TAMMA CAPITAL

Personalized Investing for Your Future

Investment Perspectives
2017 Q4

Start Your 2018 Tax Planning Now

As anyone could imagine, the hottest topic in wealth planning right now is trying to decipher the impacts of the Tax Cuts and Jobs Act Of 2017. I am currently working on a summary of the tax legislation which I will publish later this month. But for now, I think that it is prudent to focus on some other key facts and dates from a tax perspective as we start this new year.

Bottom line, there aren't a whole lot of significant changes from a contribution limit standpoint from 2017 to 2018. You will see in bold below where there were slight changes. One specific point of emphasis that I make every year is regarding 401k contributions. I really encourage people to contribute enough to receive their company match if their company offers one. Matches can vary greatly by company but usually range between 3% and 6%. Ensuring that your own contributions meet the qualifications, it is essentially receiving free money.

Qualified Dividend and Long-Term Capital Gains Rates:

- 0%: Single taxpayers with incomes between $0 and $38,600; married couples filing jointly with incomes between $0 and $77,200.
- 15%: Single taxpayers with incomes between $38,600 and $425,800; married couples filing jointly with incomes between $77,200 and $479,000.
- 20%: Single taxpayers with incomes over $425,800; married couples filing jointly with incomes over $479,000.

Medicare Surtax: As in years past, an additional 3.8% Medicare surtax will apply to the lesser of net investment income or the excess of modified adjusted gross income over $200,000 for single taxpayers and $250,000 for married couples filing jointly.

IRA contribution limits (Roth or traditional): $5,500 under age 50/$6,500 over age 50. **No change from 2017.**

Income limits for deductible IRA contribution, single filers or married couples filing jointly who aren't covered by a retirement plan at work: None; fully deductible contribution.

Income limits for deductible IRA contribution for filers covered by a retirement plan:

- *Single:* Modified adjusted gross income under $63,000--fully deductible contribution; between $63,000 and $73,000--partially deductible contribution; more than $73,000--contribution not deductible.
- *Married:* Modified adjusted gross income under $101,000--fully deductible contribution; between $101,000 and $121,000--partially deductible contribution; more than $121,000--contribution not deductible.

Income limits for nondeductible IRA contributions: None.

Income limits for IRA conversions: None, but note that the tax legislation eliminated the opportunity to recharacterize a Roth IRA as a traditional IRA, or vice versa.

Income limits for Roth IRA contribution:

- *Single:* Modified adjusted gross income under $120,000--full Roth contribution; between $120,000 and $135,000--partial Roth contribution; more than $135,000--no Roth contribution.
- *Married couples filing jointly:* Modified adjusted gross income under $189,000--full Roth contribution; between $189,000 and $199,000--partial Roth contribution; more than $199,000--no Roth contribution.

Contribution limits for 401(k), 403(b), 457 plans, or self-employed 401(k) (traditional or Roth): $18,500 under age 50; $24,500 for age 50 and older. **Increase of $500 from 2017.**

Total 401(k) contribution limits, including employer (pretax, Roth, after-tax) and employee contributions and forfeitures: $55,000 if under age 50; $61,000 if 50-plus. **Increase of $1,000 from 2017.**

SEP IRA contribution limit: The lesser of 25% of compensation or $55,000. **Increase of $1,000 from 2017.**

Health savings account contribution limits:

- *Single:* $3,450 (under 55); $4,450 (over 55). **Increase of $50 from 2017.**
- *Family:* $6,900 (contributor under 55); $7,900 (contributor 55-plus). **Increase of $150 from 2017.**

High-deductible health plan out-of-pocket maximum, self-only coverage: $6,650. **Increase of $100 from 2017.**

High-deductible health plan out-of-pocket maximum, family coverage: $13,300. **Increase of $200 from 2017.**

Section 529 college-savings account contribution limit: Per IRS guidelines, contributions cannot exceed amount necessary to provide education for beneficiary. Deduction amounts vary by state, and those contributing very large amounts may have to file a gift tax form. Section 529 college savings account income limit: None.

Estate Tax, Gift, Generation-Skipping Tax: The new tax laws greatly increase the lifetime exclusion amount to $11.2 million through 2025; couples receive an exclusion that's double that amount, or more than $22 million.

2018: Important Tax Dates to Remember

Jan. 1: New IRA, retirement plan, and HSA contribution and income limits went into effect for 2018 tax year, as listed above.

Jan. 16: Estimated tax payments due for fourth quarter of 2017.

April 17: Individual tax returns (or extension request forms) due for 2017 tax year.

- Estimated tax payments due for first quarter of 2018.
- Last day to contribute to IRA for 2017 tax year (2017 contribution limits: $5,500 under age 55; $6,500 for age 55 and above).
- Last day to contribute to health savings account for 2017 tax year (2017 contribution limits: $3,400 for single coverage, contributor under age 55; $4,400 for single coverage, contributor age 55 and above; $6,750 for family coverage, contributor under age 55; $7,750 for family coverage, contributor age 55 and above).

June 15: Estimated tax payments due for second quarter of 2018.

Sept. 17: Estimated tax payments due for third quarter of 2018.

Oct. 15: Individual tax returns due for taxpayers who received a six-month extension.

Dec. 31: Retirees age 70 1/2 and older must take required minimum distributions from traditional IRAs and 401(k)s; those RMDs are based on their balances at the end of 2017. Last date to make contributions to company retirement plans (401(k), 403(b), 457) for 2018 tax year.

Insider Trading

35...estimated % of the jobs to be created in the next decade (i.e., 4 million of 11.5 million projected new jobs) will be in health care and "social assistance." 91% of the new jobs (10.5 million) will be in "service-providing" jobs as opposed to "goods-producing" jobs (source: Bureau of Labor Statistics).
147...million US employees are split 85/15 between the private sector (i.e., non-government workers) and the public sector (i.e., government workers) (source: Department of Labor).
116,169...number of Americans on a national waiting list hoping to receive an organ donation, of which 96,335 people need a new kidney. 20 Americans die each day waiting for an organ transplant that never comes (source: Organ Procurement and Transplantation Network).

State of the Portfolio

Q4 was an extremely active time within most client portfolios. We sold two long-term holdings Buffalo Wild Wings (BWLD) and Boston Brewing Company (SAM). If you recall, a few years ago we owned both Panera Bread (PNRA) and BWLD. At that time, I had to make a choice between two restaurant stocks, so I chose to keep BWLD and sell PNRA.

At first the decision looked like a great one as BWLD climbed higher and PNRA remained relatively flat. Then the two companies began to diverge and PNRA stock price began to surge while BWLD began to decline. To me, both companies were growth stocks who had healthy balance sheets with relatively low debt and generated strong cash flows. PNRA was eventually bought out last year and BWLD was taken private during Q4 by the private equity firm who owns Arby's.

Another position that I held onto during a long-stretch of underperformance which reversed course during Q4 was SAM. Even though it lagged the overall market, SAM still had all the qualitative and quantitative traits that I look for in a company, decent growth, strong balance (little to no debt), and generates strong cash flow.

An additional underlying thought behind holding the position was that its founder and CEO Jim Koch, would eventually grow tired of being a publicly traded company and take the company private on his own since he controls the majority voting shares. With capital just as cheap for private companies as it is for public companies, why deal with the additional cost of being public and the what have you done for me lately analysts on Wall Street who bury the company stock if you miss estimates.

With the stock up over 22% during Q4 alone, I decided that the steady decline in revenue that the company had been seeing due to fierce competition in the beer industry, was too much to overcome even if the company was eventually taken private by Koch or another buyer. Thus, I liquidated our remaining position prior to the end of 2017.

Looking forward, with the fed poised to continue increasing interest rates in 2018, it increases the need to know and understand how much debt companies are carrying on their books. Same way with consumers. I have always had a focus towards low or no debt carrying companies, but as interest costs potentially increase, this cost can be a drain on earnings and limit companies operational and/or strategic plans.

I did not expect the U.S. equity markets to perform the way that they did in 2017. This is exactly why my asset management style does not include market timing techniques. I still believe that U.S. equity prices look very expensive from a macro level, but that doesn't mean stocks prices can't go higher. I have continued putting moderate amounts of capital to work as I shift portfolios towards the conservative side of their asset allocation strategy which means higher levels of cash, but clients are still participating in the markets returns.

Eventually there is going to be a market correction but knowing the exact timing of when that may occur will continue to remain elusive. However, those that have a diversified portfolio such as those that I manage within TAMMA, will likely perform better than those that are not once a correction does arrive.

Personalized Investing; Return on Life

In my Q3 2017 Investment Perspectives letter, I discussed understanding benchmarks. In that segment I focused on the two aspects of service that I provide to clients; wealth planning and asset management. One of the key principal values that TAMMA bring to clients is the integration of wealth planning with asset management.

While most commonly think of wealth planning in terms of pure numbers, throughout this year, I have begun to get people focused on the human element of wealth planning. Rather than focusing on numbers alone, I am engaging people to see the wealth planning process as number of stories.

The human aspect of the advice and planning process is found in each client's unique personal story: where they came from, how they got here, and where they hope to go. When your story is the central context of the planning process, you see yourself in the proposed plan. A deep understanding of these stories helps to give a wealth management plan significance and meaning while raising the probability of follow-through on the client's part.

The primary measure of success when looking at wealth planning through this human aspect lens is "Return on Life." "Are you managing (or using) your money in a way that is improving your life?" Additionally, utilizing our planning process at TAMMA, we help clients understand what their "probability of success" in achieving their plans which goes hand in hand with their Return on Life.

One way we help our clients define what "improving your life" looks like is to ask them this question: "Several years from now, what does your life have to look like in order for you to feel a sense of well-being, that you're making progress, and that you have freedom to live life the way you want?" The greatest value I can bring to clients is to bridge their means with their meaning.

The discovery journey in understanding our clients' needs and helping them to find meaning never ends. One of the greatest risks in wealth planning is what we don't know about our client's life situation.

- Where are you currently situated on the financial lifeline?
- What challenges and opportunities are you facing?
- What key transitions are looming?
- What deviations in life could interrupt your best intentions?

Knowing the subtle and not-so-subtle changes in our client's lives is the cornerstone of the irreplaceable and fully human value proposition that TAMMA offers.

To end on a personal note, I would like to thank all of our clients, friends, and supporters who helped make 2017 another phenomenal year of growth at TAMMA. Your trust and support are something that I never take for granted and is the foundation of which TAMMA has been built upon.

For questions about any wealth and asset management topics, do not hesitate to contact me to find out what options may be best for your own personal situation. Financial relationships are built upon trust. Your continued support in having conversations and making recommendations to important people in your life regarding your connection with me at TAMMA is always greatly appreciated and welcomed.

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