NORTHSTAR

FINANCIAL PLANNERS INC.

February 2018 Financial Planning Notes - Client Newsletter

"We are told that this is an odious and unpopular tax. I never knew a tax that was not odious and unpopular with the people who paid it."

John Sherman, 1871

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8 Things to Know About the New Tax Bill

The Tax Cuts and Jobs Act of 2017 became law in December of last year, resulting in many changes to the U.S. tax code. Here are a few highlights. (Please note none of these changes will affect your 2017 tax returns.)

1. Individual Tax Rates

Seven brackets remain; however, the rates have changed. The new tax rates are: 10%, 12%, 24%, 32%, 35%, and 37% (until 2025). In 2018, "take-home" pay will increase for many and you can find out what your new tax rate is by going here: https://goo.gl/PLEMoy

2. Standard Deductions

The standard deduction allows taxpayers to reduce their taxable income. Starting in 2018, the standard deduction has nearly doubled from $6,350 to $12,000 for single filers, from $9,350 to $18,000 for head-of-household filers, and for married couples filing jointly from $12,700 to $24,000.

3. Itemized Deductions

The personal exemption is no longer available and state and local taxes deductions are now capped at $10,000. Charitable contribution deductions remain. Medical deductions must exceed 7.5% of your AGI. New home buyers' mortgage interest deductions are now capped at $750,000 in mortgage debt.

4. Advisor Fees

Taxpayers will no longer be able to deduct their investment advisor fees or expenses even if they itemize their deductions. The same rule also applies to tax preparation costs whether your tax returns are completed by a professional or using a tax preparation software.

5. Dependent Tax Credits

The child tax credit may benefit more taxpayers as it was doubled to $2,000 for children under 17 and it's now available to those making up to $200,000 if single or $400,000 for married couples. In addition, a new $500 temporary tax credit applicable for non-child dependents has been created.

6. 529 Plans & Coverdells

Previously, 529 Plans were limited to college expenses, but now up to $10,000 can be used for qualified public, private, or religious elementary K-12 education expenses. Note: taxes may be due in some states though. Coverdell plans remain unchanged.

7. Roth Recharacterizations

In the past, if you converted a traditional IRA (Individual Retirement Account) or a portion of one into a Roth IRA you were allowed to undo that conversion. Under the new tax law, any conversion from a traditional IRA to a Roth IRA can no longer be recharacterized.

8. What This All Means

With the biggest tax reform since 1986, many things have changed. The increase in the standard deduction will cause more taxpayers to file simpler returns without itemizing. While this might make filing your taxes simpler, we recommend you always consult with a tax professional for expert advice.

Mia

The January Indicator

I'm writing this on the last trading day in January, and unless we have a near-record market plummet today, capital markets are going to post a healthy gain for the month. The S&P 500 index is up 6% - that's called a really good month.

With such a great beginning of the year for capital markets, there will inevitably be a lot of attention given by the financial media to the so-called "January Indicator," or "January Barometer." Simply put, the rule is if markets are up in January, they'll continue to move up the rest of the year, and a down January portends a down year.

With our strategy of staying in markets even if indicators say they will decline, the January Indicator is meaningless, and even if we abided by such nonsense, following the rule this year would lead to the same tactic: Stay in the market for the rest of the year.

But what if we had a down month? Then our strategy would be at odds with the January Indicator rule, which would signal an exit from the market. Which strategy would better serve the investor?

Well, it's pretty simple to answer that question. We just need to go back and look at the abundance of historical trading data available right at our fingertips to see how the market performs each year in January, and compare it to same-year performance in February through December. We've got more than 90 years of data, so if there's a trend, we should be able to see it.

January was a down month 34 times in the last 91 years. Of those 34 times, the market continued down (finished even lower than it was at the end of January) 10 times, and ended higher, or flat, the other 24 times.

That result suggests following the January Indicator Rule after a bad January could be very costly. Going all the way back to 1927, the market was barely down that January (about 1%), but the S&P 500 return for the rest of the year was up 40%! Calvin Coolidge: Good for markets, good for America. (This ad paid for by the Committee to Reelect Coolidge.)

More recently, January of 2009 was an awful month, and February wasn't much better. Yet from February through December of that year, the S&P 500 rose about 30%.

How about up Januarys? What does history tell us about market performance in those years?

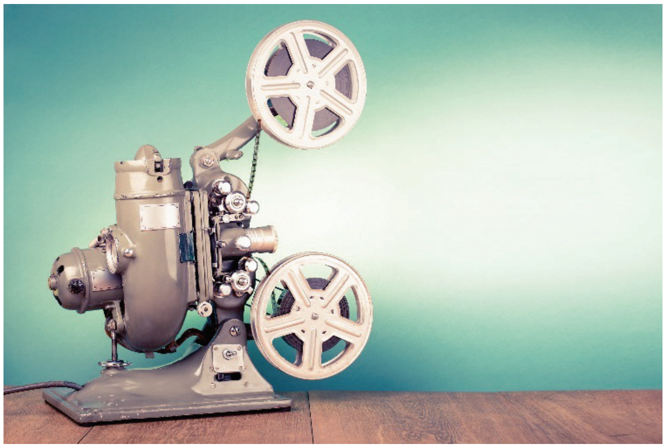
There were 57 years in which the S&P 500 return was positive in January. The rest of the year was also positive in 46 of those years – more than 80% of the time! That's some impressive data!

History tells us the best strategy when the market is down in January is to stay invested, and the best strategy when the market is up in January is to stay invested. Sure makes my job easier!

Getting back to 2018, how should we feel about such an impressive January, with market indexes and many stocks at all-time highs? Is there an 80% chance we'll have an up year? I have no idea. But I'm just about 100% certain we're going to keep you invested.

Steve

Northstar Movie Critic



I'm a big fan of classic movies. I've seen every Oscar winner, every movie on the American Film Institute Top 400, British Film Institute Top 100, and the Internet Movie Database Top 250. (Okay, I may have skipped Princess Mononoke.) Whenever a new list comes out, I've got homework.

After viewing thousands of movies, I can say they just about all fall into one of two categories: Exciting movies and boring movies. I'd like to offer a quick review of a movie from each of those categories:

Exciting movie: *Brazil* (1985), dir.: Terry Gilliam. *Brazil* may or may not be set in South America; we never see enough of the scenery to know. The setting is a not-too-distant-future dystopia in which society is on the brink of collapse under the weight of its own bureaucracy.

The real plot of *Brazil* is a story of unrequited love. Sam Lowry (Jonathan Pryce), an everyman, has fallen for his dream girl, a suspected terrorist named Jill (Kim Greist). Driven by his passion, Sam throws himself into a reckless pursuit of Jill, believing he is saving her from the long arm of the authoritarian law, even as his actions seem to make matters worse for both of them.

The story is propelled forward by nearly non-stop action: bombs, car chases, crashes, and one massive poop explosion. This one definitely goes in the "exciting" category and is one of my all-time favorite movies.

Boring movie: *Remains of the Day* (1993) dir.: James Ivory. *Remains of the Day* is also a story of unrequited love. Stephens (Anthony Hopkins) is the well-mannered butler to Darlington Hall in England. A new housekeeper arrives, Miss Kenton (Emma Thompson), who is equally professional but not as emotionally detached.

An attraction develops between the two, a fact Miss Kenton is willing to express, but driven by duty, Stephens is not.

There are no car crashes or poop explosions, no death-defying escapes. And yet, *Remains of the Day* takes the viewer on an extraordinary emotional journey. The script, based on Kazuo Ishiguro's 1989 novel, is flawless, and the acting is stellar. Yes, I called it boring, but it also earns a spot on my all-time favorites list.

Do I Have A Point? If you thought this was just going to be a movie review article, you don't read our newsletter much, do you? Of course, this is somehow about financial planning. And here's how:

Investment plans also fall into two categories: exciting and boring.

Exciting planning: Active management is exciting. Analysts pore through news and stock data and make bets on stocks they think will make big money for their clients and themselves. It's like a day at the racetrack, betting on the ponies. If you listen hard in the trading room you'll hear the roar of the crowd, the clanging of bells, the thrill of the frantic home stretch push as that horse you bet on either surge ahead…or falls short.

Hedge funds are active management on steroids, usually investing in (and sometimes against) just a handful of companies, so that the fortunes or misfortunes of anyone bet can have a profound impact on one's wealth.

Boring planning: Boring planning doesn't have a team of researchers trying to get the slot machine to pay off. With boring planning, the hard work has already been done long before you make your investment. Academicians have done research, applied statistic models, come up with theories on how markets work, and then come up with ways to apply that knowledge to create investments to capture returns for investors.

Did you catch all that or did you nod off halfway through that last sentence? It's okay to admit you got a little heavy-eyed; it's boring! No crowds, no bells. To continue the movie theme, it's not like the insanity of the trading pit from *Trading Places* or the wild office partying in *The Wolf of Wall Street*. It's much more like…

Come to think, there are no boring movies about investing. *The Big Short, American Psycho, Boiler Room, Barbarians at the Gate, Wall Street*; They're all about the exciting world of active investing (and one about chainsaw killing). How has Hollywood missed the box office potential for a movie about passive, academic-based, institutional mutual fund investing?

Whether Hollywood makes a movie about it or not, we're sticking with boring planning. Long-term financial goals aren't well served by a strategy of trying to figure out who's going to win the fifth race this afternoon at Pimlico. Go ahead and make a $2 bet if you like, and throw a couple of bucks at the Powerball. It's exciting and fun. But keep your nest egg in a boring place.

Steve

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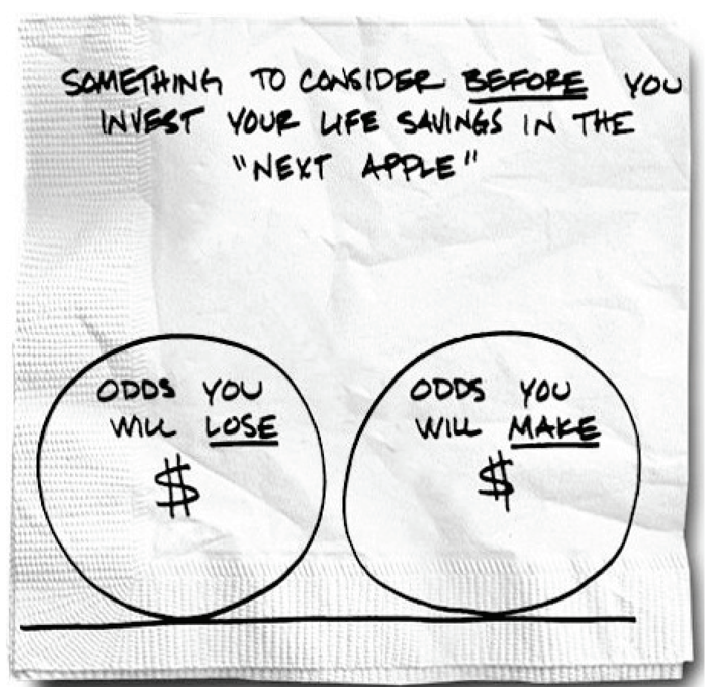
From Carl Richard's Napkin Blog



Final Thought

'Your card is fine. I'm just checking that your bank hasn't expired'