November – December 2017

Money Moxie®

TAILORED FINANCIAL STRATEGIES FOR YOUR LIFE

How Proposed Tax Changes Might Impact You

Since 1982

Smedley Financial Services, Inc.®

What's Up with the Stock Market?

Dear Friends and Financial Partners!

In spite of turmoil, tragedy, and terror, the U.S. stock market has not been suppressed during the last 12 months. Rising jobs and wages continue to support strong economic growth. In the U.S. we are experiencing the lowest unemployment in 17 years, according to the Bureau of Labor Statistics. Simultaneously, we have the highest consumer confidence in 17 years, according to The Conference Board Consumer Confidence Index®. Keep in mind that seventy percent of the U.S. economy is driven by consumer spending.

This rise in the stock market is not limited to the United States. It is a global phenomenon. The stock markets of Britain, France, Germany, and a host of other countries are also performing well.

Here's how the S&P 500 has performed in the last two years. In 2016, the S&P 500 reached 18 new highs and was up 9.54 percent. This year, through November 30th, there have already been 57 record highs for a return of 18.26 percent. The Dow Jones Industrial Average and the NASDAQ have also set new record highs this year.

S&P 500	New Highs	Percent Gain
2016	18	9.54%
2017 through November	57	18.26%

Dealing with the Wall of Worry

Many of us will readily recall Black Monday, October 19, 1987 when the Dow Jones Industrial Average (DJIA) dropped 508 points and finished the day at 1,738.74. That's a decline of 22.61 percent. Thirty years later, on October 19, 2017, the DJIA finished the day at 23,557.99 points. That's a compounded interest rate of 9.08 percent per year. (By the way, most people forget that even with that large of a drop in 1987, the year finished up a positive 2.26 percent.)

Gross Domestic Product (GDP) is one of the most important indicators used to gauge the health of our economy. GDP is the value of all finished goods and services produced by the U.S. Here's the GDP by quarter in 2017: 1st Quarter—1.6 percent, 2nd Quarter—3.1 percent, and 3rd Quarter—3.3 percent. Wow! It has been several years since GDP has been this high. Researching money managers around the country, most managers believe that this climb in the stock market can continue and, yes, that there may be a Santa Claus rally in the works.

Bullish Best Wishes in 2018,

Roger

Roger M. Smedley, CFP
CEO

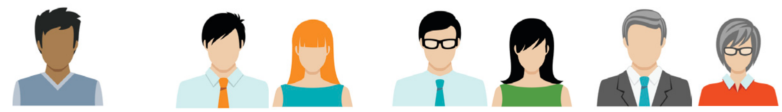
*Consumer Confidence Index is a registered trademark of The Conference Board.
**The S&P 500, NASDAQ and Dow Jones Industrial Average indexes are widely considered to represent the U.S. stock market. One cannot invest directly in an index. Investing involves risk, including potential loss of principal. Past performance does not guarantee future results. The opinions and forecasts expressed are those of the author and may not actually come to pass. This information is subject to change at any time, based upon changing conditions. This is not a recommendation to purchase any type of investment.

Qualified Charitable Distribution Reminder

It's that time of year when people are doing Qualified Charitable Donations (QCD) from their IRA's to fulfill their Required Minimum Distributions (RMD). We wanted to remind you that you will need to 1) contact the charity that you have chosen, 2) confirm with them that they received the donation, and 3) request documentation for the QCD.

How Proposed Tax Changes Might Impact You

By Sharla J. Jessop, CFP®



	Jason	Sophie and Chad	Jane and Oliver	Beth and Joe
Ordinary Income	$52,000	$165,000	$325,000	$48,000
Marital Status	Single	Married	Married	Married
Earners	1 Earner	2 Earners	2 Earners	Retired
Children	2 Kids	2 Kids	3 Kids	None
Tax-Deferred Retirement Contributions	$4,000	$20,000	$37,000	$0
Deductions	Standard	Itemizing	Itemizing	Standard
Current Law	$5,198	$29,345	$71,629	$3,497
Proposed Law	$4,006	$28,065	$67,559	$3,227
Tax Liability Change	-23%	-4%	-6%	-8%

Source: Tax Foundation. Tax burden figures do not include employer-side payroll taxes. For informational purposes only. Not indicative of an actual situation or intended as tax advice. See your tax advisor regarding your personal situation.

First a disclaimer–As this article went to print in late November, the tax overhaul bill had not been finalized. That being said, here are some areas that both the House and Senate agree on in some aspects and will likely make it to the final cuts.

In an effort to reduce the number of filers that itemize, both the House and the Senate are pushing to double the standard deduction, $24,400 and $24,000 respectively. At first glance this looks good. However, there is a caveat. Both want to repeal the personal exemption for each family member, which is $4,150 in 2018. This could have a big impact on large families.

Other items that will impact tax payers: state and local taxes would no longer be deductible. Alternative Minimum Tax (AMT) would be repealed. The estate-tax exemption would be increased from $5 million per individual to $11.2 million per individual and $22.4 million per married couple.

The above chart provides insight into the impact on taxpayers should current proposals play out. For now, all we can do is sit on the sidelines, watch the show, and hope for a practical solution for everyone.

*Smedley Financial and its employees do not provide tax advice; therefore it is important to coordinate with your tax advisor regarding your specific situation.

Party Like It's 1999

By James R. Derrick Jr., CFA®

25	Zero	FAANG	Different
Percent of the largest companies in the United States that are technology companies.	Profit made by Tesla, the most valuable (and technologically advanced) car company in America.	Facebook, Amazon, Apple, Netflix, and Google are larger than the entire economy of Great Britain!	"It's different this time" may be true, but it's also the mantra of every major market move.

It took 17 years for technology stocks to come back, but they made it! The sector is finally reaching new highs–levels beyond the 1999 "tech bubble."

In 1999, many investors convinced themselves that technology was different–that it could go up for a long, long time. How wrong that turned out to be. How long will the euphoria of 2017 last?

Counting on investors to be rational, or even reasonable, can be dangerous. After all, investors instinctively behave contrary to logic. When something goes up in value, investors love it more. When it goes down, they hate it.

In January, most prognosticators believed the U.S. markets would rise in 2017. Few thought it would rise as much as it has.

I estimated that the S&P 500 may return roughly 11.5%. I thought that was really optimistic, and compared to many other Wall Street analysts it was!

Fast forward 9 months and it is clear that stock markets around the globe are doing better than expected. Most countries in the world are enjoying the exuberance of higher markets.

Most analysts will raise their targets once they have been reached. My numbers have called for only modest adjustments upward. That means the outlook is still positive, but 2018 may not be as fantastic as 2017.

Digging deep into the numbers, it is clear that several indicators are being overwhelmed by one factor: momentum. Momentum is so strong all around the world in 2017 that investors are beginning to party like it's 1999!

4 Justifications for Record Highs

By James R. Derrick Jr., CFA®

1. These Are Technology Stocks

This implies that tech does not need to make sense because it can grow forever. We remind any investor using this overly-optimistic tone that such exuberance preceded the collapse in 2000.

On the bright side, many technology companies driving the markets in 2017 include something not seen in 1999 tech: profit!

2. Low Rates

Justification includes the idea that the market is a huge value because interest rates are so low.

Short-term interest rates have actually been rising in 2017. The 13-week yield started the year around 0.5 percent and has risen to 1.25 percent. These short-term rates are expected to keep going as the Fed pushes rates even higher in 2018.

3. The GOP

Many Americans were optimistic that Republicans would cut taxes and spend on infrastructure. Neither happened. Stocks went up anyway.

In reality, this is a global expansion unlike any we have seen since the 1990s. Stocks in many parts of Europe, Asia, and Latin America are also hitting new highs.

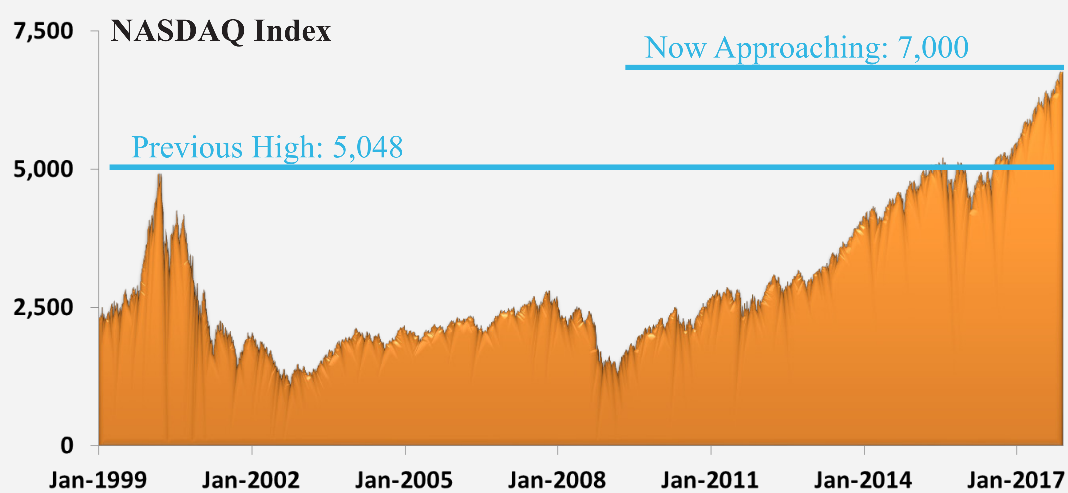
4. Worldwide Improvement

None of these will justify infinite gains. The good news is that the global improvement could continue whether the three prior explanations do or not.

Business spending and consumer confidence is climbing around the globe. This is why I expect more ups and downs over the next year with an overall positive result for those who manage to invest well. Of course, there are no guarantees, so at SFS, we will be vigilant.

Technology Is Back, Finally!

*The economy is gaining some momentum. In the last year, unemployment is down 0.5 percent and leading economic indicators are up 1 percent.**



*Research by SFS. Data from The Federal Reserve Bank of St. Louis and The Conference Board. Investing involves risk, including potential loss of principal. The NASDAQ index is widely considered to represent the technology sector of the stock markets. One cannot invest directly in an index. Diversification does not guarantee positive results. Past performance does not guarantee future results. The opinions and forecasts expressed are those of the author and may not actually come to pass. This information is subject to change at any time, based upon changing conditions. This is not a recommendation to purchase any type of investment.

3 Reasons to Roll your 401(k) and 4 Reasons Not to

By Eric Hencley

What should you do with your 401(k)? This is a question that naturally comes up when people retire or change jobs and the answer can be as simple or as complicated as each individual financial situation. There are several factors to consider, and a good financial advisor will help you sort through them to help you make the decision that is in your best interest. The following items are just a few things to consider:

Reasons to roll out 401(k)

1. More control over Required Minimum Distributions (RMDs). Beginning at age 70 ½, the IRS requires you to take distributions from retirement accounts.

   One of the most valuable tax advantages to rolling out a 401(k) is protecting your Roth assets. Per the IRS guidelines, Roth 401(k) dollars are subject to RMD rules while Roth IRAs are not.

   Most 401(k)s will distribute Roth and tax-deferred amounts proportionately for an RMD. By rolling out, you can control how much of your RMD is taxable. This is especially valuable if you don't need the money. It allows Roth dollars to continue to grow.

   In addition, Roth dollars are distributed tax free to your beneficiaries while Traditional IRA funds are taxed at the beneficiary's current tax rate. To make matters worse, some 401(k)s require beneficiaries to take a lump sum distribution, which exposes them to 100 percent of the tax liability in one year.

2. IRA accounts can make Qualified Charitable Distributions (QCDs). This is a popular option with our clients, and it is only allowed from an IRA.

   The QCD allows you to make charitable contributions as an "above the line" deduction, which means it remains tax free. For those taking the standard deduction, it is even more valuable.

3. Another great reason to roll out your 401(k) is to get access to active management and income distribution planning. Actively-managed IRAs can be divided to help protect assets needed in the near term while still setting aside a percentage to grow.

   Additionally, an actively managed portfolio can take advantage of opportunities in the market with the potential to maximize returns or manage risk.

Reasons to stay in 401(k)

1. If you are still employed by the 401(k) sponsor, you may be allowed to take a loan. However, we do not recommend you take from retirement to pay for short-term expenses.

   In a related note, 401(k)s generally offer better creditor protection unless the creditor is the U.S. government or you named your retirement assets as loan collateral. (401(k)s have federal protection, while IRAs are governed by individual state laws.)

2. Another reason to stick with your 401(k) is lower fees. While a 401(k) isn't free and may even have hidden fees, the fees are still likely lower than they would be in an IRA.

   If you roll out of your 401(k), make sure you understand what you are getting for the additional cost. At SFS, we offer active management, financial advice, income planning at retirement, and considerably more investment options.

3. Most people don't watch their 401(k) closely. This advantage could easily become a disadvantage if one has made a poor investment choice.

4. Flexibility of withdrawals. Another advantage of a 401(k) is that if you are lucky enough to retire after age 55 but before 59 ½ you may be able to take penalty-free withdrawals. To take advantage of this you must leave your funds in the 401(k).

The good news is you don't have to make the decision on your own. As your financial advisor, we can help you sort through the options so that you can make an informed decision that is in the best interest of your family and finances. SFS

*Smedley Financial and its employees do not provide tax advice; therefore it is important to coordinate with your tax advisor regarding your specific situation.

Retirement Crisis in America

By Mikal B. Aune, CFP®

President Trump's proposed tax plan brings retirement planning into its crosshairs. The proposal reduces how much of your 401(k) contribution can be made pre-tax to a mere $2,400 from the current limit of $18,500. While this is just a proposal at this point, it has many people asking what the short- and long-term impact may be.

Proposed Impact on 401(k) Savings

Contribution Type	2018 Limit	Proposed Limit
Tax-deferred 401(k)	$18,500	$2,400
Roth 401(k)	$18,500	$18,000

The combined total contributions for a 401(k) in any calendar year is $18,500 unless you are eligible for the catch-up provision.

The reason the government is looking to reduce the amount of your pre-tax contributions is because they want your money now rather than later.

The current proposal reduces taxes in several areas. However, for the Republicans to get the support they need to push the bill through without the support of Democrats, the financial impact may need to be revenue neutral at the end of 10 years. To balance out the tax cuts, they will have to raise taxes in other areas, like making more of your 401(k) contribution subject to tax.

The proposal does not change the contribution limit from $18,500. It just says that any contributions above the $2,400 limit would be subject to tax now and would be put in the Roth 401(k). This is not all bad for individuals as Roth contributions grow tax free. However, the government is robbing the future Peter to pay Paul now.

One big concern is that people tend to save only what they are incentivized to save. So, even though they can still save up to $18,500 per year, they may only contribute up to the $2,400 limit, which is far below what people need to save for retirement.

A real example is that most employees only contribute whatever they need to get the company match in a 401(k), i.e. a 4 percent contribution to get a 4 percent match. While having 8 percent of your salary go into your 401(k) is a good start, that is well shy of the 15 percent total we like to see going into the 401(k)–11 percent contribution with a 4 percent match.

There is already a retirement crisis. People aren't saving enough for retirement. At a time when we should be giving people more reasons to save, we are removing one of the best incentives out there.

In addition, the cut is so deep that it isn't just going to affect the highly paid workers trying to max out their contribution of $18,500. This will impact the majority of workers, which may have a disparate impact on the people that need to be saving the most for retirement.

For the young generation, we see a perfect storm on the horizon. In the past, it has been said that your retirement income is like a three-legged stool that includes your pension, Social Security, and savings. In the future, this will be more like a 1½ legged stool with your savings making up the only complete leg. Most people will not have pensions and Social Security will likely be reduced significantly from current promised amounts.

There are already clouds on the retirement horizon. We don't need legislation that will hasten the oncoming storm. We do need both individuals and law makers to take responsibility for the long-term safety and protection of our society.

Individuals need to be like squirrels storing up nuts for the winter and law makers need to address these issues with long-term solutions rather than trading a short-term gain for a long-term pain.

Source: https://www.nytimes.com/2017/10/28/business/401k-limit-tax-cuts.html

Your SFS Team

Smedley Financial Services, Inc.® is an independent registered investment advisory firm. We work for our clients. Our wealth managers have the flexibility to implement our financial plans, retirement plans, and income distribution plans using the strategies that work towards each client's needs and goals. We work with individuals, businesses, and family estates. We provide financial solutions for your life.

Wealth Accumulation
- Managed Accounts
- Indexed Investing
- Mutual Funds
- Exchange Traded Funds (ETFs)
- Stocks and Bonds
- Alternative Investments

Family Protection
- Term Insurance
- Whole Life Insurance
- Universal Life Insurance
- Variable Universal Life Insurance

Retirement
- Social Security Maximization Strategies
- Medicare Supplement
- Guaranteed Income (Annuities)
- Lifetime Income Planning

Disability (Injury)
- Short-Term Disability Insurance
- Long-Term Disability Insurance

Elder Care
- Long-Term Care Insurance
- Hybrid LTC

Employers and Self Employed
- Health Insurance
- 401(k) Plans

Roger M. Smedley, CFP®
CEO
Founded 1981

Sharla J. Jessop, CFP®
President &
Private Wealth Consultant
Joined 1994

James R. Derrick Jr., BFA™, CFA®
Vice President &
Chief Investment Strategist
Joined 2000

Mikal B. Aune, CFP®
V.P. of Wealth Management
Joined 2006

Shane P. Thomas
IT Specialist &
Advisor Relations
Joined 2003

Eric Hencley
Private Wealth Consultant
Joined 2017

Lynette S. Watts
Client Service Specialist
Joined 2000

Nashaela Lyons
Client Service Specialist
Joined 2013

Smedley Financial Services, Inc.®, a registered investment advisory firm since 1982
102 South 200 East, Suite 100 P.O. Box 4133 Salt Lake City, Utah 84110-4133
801-355-8888   800-748-4788
info@SmedleyFinancial.com
SmedleyFinancial.com

Securities offered through Securities America, Inc. Member FINRA/SIPC. Advisory services offered through Smedley Financial Services, Inc.®
Roger M. Smedley, Sharla J. Jessop, James R. Derrick, Shane P. Thomas, Mikal B. Aune, Allison R. Osgood, representatives.
Smedley Financial Services, Inc.® and Securities America, Inc. are separate entities.
Past performance does not guarantee future results. The opinions and forecasts expressed are those of the author and may not actually come to pass. This information is subject to change at any time, based upon changing conditions. This is not a recommendation to purchase any type of investment.
Certified Financial Planner Board of Standards, Inc. owns the certification marks CFP®, CERTIFIED FINANCIAL PLANNER™ and federally registered CFP (with flame design) in the United States, which it awards to individuals who successfully complete CFP Board's initial and ongoing certification requirements.