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"The Stock Market is a device for transferring money from the impatient to the patient." Warren Buffett

I can't think of a better quote to sum up the 4th quarter of 2018. It never ceases to amaze me how schizophrenic the markets can be. The mood can change quickly, and that was the case in 2018. Investors went from being overly bullish in the 3rd quarter, to downright panicked in the 4th. As I have said before, and I address in the first article, try not to ride that emotional roller coaster. Overreacting to short-term fear and greed can have a long lasting, negative impact on your financial plans. If you don't believe it, talk to anyone who sold their investments in late 2008 or early 2009 and waited years before getting back in. As Warren said, they transferred their wealth to someone else: someone more patient than they were.

In 1908, J.P. Morgan said "Any man who is a bear on the future of this country will go broke." 110 years later, I believe that is even more true today.

Year End 2018

Nicholson Financial Services

Did You Know...?

Fear, Greed & Unicorns

For a long time, a main focus of my practice has been helping my clients avoid overreactions to fear and greed. My goal is to help them to make logical investment decisions without being swayed by short-term panic or "irrational exuberance." That is primarily done through education, which is my goal of this article.

Investors have been spoiled over the past few years. The equity markets have provided positive returns with very little downside volatility. Since the 2008 financial crisis, the markets have appreciated considerably with very few pullbacks. It is important to note that isn't "normal." After the correction over the summer of 2011, we had another in late 2015/early 2016, and then a brief pullback in February/March of last year. However, 2018 ended with the most significant correction that we have seen in 10 years. Why did it happen?

Frankly, we were quite overdue for a correction, and the market got a bit ahead of itself late in the summer. Still, until mid-December, the market correction looked pretty text book and "run of the mill." So why did it get so ugly late in the month? Raymond James Chief Equity Strategist Jeff Saut wrote this in his strategy comments on 12/21:

"Accordingly, we dialed up one of our best friends who manages money at a large Boston-based mutual fund. He confirmed what we have been hearing and writing about recently. To wit, hedge funds typically send out letters on November 15 advising their investors they have a six-week "window" to pull their investment funds from said hedge funds. That is exactly what is happening now, as the guess is 150 hedge funds will close their doors at the end of this month. Combine that with the long-only mutual fund liquidation, and tax loss selling, and what is happening is that participants are selling into a vacuum of NO BUYERS."

My spin on that: What started as a correction for fundamental reasons (stocks got a bit ahead of themselves and were short-term overvalued) became a *momentum* correction.

Considering we had not had a correction of any significance in close to 3 years, investors and traders were selling *because* the market was going down. Throw in some good, old-fashioned panic and year-end tax loss selling, and you had a pretty bad month of December.

In the short-term, markets can react emotionally. They can run up or down based on headlines. However, long-term, markets move because of fundamentals such as economic and business growth. As I spoke with clients late in the year, I pointed out the fundamentals of the economy and stocks as a whole are still quite positive. The sell-off in December was logical once you understood what was happening.

Although less common recently, it is important to remember that stock market corrections are *normal* . Since 1928, on average there has been a -5% correction roughly every 2 months, -10% about every 8 months and every 30 months or so a -20% pullback. Stating that again, over 90 years a -20% correction has happened *every 2 ½ years* on average.

Going forward, you should expect more volatility, and frankly if you have the appropriate time horizon, welcome it. Volatility isn't necessarily bad although the media often uses it as a term to describe market downside. *N o one ever complains about UPSIDE volatility!* There are things we can do to reduce the volatility of an investment portfolio. However, that is a double-edged sword. A less volatile portfolio means it will drop less when the market drops, but will also go up less when the market goes up.

Investors have been in search of a high-return, low-risk investment since investing began. The problem is, it is a unicorn. It doesn't exist. Of course, there is no shortage of people willing to glue a horn on a horse and sell it to you as a unicorn. In reality, to create return, there is always some kind of risk. Helping clients understand and plan for those risks is another major part of my practice, but I promise I will not try to sell you a horse and call it a unicorn.

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Key Retirement and Tax Numbers for 2019

Every year, the Internal Revenue Service announces cost-of-living adjustments that affect contribution limits for retirement plans and various tax deduction, exclusion, exemption, and threshold amounts. Here are a few of the key adjustments for 2019.

Employer retirement plans

- Employees who participate in 401(k), 403(b), and most 457 plans can defer up to $19,000 in compensation in 2019 (up from $18,500 in 2018); employees age 50 and older can defer up to an additional $6,000 in 2019 (the same as in 2018).
- Employees participating in a SIMPLE retirement plan can defer up to $13,000 in 2019 (up from $12,500 in 2018), and employees age 50 and older can defer up to an additional $3,000 in 2019 (the same as in 2018).

IRAs

The combined annual limit on contributions to traditional and Roth IRAs increased to $6,000 in 2019 (up from $5,500 in 2018), with individuals age 50 and older able to contribute an additional $1,000. For individuals who are covered by a workplace retirement plan, the deduction for contributions to a traditional IRA is phased out for the following modified adjusted gross income (AGI) ranges:

	2018	2019
Single/head of household (HOH)	$63,000 - $73,000	$64,000 - $74,000
Married filing jointly (MFJ)	$101,000 - $121,000	$103,000 - $123,000
Married filing separately (MFS)	$0 - $10,000	$0 - $10,000

Note: *The 2019 phaseout range is $193,000 - $203,000 (up from $189,000 - $199,000 in 2018) when the individual making the IRA contribution is not covered by a workplace retirement plan but is filing jointly with a spouse who is covered.*

The modified AGI phaseout ranges for individuals to make contributions to a Roth IRA are:

	2018	2019
Single/HOH	$120,000 - $135,000	$122,000 - $137,000
MFJ	$189,000 - $199,000	$193,000 - $203,000
MFS	$0 - $10,000	$0 - $10,000

Estate and gift tax

- The annual gift tax exclusion for 2019 is $15,000, the same as in 2018.
- The gift and estate tax basic exclusion amount for 2019 is $11,400,000, up from $11,180,000 in 2018.

Kiddie tax

Under the kiddie tax rules, unearned income above $2,200 in 2019 (up from $2,100 in 2018) is taxed using the trust and estate income tax brackets. The kiddie tax rules apply to: (1) those under age 18, (2) those age 18 whose earned income doesn't exceed one-half of their support, and (3) those ages 19 to 23 who are full-time students and whose earned income doesn't exceed one-half of their support.

Standard deduction

	2018	2019
Single	$12,000	$12,200
HOH	$18,000	$18,350
MFJ	$24,000	$24,400
MFS	$12,000	$12,200

Note: *The additional standard deduction amount for the blind or aged (age 65 or older) in 2019 is $1,650 (up from $1,600 in 2018) for single/HOH or $1,300 (the same as in 2018) for all other filing statuses. Special rules apply if you can be claimed as a dependent by another taxpayer.*

Alternative minimum tax (AMT)

	2018	2019
Maximum AMT exemption amount		
Single/HOH	$70,300	$71,700
MFJ	$109,400	$111,700
MFS	$54,700	$55,850
Exemption phaseout threshold		
Single/HOH	$500,000	$510,300
MFJ	$1,000,000	$1,020,600
MFS	$500,000	$510,300
26% rate on AMTI* up to this amount, 28% rate on AMTI above this amount		
MFS	$95,550	$97,400
All others	$191,100	$194,800
*Alternative minimum taxable income		

Infographic: Financial Lessons from Football

Financial Lessons from Football

When the game isn't going your way

Review your game plan

You haven't saved enough for retirement...or for college. Your credit card debt is spiraling. You've been blindsided by unexpected expenses. When your finances hit a rough patch, call a time out and review your game plan. Rethink your strategy to account for changes in your personal life, the economy, or market conditions.

Focus on fundamentals

Big plays are important, but so is steady execution. Even seasoned players need to focus on game fundamentals. One important financial fundamental is your budget. Once you know exactly how much money is coming in and how much is going out, you can identify what plays to call to get your finances back in shape.

Make adjustments

Football teams make adjustments throughout the game. As you begin to make forward progress, keep the momentum going by regularly reviewing and fine-tuning your own game plan to balance competing priorities. Soon you'll be better prepared to tackle the challenges that stand between you and your financial goals.

"It's not whether you get knocked down, it's whether you get up."
-Vince Lombardi

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Should I consider requesting a deferment or forbearance for my federal student loans?

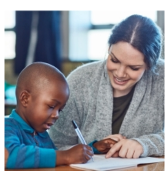
Did you take on a large amount of debt to pay for college, and are you struggling to pay it off? If so, you are not alone. According to the Federal Reserve, 20% of individuals with outstanding student loans were behind on their payments in 2017.[1] You may want to consider requesting a deferment or forbearance if you are having difficulty keeping up with your federal student loan payments.

Provided certain eligibility requirements are met, both a deferment and a forbearance allow you to temporarily stop making payments or temporarily reduce your monthly payment amount for a specified time period. The key difference between the two is that with a deferment, you may not have to pay back any interest that accrues on the loan during the deferment period, depending on the type of loan you have. During a forbearance, you are responsible for paying any accrued interest on the loan, regardless of the type of loan you have.

In order to obtain a deferment or forbearance, you will need to submit a request to your loan servicer. Most deferments and forbearances are granted for a specific time period (e.g., six months), and you may need to reapply periodically to maintain your eligibility. In addition, there is usually a limit to the number of times they are granted over the course of your loan. If you meet the eligibility requirements for a mandatory forbearance (e.g., National Guard duty), your lender is required to grant you a forbearance.

Whenever interest accrues on a loan during a deferment or forbearance, you can either pay the interest as it accrues, or it can be added to the overall principal balance of the loan at the end of the deferment or forbearance period. It is important to remember that if you don't pay the interest on your loans and allow it to accrue, the total amount you repay over the life of your loan will be higher. As a result, you should weigh the pros and cons of requesting a deferment or forbearance and consider your repayment options. For more information on your federal student loan repayment options, visit studentaid.ed.gov.

[1] Federal Reserve, Report on the Economic Well-Being of U.S. Households in 2017, May 2018



Are my student loans eligible for public service loan forgiveness?

If you are employed by a government or not-for-profit organization, you may be able to receive loan forgiveness under the Public Service Loan Forgiveness (PSLF) Program. The PSLF, which began in 2007, forgives the remaining balance on federal Direct Loans after you have made 120 monthly payments under a qualifying repayment plan while working full-time for a qualifying employer.

Qualifying employers for PSLF include: government organizations (e.g., federal, state, local), not-for-profit organizations that are tax-exempt under Section 501C(3) of the Internal Revenue Code, and other types of not-for-profit organizations that are not tax-exempt if their primary purpose is to provide certain types of qualifying public services.

If you plan on applying for PSLF in the future, you should complete and submit an Employment Certification form annually or when you change employers. The U.S. Department of Education will use the information on the form to let you know if you are making qualifying PSLF payments.

You can apply for PSLF once you have made 120 qualifying monthly payments towards your loan (e.g., 10 years). Keep in mind that you must be working for a qualifying employer both at the time you submit the application and at the time the remaining balance on your loan is forgiven.

Recently, PSLF made headlines due to the fact that many borrowers who thought they were working toward loan forgiveness under the program found out they were ineligible because they were in the wrong type of repayment plan. Many borrowers claimed they were told by their loan servicer that they qualified for PSLF, when in fact they did not. In 2018, Congress set aside $350 million to help fix this problem. The Consolidated Appropriations Act provides limited, additional conditions under which borrowers may become eligible for loan forgiveness if some or all of the payments they made on their federal Direct Loans were under a nonqualifying repayment plan for the PSLF Program. For more information on PSLF, visit studentaid.ed.gov.

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