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Hi Everyone,

We are leaving June shortly, and there are questions about the current volatility in the markets. The fear was that inflation would pick up. This was due to the wage report from January. It went up at the same time the Federal Reserve was increasing interest rates. The result could be higher borrowing costs and slow the economic growth. That has now proved out to not have occurred.

Next came the tariff battles. That will probably go on a bit and after all the participants negotiate their deals with our administration, then it too will settle down. The US percentage of exports make up about 15% of our GDP, as compared to VERY large %'s for the other countries. So we can afford to make things fair again and work it out.

Bottom line, it appears that the growth of the economy is still going strong and should continue for the next 12-18 months before possibly leveling off (note I did not say recession).

All is still good for growth.

Best Regards,

Paul B. Miller, CFP®

June 2018

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Mid-Year Planning: Tax Changes to Factor In



The Tax Cuts and Jobs Act, passed in December of last year, fundamentally changes the federal tax landscape for both individuals and businesses. Many of the provisions in the legislation are permanent, others (including most of the tax cuts that apply to individuals) expire at the end of 2025. Here are some of the significant changes you should factor in to any mid-year tax planning. You should also consider reviewing your situation with a tax professional.

New lower marginal income tax rates

In 2018, there remain seven marginal income tax brackets, but most of the rates have dropped from last year. The new rates are 10%, 12%, 22%, 24%, 32%, 35%, and 37%. Most, but not all, will benefit to some degree from the lower rates. For example, all other things being equal, those filing as single with taxable incomes between approximately \$157,000 and \$400,000 may actually end up paying tax at a higher top marginal rate than they would have last year. Consider how the new rates will affect you based on your filing status and estimated taxable income.

Higher standard deduction amounts

Standard deduction amounts are nearly double what they were last year, but personal exemptions (the amount, \$4,050 in 2017, that you could deduct for yourself, and potentially your spouse and your dependents) are no longer available. Additional standard deduction amounts allowed for the elderly and the blind remain available for those who qualify. If you're single or married without children, the increase in the standard deduction more than makes up for the loss of personal exemption deductions. If you're a family of four or more, though, the math doesn't work out in your favor.

Itemized deductions — good and bad

The overall limit on itemized deductions that applied to higher-income taxpayers is repealed, the income threshold for deducting medical expenses is reduced for 2018, and the income

limitations on charitable deductions are eased. That's the good news. The bad news is that the deduction for personal casualty and theft losses is eliminated, except for casualty losses suffered in a federal disaster area, and miscellaneous itemized deductions that would be subject to the 2% AGI threshold, including tax-preparation expenses and unreimbursed employee business expenses, are no longer deductible. Other deductions affected include:

- **State and local taxes** — Individuals are only able to claim an itemized deduction of up to \$10,000 (\$5,000 if married filing a separate return) for state and local property taxes and state and local income taxes (or sales taxes in lieu of income).
- **Home mortgage interest deduction** — Individuals can deduct mortgage interest on no more than \$750,000 (\$375,000 for married individuals filing separately) of qualifying mortgage debt. For mortgage debt incurred prior to December 16, 2017, the prior \$1 million limit will continue to apply. No deduction is allowed for interest on home equity loans or lines of credit unless the debt is used to buy, build or substantially improve a principal residence or a second home.

Other important changes

- **Child tax credit** — The credit has been doubled to \$2,000 per qualifying child, refundability has been expanded, and the credit will now be available to many who didn't qualify in the past based on income; there's also a new nonrefundable \$500 credit for dependents who aren't qualified children for purposes of the credit.
- **Alternative minimum tax (AMT)** — The Tax Cuts and Jobs Act significantly narrowed the reach of the AMT by increasing AMT exemption amounts and dramatically increasing the income threshold at which the exemptions begin to phase out.
- **Roth conversion recharacterizations** — In a permanent change that starts this year, Roth conversions can't be "undone" by recharacterizing the conversion as a traditional IRA contribution by the return due date.



"Time famine" is the feeling of being overwhelmed by the demands of work and life. Also known as time scarcity and time stress, this pressure is a "critical factor" in the rising rates of obesity.

Source: "Buying Time Promotes Happiness," PNAS, July 24, 2017

Investing to Save Time Boosts Happiness Returns

The more money you make, the more valuable you perceive your time to be — and the more time-strapped you may feel, according to University of British Columbia psychology professor Elizabeth Dunn.¹ So wouldn't it stand to reason that if you use some of your hard-earned money to buy yourself more time — for example, by paying someone to clean your house or mow your lawn — you might achieve a greater level of happiness? Indeed, that was the primary finding in a series of studies by Professor Dunn and other researchers published in the Proceedings of the National Academy of Sciences (PNAS).²

The discovery

The study's authors surveyed 6,000 individuals at diverse income levels in multiple countries, including the United States, Canada, the Netherlands, and Denmark. The surveys queried participants about whether they spent money on a monthly basis to hire others to take care of unpleasant or time-consuming daily tasks or chores — such as cleaning, yard work, cooking, and errand-running — and if so, how much they spent. Respondents were also asked to rate their "satisfaction with life" and report demographic information, such as their income level and whether they were married and had children.

Researchers found that across all national samples, 28.2% of respondents spent an average of about \$148 per month to outsource disliked tasks, while in the United States, 50% of respondents spent an average of \$80 to \$99 on services that save time. Across all studies, those who spent money to outsource disliked tasks and/or save time had a stronger life satisfaction rating. Findings were consistent across income spectrums; in fact, in the United States, researchers found a stronger correlation among the less-affluent respondents. The authors noted, however, that their studies did not include enough people at the lowest end of the income spectrum to attribute similar findings to this group.

Of course, correlation does not necessarily indicate causality, so the researchers designed a follow-up experiment to further test their hypothesis.

In this experiment, researchers gave a group of 40 adults \$80 each to spend over the course of two weekends. During the first weekend, they were to spend \$40 on something that would save them time, such as ordering groceries online and having them delivered. On the second weekend, they were directed to spend \$40 on a nice material purchase, such as clothes, board games, or a bottle of wine. On

average, those who spent money to save time reported better moods at the end of the day than those who purchased material goods. And according to the researchers, over time, the effect of regular mood boosts can add up to greater overall satisfaction with life.

In a third study, researchers asked respondents how they would spend an extra \$40. Just 2% indicated they would use the unexpected bonus to invest in time-saving services.

Perhaps most surprising of all the findings? Researchers polled 800 millionaires from the Netherlands about whether they spent money to save time. Despite the fact that these individuals could readily afford to hire others to take care of time-consuming tasks, only about half of them reported doing so on a monthly basis. Researchers surmise that the reason might be because such individuals feel guilty or don't want to be perceived as lazy for outsourcing chores they can easily do themselves.

The lesson

"If you have a lot of money and a lot of nice stuff, but you're spending your time doing things that you dislike, then your minute-to-minute happiness and overall happiness is likely to be pretty low," said Dunn in an interview about the research.³ In the PNAS report, the study's authors contend that this may be especially true for women:

"Within many cultures, women may feel obligated to complete household tasks themselves, working a 'second-shift' at home, even when they can afford to pay someone to help. In recent decades, women have made gains, such as improved access to education, but their life satisfaction has declined; increasing uptake of time-saving services may provide a pathway toward reducing the harmful effects of women's second shift."

The bottom line? If you can afford it, don't shy away from spending money to save time. Doing so is an investment that provides immeasurable returns in the form of overall well-being.

¹ "What Is Your Time Really Worth?" Elizabeth Dunn, TEDx Colorado Springs, December 1, 2014

² "Buying Time Promotes Happiness," PNAS, July 24, 2017

³ "A Psychology Expert Says Spending Your Money on This Can Boost Your Happiness," CNBC, November 10, 2017

Marriage and Money: Taking a Team Approach to Retirement



Open communication and teamwork are especially important when it comes to saving and investing for retirement.

Now that it's fairly common for families to have two wage earners, many husbands and wives are accumulating assets in separate employer-sponsored retirement accounts. In 2018, the maximum employee contribution to a 401(k) or 403(b) plan is \$18,500 (\$24,500 for those age 50 and older), and employers often match contributions up to a set percentage of salary.

But even when most of a married couple's retirement assets reside in different accounts, it's still possible to craft a unified retirement strategy. To make it work, open communication and teamwork are especially important when it comes to saving and investing for retirement.

Retirement for two

Tax-deferred retirement accounts such as 401(k)s, 403(b)s, and IRAs can only be held in one person's name, although a spouse is typically listed as the beneficiary who would automatically inherit the account upon the original owner's death. Taxable investment accounts, on the other hand, may be held jointly.

Owning and managing separate portfolios allows each spouse to choose investments based on his or her individual risk tolerance. Some couples may prefer to maintain a high level of independence for this reason, especially if one spouse is more comfortable with market volatility than the other.

However, sharing plan information and coordinating investments might help some families build more wealth over time. For example, one spouse's workplace plan may offer a broader selection of investment options, or the offerings in one plan might be somewhat limited. With a joint strategy, both spouses agree on an appropriate asset allocation for their combined savings, and their contributions are invested in a way that takes advantage of each plan's strengths while avoiding any weaknesses.

Asset allocation is a method to help manage investment risk; it does not guarantee a profit or protect against loss.

Spousal IRA opportunity

It can be difficult for a stay-at-home parent who is taking time out of the workforce, or anyone

who isn't an active participant in an employer-sponsored plan, to keep his or her retirement savings on track. Fortunately, a working spouse can contribute up to \$5,500 to his or her own IRA and up to \$5,500 more to a spouse's IRA (in 2018), as long as the couple's combined income exceeds both contributions and they file a joint tax return. An additional \$1,000 catch-up contribution can be made for each spouse who is age 50 or older. All other IRA eligibility rules must be met.

Contributing to the IRA of a nonworking spouse offers married couples a chance to double up on retirement savings and might also provide a larger tax deduction than contributing to a single IRA. For married couples filing jointly, the ability to deduct contributions to the IRA of an active participant in an employer-sponsored plan is phased out if their modified adjusted gross income (MAGI) is between \$101,000 and \$121,000 (in 2018). There are higher phaseout limits when the contribution is being made to the IRA of a nonparticipating spouse: MAGI between \$189,000 and \$199,000 (in 2018).

Thus, some participants in workplace plans who earn too much to deduct an IRA contribution for themselves may be able to make a deductible IRA contribution to the account of a nonparticipating spouse. You can make IRA contributions for the 2018 tax year up until April 15, 2019.

Withdrawals from tax-deferred retirement plans are taxed as ordinary income and may be subject to a 10% federal income tax penalty if withdrawn prior to age 59½, with certain exceptions as outlined by the IRS.

Savings Gap

Despite career gains, women tend to retire with fewer assets than men.



Source: Employee Benefit Research Institute, 2017 (2014 data)

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Investments in securities involve investment risk, including possible loss of principal amount invested. Investment return and principal value will fluctuate so that the investment, when redeemed, may be worth more or less than the original investment. Additional disclosure is available in our Disclosure Brochure (Form ADV Part 2A), which can be accessed on the firm's website www.paulmilleradvisor.com.

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What is the employment situation report, and why is it important to investors?

Each month, the Bureau of Labor Statistics publishes the Employment Situation Summary report based on information from the prior month. The data for the report is derived primarily from two sources: a survey of approximately 60,000 households, or about 110,000 individuals (household survey), and an establishment survey of over 651,000 worksites.

Results from each survey provide information about the labor sector, including the:

- Total number of employed and unemployed people
- Unemployment rate (the percentage of the labor force that is unemployed)
- Number of people working full- or part-time in U.S. businesses or for the government
- Average number of hours worked per week by nonfarm workers
- Average hourly and weekly earnings for all nonfarm employees

According to the Bureau of Labor Statistics, when workers are unemployed, they, their

families, and the country as a whole can be negatively impacted. Workers and their families lose wages, and the country loses the goods or services that could have been produced. In addition, the purchasing power of these workers is lost, which can lead to unemployment for yet other workers.

Investors pay particular attention to the information provided in this report. For instance, a decreasing unemployment rate may indicate an expanding economy and potentially rising interest rates. In this scenario, stock values may rise with expanding corporate profits, while bond prices may fall for fear of rising interest rates. Advancing wages may also be a sign of higher inflation and interest rates, as well as greater economic productivity.

Generally, the Employment Situation Summary report provides statistics and data on the direction of wage and employment trends — information that can be invaluable to investors.



What is gross domestic product, and why is it important to investors?

GDP, or gross domestic product, measures the value of goods and services produced by a nation's

economy less the value of goods and services used in production. In essence, GDP is a broad measure of the nation's overall economic activity and serves as a gauge of the country's economic health. Countries with the largest GDP are the United States, China, Japan, Germany, and the United Kingdom.

GDP generally provides economic information on a quarterly basis and is calculated for most of the world's countries, allowing for comparisons among various economies.

Important information that can be gleaned from GDP includes:

- A measure of the prices paid for goods and services purchased by, or on behalf of, consumers (personal consumption expenditures), including durable goods (such as cars and appliances), nondurable goods (food and clothing), and services (transportation, education, and banking)
- Personal (pre-tax) and disposable (after-tax) income and personal savings

- Residential (purchases of private housing) and nonresidential investment (purchases of both nonresidential structures and business equipment and software, as well as changes in inventories)
- Net exports (the sum of exports less imports)
- Government spending on goods and services

GDP can offer valuable information to investors, including whether the economy is expanding or contracting, trends in consumer spending, the status of residential and business investing, and whether prices for goods and services are rising or falling. A strong economy is usually good for corporations and their profits, which may boost stock prices.

Increasing prices for goods and services may indicate advancing inflation, which can impact bond prices and yields. In short, GDP provides a snapshot of the strength of the economy over a specific period and can play a role when making financial decisions. All investing involves risk, including the possible loss of principal, and there is no guarantee that any investment strategy will be successful.