GATEWAY
INVESTMENT MANAGEMENT
OF
RAYMOND JAMES®

THE COMMUNIQUE

February 2018

MAJOR INDICES	CLOSE	MTD	QTD	YTD
S&P 500	2695.14	-4.56%	-0.81%	-0.81%
Dow Jones Industrials	24912.77	-4.73%	0.78%	0.78%
NASDAQ Composite	7115.88	-3.99%	3.08%	3.08%

U.S. TREASURIES	YIELD
5-yr Treasury Note	2.55%
10-yr Treasury Bond	2.81%
30-yr Treasury Bond	3.07%

Information as of February 6, 2017 Source: Thomson Reuter's Thomson One

MARKET COMMENT

Correction?

A correction … say what? I think I vaguely remember what that is from a while back, but didn't those become obsolete last year?

Well, corrections are certainly not obsolete, but it has been some time since the stock market has registered a correction over 3%. In fact, we have to go all the way back to January 2016, when the S&P 500 dropped around 9%, to find the last correction phase in the stock market.

That's approximately 2.08 years since the last correction, so perhaps we should revisit the definition of a stock market correction to refresh our memories. According to Investodpedia: "a correction is a reverse movement, usually negative, of at least 10% in a stock, bond, commodity, or index to adjust for an over valuation. Corrections are generally temporary price declines interrupting an uptrend in the market or an asset. A correction has a shorter duration than a bear market or recession, but it can be a precursor to either." Well, there you have it, and as we write on February 6th, the S&P 500 has recorded a 9% plus decline from its intraday high of ~2873. Does that mean we can wipe our brow from the sweaty decline and expect a rising market going forward? Well, maybe or maybe not, only the days ahead will prove whether the market has corrected enough and no additional "interruptions" are needed. It is our experience that the market (investors) may need time to process the decline – which usually results in a period of up and down trading and, ultimately, creates a base for the market to launch into a future direction. That direction can either be up or down.

That's why it's important not to overlook one very important word in the definition above – "but." There always seems to be a "but" getting in the way of life, but that doesn't mean we can simply ignore them. So is this correction a precursor to a bear market or recession? To answer that question, it may help to review why the correction is taking place to begin with. Although this correction was sorely needed to remove the over valuations from the market and, thus, allow the current bull market to regain footing for potential future increases, there had to be something or some things to initiate the decline. Those catalysts seem to be rising interest rates, the falling dollar value, and the potential for future inflation. Nonetheless, we know that our economy is performing well with strong employment, raising corporate earnings, favorable interest rates for borrowing, and strong business and consumer sentiment. Perhaps some investors think the economy is too strong – which could prompt the Federal Reserve to "put the brakes" and slow things down – which could result in a slowing economy. Only time will tell, but the facts seem to be pointing to a resumption of rising stock market, at least in the near future. BUT, if the facts change, so must we as investors.

We have found over many years that it is the most productive to let the markets tell us what is going on and the least productive to tell the markets what they should do!

PLANNING STRATEGY

Raymond James "Point of View" article. MM18-1997686

Ensuring Your Financial Plan Outlives You

Married life brings with it a divvying up of responsibility. In the past, husbands often oversaw investments and handled retirement and estate planning details. This is changing, however. And, considering women typically outlive their male counterparts, modern couples understand it's essential for both individuals to be familiar with their family's financial plan. It's also important to keep in mind that the partner who assumes the lead financial role has a responsibility to ensure the financial plan can be maintained if and when one spouse passes away.

Strategic Coordination

Unfortunately, because discussing a loved one's death is unpleasant, many couples put it off. That's a mistake – one that invites problems by essentially assuring that the surviving spouse will have to make important decisions while they're dealing with the stress of a major life loss. Making certain your financial plan survives you begins with talking about it, in detail, with your spouse.

This is particularly important because the person who handles financial matters may have a temperament that's better suited to the task, meaning the surviving spouse can be left with a plan that seems complicated and difficult to follow. Since that spouse also will be dealing with grief, it's easy for trouble to surface. And although the spouse who's maintained the couple's finances likely views their financial advisor as someone their partner can turn to when they're gone, the other spouse may not view the relationship in the same light.

Avoiding this unfortunate outcome can be eased by recognizing that there are three parties in this equation, and that forming a good working relationship between you, your partner and our team is of the utmost importance. This relationship should include – at a minimum – an understanding of your investment strategy and portfolio holdings, what accounts are included, how assets are titled, and what needs to happen if one spouse dies. In this regard, it's a lot simpler if your and your partner's accounts are all under one roof.

Thoughtful Accommodation

Acknowledging that the surviving spouse may not want to handle financial matters in the same way is essential for the long-term success of your plan. For example, choosing specific stocks, bonds and other investments may be fine for a well-informed and experienced "do-it-yourself" investor. However, the surviving spouse may not have the time, experience or inclination to be a portfolio manager. If that's the case, it may be wise to either modify the portfolio ahead of time or identify investment alternatives that may be more suitable for the surviving spouse. Creating an investment policy statement – a document that discusses important subjects such as the annual withdrawal rate your portfolio can support – can also help to guide the less-involved spouse when the time comes.*

Thorough Preparation

A well-structured financial plan will also include appropriate cash reserves, which will prove especially important for the surviving spouse. Having immediately available cash gives the survivor time to adjust without needing to make major financial decisions. Try to set aside a year's worth of living expenses – more, if you can manage it – in highly liquid accounts such as CDs, money markets, and checking and savings accounts. Though yields in these kinds of accounts are minimal, that's not the major consideration here. You want to buy time for the survivor. Life insurance is essential and can help, but there's no substitute for immediately available cash.

To be fully prepared, it's also important that you and your spouse both understand whatever recordkeeping system has been used and have easy and immediate access to those files. Be aware that your way of approaching financial recordkeeping may not make sense to your spouse, and try to bridge any gap that exists. It's useful to have a master directory that covers every relevant account, asset and obligation. This might include bank and brokerage accounts, corporate retirement plans, IRAs, life insurance policies, real estate and other assets such as coins, art and collectibles; partnership agreements if one or both spouses have their own businesses; and any other items that have a bearing on your long-term financial objectives. This directory should include account names and numbers, contact people and their phone numbers, URLs and passwords – anything necessary to access and manage the accounts. Obviously, you don't want this falling into the wrong hands, so be sure it's stored safely and that there's a backup copy in a separate location. Remember to update both directories as time goes by and your situation evolves.

Although details matter a lot here, what's most important is ensuring that all your hard work and careful planning aren't damaged or even undone by failing to consider that the responsibility for carrying out your shared goals may shift from one spouse to another late in life. If that reality is acknowledged, discussed and approached as partners, it can serve as a way for you and your spouse to grow closer.

Raymond James "Point of View" article. MM18-1989064

Tax Act Implications for Education Savings

In late December 2017, the President signed new federal tax legislation that will change how 529 accounts can be used. Individual states may have variations. One of the most impactful changes is that tuition for primary and secondary education is now a qualified expense. Other changes include higher gifting limits and tax-free rollovers from 529 accounts to ABLE accounts.

Primary & Secondary School Expenses

As part of the act, the IRS tax code was amended to reflect that "qualified higher education expenses" will now include a reference to expenses for tuition in connection with enrollment or attendance at an elementary or secondary public, private, or religious school. The changes made in the new tax program take effect after December 31, 2017 and there is no sun setting provision for this change.

The new legislation stipulates that the amount of cash distributions from all qualified tuition programs for a single beneficiary during any taxable year shall not exceed $10,000 for these expenses, incurred during that year. It merits noting that the rules for tax-free withdrawals for post-secondary education remain unlimited up to the amount of post-secondary qualified expenses incurred for the beneficiary.

At this time, individual states and program managers are in the process of reviewing the recent federal tax law changes and determining how best to incorporate them into their programs. Please consult with your tax advisor to best determine how each state may be treating the expenses associated with K-12 education.

Gifting Limits

In any given year, an individual can gift up to the annual gift tax exclusion amount to anyone without incurring any gift tax consequences. Effective January 1, 2018, the exclusion amount increased to $15,000 from $14,000. And uniquely to 529 plans, an individual can accelerate the gifting by five years, thereby making an immediate contribution of $75,000. A married couple filing jointly can now make a split gift in the amount of $150,000 per beneficiary in 2018.

If a person makes the five-year election, the gift is ratably divided over five years; should the contributor die, a prorated part of the gift is moved back into their estate. The five-year and/or split gift election is made on IRS form 709. Although a larger gift can be made, the amount exceeding the five-year election amount would reduce your Unified Lifetime Gift Tax Exemption. Contributions to a 529 plan account are considered completed gifts to the named beneficiary, but from a legal standpoint the owner always controls the account.

Rollover Provisions

The new legislation also allows for a tax-free rollover of a 529 account to an Achieving a Better Life Experience (ABLE) account. The rollover would need to take place prior to January 1, 2026, as this provision expires. ABLE accounts were created in 2014 to give individuals with disabilities and their families the opportunity to save for the future without limiting access to critical income, healthcare, food or housing assistance programs. Rollovers from 529 plans are still subject to annual contribution limits of $15,000 in 2018.

These changes and enhancements provide increased flexibility around how you can save. Please let us know if you think these strategies may be appropriate for your situation.

Quote of the Month: "The two most powerful warriors are patience and time." – Leo Tolstoy

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