

THE COMMUNIQUE

January 2019

MAJOR INDICES	CLOSE	MTD	QTD	YTD
S&P 500	2759.14	2.70%	2.70%	2.70%
Dow Jones Industrials	25517.84	1.97%	1.97%	1.97%
NASDAQ Composite	7330.54	3.94%	3.94%	3.94%

U.S. TREASURIES	YIELD
5-yr Treasury Note	2.58%
10-yr Treasury Bond	2.73%
30-yr Treasury Bond	3.00%

Information as of January 8, 2019

Source: Thomson Reuter's Thomson One

MARKET COMMENT

A New Year

Welcome to the New Year, 2019. As investors, we gladly bid farewell to 2018 and its stock market shenanigans. But if there's any solace in the turmoil of 2018, it's that our domestic economy hummed right along, despite the market gyrations.

Now, as we reflect on the volatility experienced in 2018, we thought it timely to reprint a piece from the Raymond James portfolio strategy team that does an excellent job explaining what actually occurred in the markets.

Short-Term Summary: 2018 saw volatility revert back to historical averages, as 25% of days exhibited a 1% move in either direction (as a reminder, 2017 saw 1% moves in only 3% of days- lowest since at least 1985). This volatility was heightened in 4Q as 44% of days had a 1% move in what ended up being the worst quarterly performance since 2008. 4Q18 ended -14.0% lower, amplified by the worst December performance (-9.1%) since 1931. Selling beget selling, as the S&P 500 experienced a "waterfall" selloff in late December. After breaking to new 52 week lows, the S&P 500 cascaded 7.7% lower in the four days leading up to Christmas. At its intraday low on December 26, the S&P 500 reached down 20.2% from its highs on September 21 (-19.8% on a closing basis). During the pullback, numerous indicators flashed "very oversold," as the S&P 500 then bounced very sharply by

6.8% in the five days following Christmas. Among these indicators, the CBOE put/call ratio finally spiked to its highest reading in years. This is a gauge of investor "panic," and is often found near market lows, i.e. 2011 (EU debt crisis) and 2016 (manufacturing recession) lows. Additionally, the percentage of S&P 500 stocks in a bear market reached 70%, which is also consistent with the 60+% readings exhibited near the lows in 2011 and 2016. Even during the credit crisis recession, the S&P 500 experienced an oversold bounce in the short term after reaching such extreme readings. Furthermore, the percentage of stocks above their 200 day moving average dipped below 10%, another low reading often seen near tactical (or strategic) lows.

Weekly Market Guide, January 3, 2019 by:

Michael Gibbs, Director of Equity Portfolio & Technical Strategy | (901) 579-4346 | michael.gibbs@raymondjames.com

Joey Madere, CFA | (901) 529-5331 | joey.madere@raymondjames.com

Richard Sewell, CFA | (901) 524-4194 | richard.sewell@raymondjames.com

As you read the commentary above, I'm sure the thought crossed your mind, I wonder how 2019 will unfold? Will it be a continuation of 2018's declining markets – which would probably result in a recession – or will we experience a strong rally up because the markets are so oversold? Or perhaps it will be neither, and we'll see a see-saw market of ups and downs with a bias towards either a rising or falling market trend. As always, no one knows with any degree of certainty where the economy or stock market will be in 12 months. While there are many factors to consider, a lot will depend upon the status of our domestic economy. If economic growth slows down and we experience a period of rising unemployment, then we might see lower prices on stocks. However, we could have a "moderating" economy, which could account for the recent pull back on stocks, as the market adjust for a "moderation." Despite the uncertainties, I am fairly confident that coming months will produce trends that develop either short and/or long term, indicating the overall direction of the economy and stock market. We will monitor and adjust to whatever unfolds, but regardless of situation, and we are here to assist you through good, bad, and ugly.

As always, please call us if you have any questions or concerns. We really do want to hear from you. Thank you for your trust in confidence.

PLANNING STRATEGY

Raymond James "Point of View" article. M18-2342535

10 Important Tax Changes to Keep In Mind

As you continue with your tax planning, refresh your knowledge of the tax changes that are now in effect. Given the complexity, it's smart to consult with your tax, financial and legal professionals to ensure you're managing your wealth in the most tax-efficient way possible. Start the conversation with these topics and go from there.

Finding Your New Bracket

There are still seven brackets for 2018; the highest is now 37% instead of 39.6%. Where do you fall?

1. **Income tax brackets have shifted.** The act eliminates the so-called marriage penalty in all but the highest brackets and removes much of the disadvantage of the married-filing-separate status.

	Unmarried individuals, taxable income over	Married individuals filing jointly, taxable income over	Heads of households, taxable income over	Married filing separately, taxable income over
10%	\$0	\$0	\$0	\$0
12%	\$9,525	\$19,050	\$13,600	\$9,525
22%	\$38,700	\$77,400	\$51,800	\$38,700
24%	\$82,500	\$165,000	\$82,500	\$82,500
32%	\$157,500	\$315,000	\$157,500	\$157,500
35%	\$200,000	\$400,000	\$200,000	\$200,000
37%	\$500,000	\$600,000	\$500,000	\$500,000

Positioning Portfolios

When it comes to your investments, you should know that:

2. **Preferential rates for investment income remain unchanged.** Continue to strategically position investments to take advantage of preferential tax treatment given to qualified dividends and long-term capital gains.
3. **Ability to choose tax lots stays the same.** Any time a security is purchased, the new position creates a distinct tax lot, even if you already own shares of the same security. When appreciated securities are sold or donated, capital gains or losses will be calculated based on the tax lot that you determine to be the most appropriate for cost-basis purposes.
4. **Municipal bonds still have appeal.** Although the reduction in the top marginal tax rate may diminish the appeal of municipal bonds for some, those seeking income may still find municipals to be a great source of tax-advantaged income and diversification. Because some individuals may no longer be able to fully deduct state and local income taxes, municipal bonds may appeal more to residents of states with higher income tax rates, such as California and New York. The attractiveness of local bonds could improve as high-income taxpayers in these high-tax states look to optimize their tax-equivalent yields on both a federal and state tax basis.

Maximizing Retirement Savings

Those of us saving for retirement should know that:

5. **You may have more to contribute to retirement plans.** Employees who participate in certain retirement plans can now contribute as much as \$18,500, a \$500 increase from 2017. Those over 50 can contribute an additional \$6,000. If you end up paying less income tax, you could direct those

savings toward your retirement, boosting pre-tax retirement savings and taking advantage of any employer match.

6. **Roth IRA conversions could still be beneficial.** Although re-characterization of a Roth IRA conversion is no longer permitted, this doesn't mean you shouldn't consider a Roth conversion when it makes sense (e.g., you anticipate a lower effective tax rate in retirement).

Bidding Adieu to the AMT (For Some)

The new tax law increased the exemptions (\$109,400 married filing jointly and \$70,300 single filer) and phase-out thresholds (\$1 million married filing jointly and \$500,000 single filer) which means many high-income earners once subject to the alternative minimum tax (AMT) no longer are.

7. **Higher thresholds add flexibility for unexercised stock options.** Corporate employees with vested and unexercised incentive stock options (ISO) may be able to exercise and hold larger amounts of these options, thus obtaining significant income tax savings by converting more ordinary income into long-term capital gains.
8. **Recoup AMT credits.** If you have AMT carryovers from 2017, you could find it easier to recoup them given higher exemption levels.

Recalculating the "Kiddie Tax"

The so-called kiddie tax was intended to prevent parents in high income tax brackets from shifting income to children in lower tax brackets. It generally applied to children under age 18 and full-time students under age 24. Previously, the net unearned income of a child was taxed at the higher of the parent's or child's tax rate. That's not the case now, at least until 2026.

9. **Kiddos taxed at lower trust rates.** The new tax law simplifies how the tax is calculated, by no longer looking to the parent's income and instead looking to the trust bracket. This effectively means the ordinary and capital gains rates of trusts and estates apply to the net unearned income of a child, while the child's earned income is taxed using individual tax brackets. These revised kiddie tax rules are scheduled to revert back to 2017 levels in 2026.

Maximizing Your Gifts

The estate tax exemption has doubled to \$11.18 million per individual and \$22.36 million per married couple. The provision is set to expire for individuals whose death occurs after Dec. 31, 2025.

10. **Give as much as you can while you can.** The larger exemption affords an incredible opportunity to make substantial gifts and avoid federal and state death taxes on future appreciation of assets gifted during life. With this limited window of opportunity, you should consider using the higher exemptions before they are lost. On Jan. 1, 2026, the exemption will revert to \$5.6 million – but the IRS has announced that individuals who take advantage of the increased exclusion amounts before then will not be adversely impacted when the limit drops to pre-2018 levels.

Asset allocation and diversification do not guarantee a profit nor protect against a loss. While interest on municipal bonds is generally exempt from federal income tax, it may be subject to the federal alternative minimum tax, state or local taxes. In addition,

certain municipal bonds (such as Build America Bonds) are issued without a federal tax exemption, which subjects the related interest income to federal income tax. Rolling from a traditional IRA into a Roth IRA may involve additional taxation. When converted to a Roth, the client pays federal income taxes on the converted amount, but no further taxes in the future. Unless certain criteria are met, Roth IRA owners must be 59½ or older and have held the IRA for five years before tax-free withdrawals are permitted. Additionally, each converted amount is subject to its own five-year holding period. Investors should consult a tax advisor before deciding to do a conversion. Sources: Raymond James "Tax planning: Income and retirement" white paper; forbes.com, irs.gov

LIFE & LEISURE

Raymond James "Point of View" article. M18-2358196

Be Smarter Than Your New Smart Gadgets.

Smart technology and personal gadgets are becoming increasingly popular. But the features and connectivity that make them attractive could also potentially expose a treasure trove of personal information. As consumers, we may need to determine what's more important: our personal privacy or a device's functionality.

Learn more about possible vulnerabilities for some of the holiday season's most popular gifts and tips that could spare your personal information from being exposed.

Smart Speakers

Smart speakers such as Amazon's Echo and Google's Home have numerous uses to make life easier, like turning on music or reading the day's headlines. These devices constantly listen to their surroundings to determine if the respective trigger word, "Alexa..." or "OK, Google..." have been said, processing your commands through the cloud by sending them over the internet to their servers. Each interaction is stored in a database to teach the device your speech and use patterns, which helps the device function better. While this data customizes your smart speaker, anyone with access to your device's account can see your search history and hear all previous commands – even ones that sounded like a command but weren't.

Word to the wise: Periodically clearing search data can help prevent unauthorized access, but some convenience will be lost as the device is "forgetting" things that tailor the experience. You can also turn off the microphone button to stop it from listening, but then the device is no longer available at your command. At the very least, consider disabling or requiring a pin to complete voice purchases and network features to help further protect your wallet and privacy.

Video Call Displays

Smart displays specifically for video calls, such as Facebook's Portal, are new to the market and work similarly to smart speakers in that they awaken upon command to call other users in the network. The built-in camera can adjust and follow your movement around a room during the conversation.

Word to the wise: As with smart speakers, users who are uncomfortable with an always-on microphone and open camera lens at home can mute and cover them, respectively, and delete call

history. Portal runs on Facebook's encrypted Messenger platform which streams calls over an internet connection. Facebook can't record your calls, but it does track call length and participants. Because Facebook has faced a number of user privacy concerns and breaches over the years, experts recommend occasionally reviewing your account privacy settings.

Fitness Trackers

Fitness trackers range from purpose-built devices that track your steps, heartbeat and sleeping patterns to smart watch apps or features that monitor all of the above and more.

Word to the wise: Regardless of which brand best suits your needs, fitness trackers are fairly secure. Smart watches such as the Apple Watch typically encrypt data exchanged between the watch and connected phone. More traditional trackers, like Fitbit, also encrypt your data, but are more likely to anonymize and sell it to third parties.

DNA Testing Kits

The highest stakes for your personal privacy have nothing to do with gadgets. At-home DNA testing kits from companies including 23andMe, Ancestry and others offer consumers information about their ancestry or genetic vulnerabilities to certain health issues based on a submitted DNA sample (usually saliva).

Word to the wise: While your results may answer some important personal questions, they could have a lasting impact on your privacy and future. Users' results are stored in databases and are increasingly of interest to law enforcement agencies and pharmaceutical and healthcare companies. Depending on the respective privacy policy, your anonymized results can be shared and even sold without further consent.

Another way your DNA kit results could impact you: insurance coverage. Federal law protects consumers from having to provide genetic information to determine possibility or cost of coverage for health insurance, but that protection doesn't apply to long-term-care policies, life insurance or disability insurance. Consumers considering using a DNA testing kit should fully understand all privacy implications and consider consulting with healthcare, legal, insurance and financial professionals.

General Security Tips

Our homes, phones and other personal devices will likely continue to get smarter as technology advances – so to help protect your privacy, experts recommend the following general guidelines:

- Cover cameras, turn off microphones or even unplug devices when not in use
- Check default privacy settings
- Periodically delete your usage data
- Research and understand privacy policies before making a purchase

Quote of the Month: "Markets are constantly in a state of uncertainty and flux and money is made by discounting the obvious and betting on the unexpected." - George Soros

For questions or additional information please contact:

Raymond James & Associates

9900 Clayton Road, Saint Louis, Missouri 63124



Jim Pohlman, CFP®
Senior Vice President, Investments
James.Pohlman@raymondjames.com
T 314-214-2122



Hunter Martiniere, J.D.
Financial Advisor
Hunter.Martiniere@raymondjames.com
T 314-214-2152



Vickie Bollinger
Senior Registered Sales Assistant
vickie.bollinger@raymondjames.com
T 314-214-2175

Planning - <https://www.raymondjames.com/pointofview/10-important-tax-changes-to-keep-in-mind>

Life & Leisure - <https://www.raymondjames.com/pointofview/be-smarter-than-your-new-smart-gadgets>

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