Vector
WEALTH MANAGEMENT

Dear Client

Welcome to the old normal.

As we look back on what occurred in the first quarter of 2018, we are reminded that there are certain basic premises of how the markets work and the importance of not being pulled into short-term events.

During the first quarter we saw a significant rise in volatility, albeit from abnormally low levels. Causes for the spike included; the threat of trade wars, fear of faster than expected inflation, and diverging central bank policies. The headlines and corresponding market reaction was a stark contrast to the relatively calm march higher in equity prices experienced in 2017. *In 2018 volatility returned, why? Because it had to!*

Fundamentally the U.S. economy and global economy still look solid. Global growth may no longer be accelerating, but it remains at above-trend levels and the likelihood of a recession over the next year or so still appears low (absent a macro/geopolitical shock). The global economic and corporate earnings growth outlook has not materially changed from what it was earlier in the year and corporations appear both willing and able to continue with stock buyback programs. The near-term macro backdrop is still supportive for riskier assets such as global stocks, even though the U.S. economic recovery is getting long in the tooth. Again, volatility returned because it had to. In our last letter, we noted the 400+ days without registering as little as 3% decline. Volatility eventually had to return to its historical norms as certainly as the performance of equities over longer periods must do so also. The timing, of course is the unknown.

There are few absolutes that we can depend on. We often cite the importance of creating more certainty with the investments matched to your shorter term spending plan. Long term, there is more certainty in the outcome of returns given that markets produce normal (average) results over long periods of time. Within the longer term segments, we carefully solve for how much of your portfolio has the ability to take on a growth focus. Segmenting your portfolio in this fashion is a reflection of our core beliefs in being both disciplined and humble when it comes to the markets. Disciplined in taking on risk where a portfolio can (i.e. over the long term) and humble in admitting that nobody really knows exactly what is going happen in the short term (i.e. Feb 2018 market decline).

Since we initiated the development of Sojourn 23 years ago we have been reminded that this approach is fundamental to having an understanding and confidence around the execution of wealth management. We will let the backdrop of short term economic and geopolitical noise remain just noise while we stay disciplined and aware of the inevitable return to normalcy of… volatility, bond yields, equity returns – whatever!

Thank you for your trust and confidence.

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1st Quarter 2018

Tax Law Changes

Do I have to amend my return if I receive a corrected 1099 or W-2 with a minor change?

Good news for those of you who receive those annoying corrected 1099's after the tax filing deadline! The PATH Act of 2016 created a safe harbor from penalties for failure to file correct information on tax returns for certain de minimis errors. Under the safe harbor, an error is not required to be corrected, and no penalty is imposed, if the error relates to an incorrect dollar amount and the error differs from the correct amount by no more than $100 ($25 in the case of an error with respect to an amount of tax withheld). However, even though it is not required, a tax filer may elect to amend the return to correct the error. This provision is effective for information returns and statements required to be filed after December 31, 2016.

Can I still itemize my deduction if I am charitably inclined?

Individual taxpayers have two options when they file their personal federal income tax returns — take a standard deduction or itemize deductions. Under the new Tax Cuts and Jobs Act, the standard deduction available for taxpayers became much larger — almost twice what it was previously. This change makes it less likely that the sum of a taxpayer's itemized deductions will exceed the larger standard deduction, especially with new limits in place on deductible state and local taxes (capped at $10,000). The Tax Policy Center estimates that, under the new tax law, the number of taxpayers that itemize their deductions will fall from 46.5 million in 2017 to 19.3 million in 2018.

A potential side effect of fewer taxpayers itemizing their deductions is that these taxpayers may no longer receive a tax deduction for charitable contributions to not-for-profit organizations.

One strategy that allows individuals to continue to donate and receive tax benefits is to "bunch" donations to charities in specific years, while limiting donations in other years. One way of accomplishing this is through a Donor Advised Fund. You are able to make a larger one time donation and continue to gift to your charity annually. In the bunch years, the relatively large charitable contributions, in combination with other itemized deductions will increase the likelihood of exceeding the standard deduction and thus provide the taxpayers with additional tax savings. Additionally, donating highly appreciated securities instead of cash can maximize both the amount the charity receives and your charitable tax deduction, while potentially reducing your future tax bills.

We want to help you make the biggest impact with your donations and are happy to work with you and your accountant to determine if this strategy may be beneficial for your specific situation.

Referrals

We are fortunate to have grown over the years primarily through referrals from you, our clients. Thank you! If you know of other individuals you think could benefit from our services, we would love the opportunity to speak with them.