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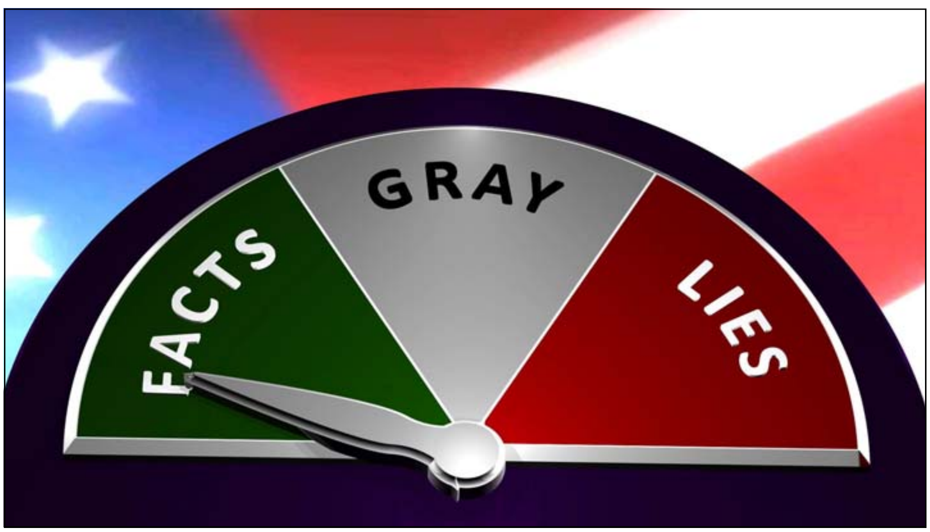
Economic Facts To Prepare For The Elections

With the mid-term elections approaching and the political stakes increased, the level of misinformation on economic conditions is likely to rise.

To avoid making bad financial decisions based on distortions and outright lies constantly on TV news, here are economic facts to survive the political season.



As the election nears, you are likely to hear on TV the news that Americans are suffering from slow growth in wages and personal income. That's just not true!

Wages and benefits, the key drivers of the U.S. economy, grew at a 4.4% annual rate. Consumers have more money in their pockets!

Meanwhile, the interest and dividends portion of personal income surged 6.4% in the 12 months through July 2018 — welcome relief for retirees.

Disposable personal income, before inflation, grew 5.3% in the 12 months ended July 2018.

That equals the rate of growth in personal disposable income in the last economic expansion!

Yet politicians and pundits across the political spectrum often bemoan stagnant wages and income.

Real disposable personal income per capita grew by 2.2% in the 12 months ended July 2018, compared to the 1.8% five-year annualized growth in the peak of the last economic expansion.

You're also likely to hear more talking heads on TV news saying inflation is rearing its ugly head again.

They're not lying but they're often not giving you all the facts.

A key inflation index that U.S. central bankers at the Federal Reserve consider in deciding interest rate policy, the Personal Consumption Expenditure Deflator, poignantly is doing what's expected by policymakers.

The Fed chair, according to the minutes of the Federal Open Market

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Another Member Of Music Royalty Dies With No Will

Legendary singer, Aretha Franklin succumbed to pancreatic cancer at the age of 76 on August 16, 2018, and she was accorded funeral rites reserved for music royalty. At once humble and a diva, the Queen of Soul, who famously demanded respect, sadly died without a will.

Her estate is subject to probate, a long-drawn out public legal proceeding to hear claims by her four children and other relatives — an undignified end for music royalty.

While Ms. Franklin was a genius by most measures and her music legacy lives on, she appears to have had a blind spot when it came to money and, perhaps, mortality. A minister's daughter, Ms. Franklin was known to demand payment in cash before performing live and would keep the cash near her onstage.

It's not uncommon for probate proceedings to result in public family infighting and stupid legal fees; music rights heighten the stakes avariciously. Prince, who died in 2016 without a will, reportedly led to bitter family disputes and revocation of a multimillion-dollar music deal.

Instead of leaving a legacy defined on her own terms, Ms. Franklin's family is subject to a public probate proceeding, which can turn ugly.

If you don't have a will, are unsure about what to do, or think you may have a blind spot around dealing with money or planning beyond your life, please call and let us try to help you.

Your team at Siena Wealth Management

Ron Howard – Managing Principal
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Mike Weakley – Senior Financial Advisor
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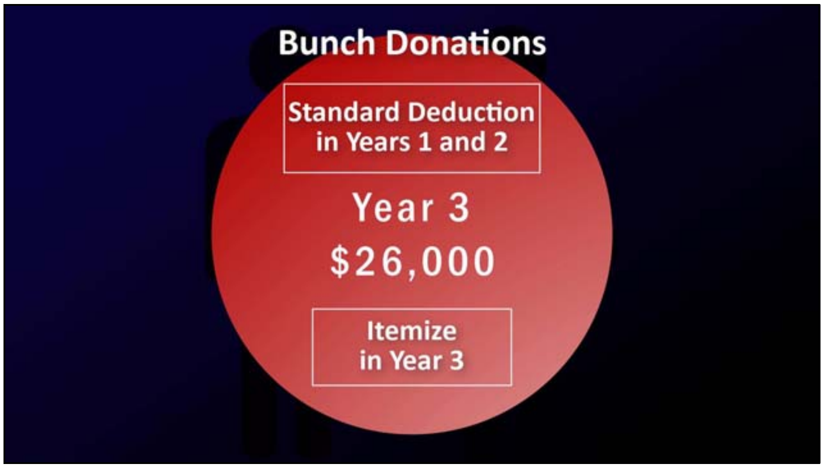
Sidestepping New Limits On Charitable Donations



If you think you're no longer allowed to deduct items like charitable donations on your income tax return, think again.

The new tax law doubled the standard deduction, slashing the number of Americans eligible to itemize deductions from 37 million to 16 million.

However, if you are among those who will lose your ability to deduct charitable donations, there is a simple strategy for managing the new limits on charitable giving, and it enables you to continue doing good while doing well for yourself by reducing your tax bill.

The strategy is simple: bunch a few years of donations into a single tax year instead of making them annually.

Rather than report charitable donations on your tax return every year, you bunch two or more years of contributions into a single tax year — enough to boost the charitable total above that year's standard deduction.

Say you're married and you give $10,000 in Year 1, $6,000 in Year 2 and $10,000 in Year 3. Your $26,000 total surmounts the $24,000 eligibility. If you deduct the total donations of $26,000 in Year 3, you can take the standard deduction in Years 1 and 2 and itemize in Year 3.

Instead of giving in dribs and drabs, you will need to plan your giving strategy, but this will allow you to give as much as you used to before the limits without losing the tax benefits.

And if you can plan to make the larger donations in a year when you expect higher income, bunching charitable donations can be even more effective in lowering your tax bill.

We'll be speaking with clients about this in the months ahead because this tactic does take some planning in advance.

If you have any questions about your personal situation, please do not hesitate to give us a call. ●

Key Facts On Deducting Medical Expenses

Medical expenses can run up your expenses a lot. For that reason, the new tax law gives people a break by sweetening the long-time tax deduction for health care, at least for a couple of years.

Before the Tax Cuts and Jobs Act (TCJA), you could deduct medical expenses that exceeded 10% of your adjusted gross income (AGI). For the tax years of 2017 and 2018, the TCJA lowered the threshold to 7.5%. AGI is taxable income minus all deductions, IRA contributions and student loan interest. Of course, the medical tax break is available only to people who itemize.

The trouble is the more generous deduction expires after 2018, when the threshold rises back to 10%. Groups like AARP are lobbying in Washington to get the 7.5% level extended or made permanent, and that could factor into your timing and decisions about medical expenses in the months ahead.

Say your AGI is $45,000 and you rack up $5,475 in medical costs. You multiply $45,000 by 0.075 (7.5 percent) to get your deduction threshold of $3,375. Only medical expenses above $3,375 would be deductible. Result: your medical expense deduction is $2,100 ($5,475 minus $3,375).

Some big-ticket items are deductible medical expenses, like long-term care insurance premiums, nursing home payments and Medicare costs — including Medicare Part B, Medigap policies, Medicare Advantage programs and Part D Prescription plans.

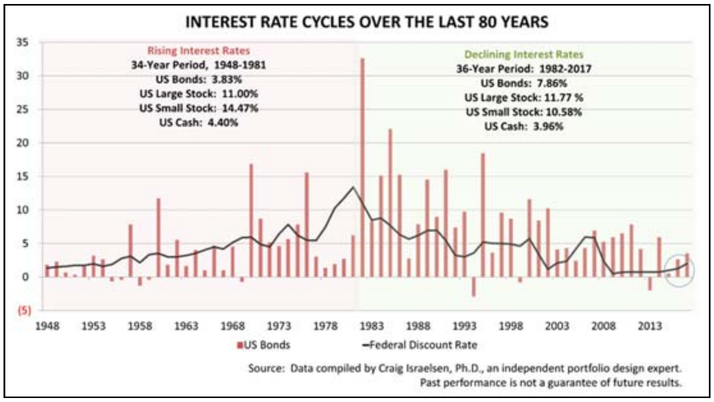
In addition, any health insurance you pay out of pocket can be deducted. But that can't include coverage you pay for with before-tax dollars, which is often the case with employer-sponsored medical plans.

Another big deductible item is co-payments for prescription drugs — and also out-of-pocket fees for doctors,

The Interest Rate Inflection Point And Your Portfolio

Interest rates are on the rise, and that means bond prices will decline. Here's a summary of financial history since World War II demonstrating how long interest rate cycles last and how it is likely to affect you.

From the end of World War II to 1981, interest rates rose, as is shown in the black line in the chart. Of course, when interest rates rise, bonds prices fall because bonds paying less than the new, higher rate are less desirable and their prices adjust downward. Thus, from 1948 to 1981, the average annual return on bonds was just 3.83% annually.



Now look at what happened since the declining rate cycle began in 1982 through the end of 2017. As interest rates moved lower, the prices of bonds climbed. Bonds returned an annual average of 7.86%, for this 36-year period. Which brings us to where we are today.

Interest rates started moving up about two years ago, which means bond holdings declined in value. The Federal Reserve, which controls short-term rates — the black line — will continue to push rates higher for many years, if history is a guide. In fact, amid the strengthening economy, the Fed says it expects to ratchet rates higher again and again in 2018.

For investors who, over three decades, have grown accustomed to bonds appreciating at a rate rivalling stocks, the future seems likely to be very different, which especially affects the demographic bubble of baby-boomer retirees, who have long favored bonds for producing reliable income.

Bond Performance In Portfolios, 1948 - 2017

	Period of Rising Interest Rates 34-Year Period from 1948 to 1981	Period of Declining Interest Rates 36-Year Period from 1982 to 2017
1-Asset Portfolio 100% US Bonds	3.83% Annualized Return 4.32% Standard Deviation	7.86% Annualized Return 6.98% Standard Deviation
2-Asset Portfolio 60% Large US Stock 40% Bonds	8.52% Annualized Return 10.49% Standard Deviation	10.54% Annualized Return 10.73% Standard Deviation
4-Asset Portfolio 40% Large US stock 25% Small US Stock 25% Bonds 10% Cash	10.05% Annualized Return 13.14% Standard Deviation	10.11% Annualized Return 11.16% Standard Deviation

Past performance is not a guarantee of future results.

To understand the effect the new rising rate cycle might have on your portfolio in the years ahead, this table gives you the key facts.

The 11% annual return on stocks and the return of about 4% on Treasury Bills stayed approximately the same through both the rising and falling interest rate cycles. However, the 3.8% average annual return bonds in the rising rate cycle from 1948 to 1981 was less than half the 7.86% annually averaged on bonds during the 1982 to 2017 period. This poses a new kind of risk that many investors have never experienced before.

During the rising rate cycle, when the average annual return on bonds was a measly 3.83%, stocks and 90-day Treasury Bills averaged about the same annual return as they did in the falling rate cycle. The performance of stocks, bonds, and cash over this period demonstrates why diversification and a strategic approach are so important to long-term investing.

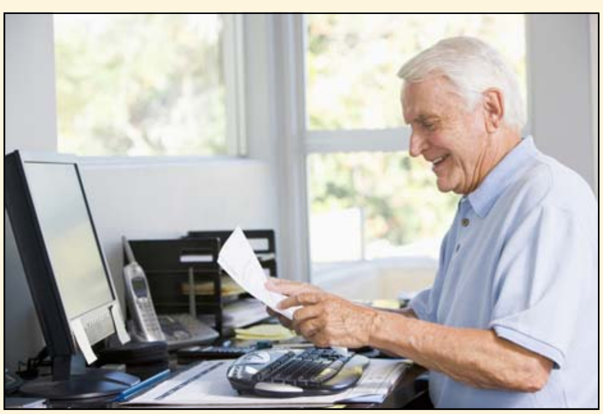
Shorter maturity bonds — due in three- to seven-years, as opposed to 10, 20, or 30 — are less susceptible to interest rate risk than longer maturity bonds with more years to run paying your interest before returning your principal.

These illustrations do not reflect the impact of inflation, which adds another dimension and requires a separate discussion. The takeaway here is that rates may be at the start in a new long-term cycle and clients can rely on our advice on the best way to manage this risk. Please do not hesitate to contact us with questions. ●

Large-cap US equity represented by the S&P 500 Index. Small-cap US equity represented by the Ibbotson Small Companies Index from 1970-1978, and the Russell 2000 Index starting in 1979. Non-US equity represented by the MSCI EAFE Index. Real estate represented by the NAREIT Index from 1970-1977 and the Dow Jones US Select REIT Index starting in 1978. Commodities represented by the Goldman Sachs Commodities Index (GSCI). As of February 6, 2007, the GSCI became the S&P GSCI Commodity Index. U.S. Aggregate Bonds represented by the Ibbotson Intermediate Term Bond Index from 1970-75 and the Barclays Capital Aggregate Bond index starting in 1976. Cash represented by 3-month Treasury Bills.

dentists, physical therapists and other health-care professionals not covered by Medicare or any other health insurance. Add in prescription eyeglasses, hearings aids and wheelchairs, and transportation costs to and from medical appointments, as well as alcohol and drug treatment programs.

Medical expenses are deductible only if they alleviate or prevent a physical or mental defect or illness, including dental and vision. So, you cannot deduct a gym membership if it is to promote your general wellness. However, if a doctor diagnoses you with a specific medical condition, such as obesity or hypertension, then the expense of the prescribed treatment may indeed be tax-deductible, including a gym membership. ●



10 Things: New Education Tax Breaks For A Child Or Grandchild

1. If you have a child or grandchild, for the first time ever, you can now pay tuition for kindergarten through 12th grade at private, public or religious schools with money saved in tax-advantaged 529 college savings accounts.

2. Thanks to the Tax Cuts And Jobs Act (TCJA), you now can draw up to $10,000 tax-free per student from a 529 plan, which is a tax-advantaged program sponsored by states, state agencies, and educational institutions.

3. While your contributions to a 529 plan are not deductible, earnings grow free of federal income tax on withdrawals to pay for qualified school expenses.

4. You are not limited to 529 plans sponsored by your state. You can choose from a long list of 529s sponsored by other states and choose the right one for you. Call us if you want help with this.

5. A big relief is that the new law leaves the student loan interest deduction unchanged at $2,500. Some lawmakers wanted to scrap it, but the majority rallied to the tax break's defense. Americans owe some $1.48 trillion in student debt, and it's definitely a thing to watch.

6. When student loans are cancelled due to death or disability, they now become tax-exempt. Till now, the debt would be added to the income of a deceased or disabled individual. This new tax benefit is not retroactive, and only affects loans taken from 2018 through 2025. Congress may choose to extend this tax break.

7. The TCJA axes taxes on alimony payments, so custodial parents should have it easier qualifying for need-based aid. Their income won't be as high as what's reflected in tax records, which is what federal aid officials rely on to determine who to help and by how much.

8. Tax deductions for interest on home equity loans and lines of credit were eliminated. These are major sources of education funding, businesses, and a range of other expenses. It's gone.

9. The new federal levy on colleges with big endowments could result in still-higher tuition costs.

10. Education tax breaks were boosted overall by the TCJA, but you almost must be a financial professional to manage the complexities of funding the education of a child tax-efficiently and with low investment expenses. ●

Prepare For The Elections

(Continued from page 1)

Committee meeting recently released, expects inflation to hover around 2%.

It may go above 2% for a time and that is expected. But it may also go slightly below 2%.

Meanwhile, at 2.3%, the PCED deflator is above the Fed's target of 2%, but the Core PCED, at 2%, is right on target — and that is the key figure.

The core PCED is a basket of fixed monthly expenses that excludes gasoline and other volatile expenses.

It's all about long-term expectations, which is how you want the Fed to think if you're an American investor.

The cost of an employee in the U.S. rose 2.8%, but core PCED grew only 2%. That means employees are getting wage increases because the cost of an employee rose, but the core inflation rate did not reflect the rise! That's a free lunch!

Productivity surged in the second quarter of 2018, which explains why inflation did not rise as fast as wages and benefits, and that's about the best thing you could hope for: increased productivity.

Unit labor costs declined! The cost of an employee went down!

Rising wages and benefits were offset by a 2.9% surge in productivity!

Productivity is a key to prosperity for the American economy.

Labor costs, by far the biggest driver of inflation, declined in the second quarter by almost 1%.

This was a reflection of the surge in second-quarter productivity.

The University of Michigan's monthly survey of confidence dropped from 97.9 in July to 96.2 in August. No irrational exuberance here. Consumers are not about to go on a debt binge, stop saving, or make speculative investments.

Which brings us to the Standard & Poor's 500 stock index.

Despite a looming trade war with China, U.S. political polarization, and a Presidential political crisis, the economy is great, according to shareholders in America's largest publicly-owned companies.

As the current expansion closes in on the post-War record for longevity, investors can expect the coming elections to stir up the false narrative of stagnant wages and slow income growth. Don't believe it. ●