflect the times we live in. Today, 70% of American families fall into the nontraditional category – and for these modern households, the need for comprehensive financial and estate planning is more important than ever.

Patchwork Families

Also known as blended families, where one or both spouses have children from a previous relationship, these families face complicated financial decisions in order to preserve family harmony. The spouses need to make sure each other is taken care of, and ensure that the children, stepchildren and future children share in the family wealth in a way that feels fair and equitable.

In 40% of new marriages, one or both spouses have been married before (Source: Pew Research Center)

It gets sticky when one spouse wants to provide for the surviving spouse, while also ensuring assets eventually go to his or her children. The survivor spouse may inherit the majority of assets but is under no legal obligation to ensure those assets then pass on to your children later. To avoid this potentially devastating mistake, be sure to make estate planning a priority – even if you're young.

Possible solutions:

- Trust is the solution – a formal trust that outlines your wishes. Ask your advisor if it makes sense to spell out bequests in a qualified terminable interest property (QTIP) trust to ensure your children, as well as your spouse, are provided for. The terms will vary based on your own family situation, but trusts can help you prescribe exactly how various family members should inherit.
- A pre- or post-nuptial agreement will also go a long way to ensure harmony. Be sure to discuss the final terms with your family so they'll understand the motivation behind your decisions.

All in the Family

Children become part of the family in any number of ways – birth, adoption, in vitro, posthumous births – and modern families must account for things people hadn't even heard of 30 years ago. Posthumous births can happen years after the loss of a loved one. Cryopreservation has made it possible for a child to be born even if one or both parents have already passed away. If you or your spouse has done this or is considering it, you'll want to think through the potential implications. Who would inherit any embryos, for example, and would any resulting child have a claim on your estate? Addressing these sensitive matters may be uncomfortable, but it's wholly necessary.

And, assisted reproductive technology allows for surrogates and donors to help you expand your family. However, preemptive measures must be taken to avoid estate complications. Contracts are helpful, but proactive estate planning will ensure everyone understands their role and whether they have a right to lay claim to part of your estate later.

No matter how your family grew, you'll have to think through how you want the children to inherit. What feels equitable and fair to you? To them? The answers are not always simple. Carefully consider decisions that will affect your biological children, stepchildren, adopted children and anyone else you'd like to inherit your estate or your business. And, as with anything regarding estate planning, document your wishes thoroughly.

Unmarried Partners

Living together without being married raises different challenges. You can't access spousal and survivor Social Security benefits; you aren't eligible to transfer or bequeath assets to each other without paying federal or state estate taxes; and you don't enjoy protected status as a beneficiary when it comes to pensions, retirement accounts and annuities. As a result, partners must be specifically named as beneficiaries so that your longtime love won't be left out should the unthinkable happen to you.

You also won't have rights to make health decisions for your significant other or have access to their health insurance, unless their company specifically allows unmarried partners to be covered.

While married couples automatically enjoy these rights, you can create something similar to protect your partnership. You just have to jump through a few hoops with the help of trusted advisors.

Possible solutions:

- Create a domestic partnership or civil union if your state allows. The county clerk's office or bureau of vital statistics is a good place to start.
- Title your home appropriately. Joint title with rights of survivorship allows your partner to inherit the home. Alternately, you can specify a percentage of ownership through a tenants-in-common title.
- Give your partner power of attorney over financial and healthcare decisions.
- Draft wills that name each other as heirs. If you think your will might be contested, consider a revocable living trust instead.
- Consider, too, a life partnership agreement. Similar to a pre-nup, this document spells out what happens to your joint assets if the relationship founders.
- Partners aren't entitled to spousal or survivor Social Security benefits. Life insurance might help replace this income for a surviving loved one. A charitable remainder trust could help, too. It can be set up to pay income to your beneficiary for life, and any remaining assets will go to charity.

On Your Own

Whether single, divorced or widowed, being on your own means you'll face some unique financial challenges, particularly when it comes to deciding who will catch you if you fall. There's no backup plan if you lose your job or become ill without a caretaker in place. Without children or a spouse, you may not know who should receive your estate, who should be the executor of your will, or who to trust with important decisions should you become incapacitated.

But not knowing doesn't mean you should do nothing at all. Attention should be paid to your will. If you pass away intestate, or without a will in place, your assets and property may fall to the direction of state statutes and probate courts. If there is no obvious heir, the state could choose related heirs you may not even know.

Start thinking this through now, and decide if you'd prefer to bequeath your estate to particular friends or charities. Decide, too, who you want to benefit from your retirement accounts, and be certain that beneficiary designation forms reflect where you want your assets to go. You can always update your documents later should your life circumstances change.

Possible solutions:

- Establish a robust emergency fund. Because you don't have another income to rely on, aim to cover a year's worth of expenses, and sign up for disability insurance to help you should you no longer be able to work.
- Beef up retirement savings for the same reason. You won't be able to tap a partner's Social Security or pension.
- Draft a team of pinch hitters. Select an executor for your estate, as well as a health and financial proxy, then establish durable powers of attorney for them. You'll need someone

caring and competent enough to manage your property and other matters if you are no longer able to do so. If you don't have family nearby, a trusted friend, member of the clergy or knowledgeable third party may be the right option for you. And make sure they know and understand your wishes, which you can spell out in a living will or medical directive.

- Those without children or a partner to help care for them as they get older rely more heavily on professional caregivers, and must plan for the associated costs. A long-term care policy may fit the bill.

Of course, no estate or financial plan should be set in stone. And while the planning can be complex, we, along with your estate attorney and accountant, can work together to offer guidance so that your wishes today will be honored tomorrow.

Sources: Financial Planning; Investing Daily; Michigan State University; Time.com; Barron's Raymond James financial advisors do not render advice on tax or legal matters. You should discuss any tax or legal matters with the appropriate professional.

LIFE & LEISURE

Raymond James "Point of View" article. M18-2059743

Thriving with Special Needs

To live a full life, and attain some measure of security and happiness – this is what all good parents want for their children, including those with sons and daughters who have disabilities. The difference is that families caring for a child with special needs often require special care to color in the details and make that dream a reality.

If you're the parent or relative of someone with special needs, you've probably wondered what you can do to make sure your loved one is taken care of no matter what. Here's a look at ways to build a better tomorrow for your beloved child with the help and advice of professionals you trust, including a new option to create tax-free savings accounts for children with special needs.

A Different Shade of 529

The Achieving a Better Life Experience (ABLE) Act of 2014 created the federal framework that allows parents to fund long-term care for a disabled child in a tax-free savings account (similar to a 529 account), for the life of the child.

The funds are held in a way that preserves eligibility for Supplemental Security Income (SSI recipients must have less than $2,000 in assets) and potentially Medicaid assistance. You may already be aware, but these types of means-tested benefits come with tricky rules for eligibility. That's why it's important to consult a financial professional before gifting assets to a person who relies on government benefits.

While the ABLE Act has passed at the federal level, it is up to the states to pass their own ABLE bills. If a state does not offer its own program, it may choose to contract with another state to offer its eligible individuals the opportunity to open ABLE accounts. Consumers may select a plan sponsored by any state, making it possible for people to select a plan that is best suited to their needs. Check the ABLE National Resource Center for a list of states that have passed ABLE legislation and have products available.

Knitting a Safety Net

If you or someone you know is caring for someone with special needs, you've probably heard about special needs trusts, a common financial and estate planning tool. These third-party trusts are structured so the beneficiary doesn't own the assets directly, allowing continued eligibility for need-based government benefits, such as Medicaid and SSI. The trust can be funded with just about any type of asset: securities, real estate, and cash. Some parents leave the trust empty until funded by the proceeds of their life insurance policy; others use it right away to set aside money for their child.

Most parents use these trusts because they feel government benefits aren't enough to give their child an adequate standard of living (in 2018, the basic monthly SSI benefit is $750 for an individual, meant to cover food and shelter). But they realize these same benefits allow their child access to valuable educational classes and outreach services that require Medicaid eligibility. Another reason for a trust: There's no guarantee that government benefits will continue or be able to provide their loved one with a safe, comfortable lifestyle. With a trust and benefits, there are at least two sources of income and more security for a person who may not have a way to earn a living.

That's why the structure of the trust is so important: The funds are designed to supplement, not replace, the government benefits. If funds from the special needs trust are used to pay for the beneficiary's food or shelter or if a beneficiary receives cash outright, that could trigger a reduction or loss of benefits. That's why the trust is best used to pay for goods and services that Medicaid doesn't cover (e.g., a handicap accessible van, dental treatment or special therapies), for travel and cultural experiences, or anything else that would add to your child's quality of life. Any remaining funds can be used as an inheritance for another family member.

A Maestro for Your Plan

Administering these types of trusts can be complex, so choosing the right trustee is crucial. This person will be given absolute control over the distribution of trust assets, be mindful of the beneficiary's disabilities, be assertive about claiming entitlements, and invest the trust funds wisely. On top of all this, the trustee also must keep up with any laws regarding trusts and public benefits.

It's a lot to ask of a family member, and with so much at stake, many families choose to appoint a professional as sole trustee or co-trustee. Another option is to have a financial professional work with family members in a trust advisory committee that has the power to recommend distributions to the trustee or replace the trustee if needed. Keep in mind that trustees commonly receive a fee for serving, as allowed by state law.

A Stand-In Guardian

For most parents, choosing a successor guardian is a crucial but difficult part of the estate planning process. After all, if full guardianship is needed, you are essentially asking someone to fill your shoes, taking care of all social, emotional, physical, educational and medical needs for your loved one when you no longer can. Maybe that's a brother or sister or a favorite cousin; just be sure to choose a trustworthy adult who only has your child's best interests at heart.

Once you've chosen a guardian, be sure to detail your preferences and instructions through an official will, though a court must still confirm the appointment. Parents should also name a backup guardian just in case.

Once you know who will take care of your child, if and when you can't, you'll want to figure out where they'll live. Do you want your child to remain in the home he or she grew up in and have the guardian move in? Or would your child move into the guardian's home? There are also group homes, apartments, planned residential communities and healthcare facilities for those who need more involved care. And you'll want to explore these options well before they're needed, to determine what's best for your loved one.

Keep in mind that changes in tax laws or regulations may occur at any time and could substantially impact your plans. That's why it's best to discuss any tax or legal matters with the appropriate professional.

Caring for Those Who Need It Most

For most parents of a disabled child, ensuring total care of their loved one is their life's work, perhaps becoming even more important when they're no longer able to provide the care themselves. Working with us and other professionals on the bigger financial picture can provide a sense of ease, knowing you've done all you can to protect and provide for someone you love. It just takes some extra planning to bring a colorful vision of a special needs future to life.

Quote of the Month: "Inflation is when you pay fifteen dollar for the ten-dollar haircut that you used to get for five dollars when you had hair." – Sam Ewing

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