PARK 10 FINANCIAL, LLC

INCISIVE INVESTOR

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WEEK IN REVIEW
WINNING STREAKS ARE BROKEN

Review of the week ended November 10, 2017

- **Congress reworking tax proposals**
- **Trump inks China trade deals**
- **Investor confidence is high**
- **Saudi corruption probe, regional tensions boost oil**

U.S. stock benchmarks closed mostly lower on Friday, putting an end to multi-week winning streaks by the major indexes as investors expressed nagging anxiety about a possible delay in much-anticipated corporate tax cuts.

The Dow Jones Industrial Average fell 0.2%, to 23,422.21. The S&P 500 ended down to 2,582.28, a decline of 0.1%. The Nasdaq Composite Index rose to 6,750.94, or less than 0.1%, after earlier trading in negative territory. The tech-heavy index was supported by strength in semiconductor stocks.

For the week, the Dow fell 0.5% while both the S&P and the Nasdaq lost 0.2%. Both the Dow and the S&P had risen for eight straight weeks, while the Nasdaq broke a six-week rally. All three indexes are hovering near record levels.

Yields on US 10-year Treasury notes rose modestly, trading at 2.38% Friday morning versus 2.34% a week ago. Oil gained ground amid uncertainty surrounding Saudi Arabia and Venezuela, climbing to $57.20 per barrel from $54.60 last week. Volatility, as measured by the Chicago Board Options Exchange Volatility Index (VIX), rose to 11.11 from 9.5 last week.

US House and Senate offer differing tax plans

The US House Ways and Means Committee, the tax-writing arm of the lower house, amended the tax reform proposal it put forth last week. The Senate Finance Committee unveiled its plan for the first time on Thursday. Among the key differences the two bodies will need to iron out is the effective date of the proposed corporate tax cut from 35% to 20%. In the House bill, the cut would go into effect next year, while the Senate's plan calls for the cut to become effective in 2019. GOP leaders are under intense pressure to pass a tax bill before the end of the year after failing to enact any major initiatives during the Trump administration's first year in office.

Trade deals unveiled during Trump China visit

According to the White House, $250 billion in trade deals were agreed during US president Donald Trump's visit to Beijing. Skeptics noted many of the announced deals were not contractual obligations and some may have been agreed previously. Despite the skepticism, some Chinese trade barriers appear to have been lowered, notably on the importation of US beef, which was halted in 2003 as a result of a BSE (mad-cow disease) scare in 2003.

Investor sentiment remains elevated

Bullish sentiment has been running strong of late, and by one measure it is at its most elevated level in three decades. According to Investors Intelligence, 64% of newsletter writers were bullish this week, versus just 14% who were bearish. The spread between bulls and bears has been at an elevated level for six straight weeks. Another sign of market confidence is a record level of margin debt, according to the Wall Street Journal. Margin loans grew 14% from the end of 2016 through the end of Q3, the Journal noted.

GLOBAL NEWS

UK's May weakened further by Westminster scandals

Already politically vulnerable owing to the Conservative Party's poor showing in snap elections earlier this year and a lack of progress toward a controlled Brexit, British prime minister Theresa May found herself further weakened this week by a growing sexual harassment scandal that forced her defense minister Michael Fallon from office. Secretary of State for International Development Priti Patel was also forced to resign, for having undisclosed meetings with Israeli officials.

Oil prices rise to two-and-a-half-year highs

Saudi Arabia's crackdown on corruption, growing tensions between Iran and Saudi Arabia and the potential for a Venezuelan debt default all helped push oil prices higher this week. While short-term factors could push prices up in the near term, spare US production capacity could come back on line quite quickly, analysts say, limiting the market's upside over the medium term.

THE WEEK AHEAD

Date	Country/Area	Release/Event
Tue, Nov 14	China	Retail sales, industrial production
Tue, Nov 14	United Kingdom	Consumer price index
Tue, Nov 14	Eurozone	Q3 gross domestic product
Wed, Nov 15	UK	Unemployment rate
Wed, Nov 15	United States	Retail sales, Consumer Price Index
Thu, Nov 16	UK	Retail sales
Thu, Nov 16	Eurozone	Consumer price index
Thu, Nov 16	US	Industrial production
Fri, Nov 17	US	Housing starts, building permits
Fri, Nov 17	Canada	Retail sales, consumer price index

Capital Gains: The Basics

Let's say you buy some stock for a low price and after a certain period of time the value of that stock has risen substantially. Nice work! You decide you want to sell your stock and capitalize on that increase in value. The IRS will have something to say about it.

The profit you make when you sell assets is equal to your capital gains on the sale. Capital gains are taxed at the federal level and in some states at the state level, too. The capital gains tax rate varies based in part on how long you hold the asset before selling.

There are short-term capital gains and long-term capital gains and they're taxed at different rates. Short-term capital gains are gains on assets you hold for a year or less. They're taxed like regular income. Long-term capital gains are gains on assets you hold for over a year. They're taxed at a separate rate.

Depending on your income tax bracket, your tax rate on long-term capital gains could be 0%. Even those in the top income tax bracket pay long-term capital gains rates that are lower than their income tax rates. That's why some very rich Americans don't pay as much in taxes as you might expect.

To recap, the amount you'll pay in federal capital gains taxes is based on the size of your gains, your federal income tax bracket and whether your gains are short-term or long-term.

To figure out the size of your capital gains you'll need to know what your basis is. Basis is the amount you've paid for an asset. You don't have to pay capital gains taxes on your basis. Instead, your tax liability stems from the difference between the sale price of your asset and the basis you have in that asset. In other words, your profit.

Earned vs. Unearned Income

Why the difference between the regular income tax and the tax on long-term capital gains at the federal level? It comes down to the difference between earned and unearned income. In the eyes of the IRS, these two forms of income are different and deserve different tax treatment.

Earned income is the income you make from your job. Whether you own your own business or pick up a few shifts at the coffee shop down the street, the money you make is earned income. Unearned income is income that comes from interest, dividends and capital gains. It's money that you make with other money. Even if you're actively day trading away on your laptop, the income you make from your investments is considered passive, unearned income. "Unearned" doesn't mean you don't deserve that money, it's just different.

The issue of how to tax unearned income is pretty political. Some folks say it should be taxed at a rate higher than the earned income tax rate because it is money that people make without working, not from the sweat of their brow. Others think the rate should be even lower than it is - preferably as low as possible to encourage investment.

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Tax Loss Harvesting

Pretty much no one likes to face a giant tax bill come April. Of the many legal ways to lower your tax liability, tax loss harvesting is among the more complicated.

Tax loss harvesting is a way to avoid paying capital gains taxes by selling unprofitable investments to offset the capital gains realized from selling profitable investments. You can write off those losses when you sell the depreciated asset, canceling out some or all of your capital gains on appreciated assets. You can even wait and re-purchase the assets you sold at a loss if you want them back, but you'll still get a tax write-off if you time it right.

Some people are devotees of the tax loss harvesting strategy. They say it saves you big bucks. Others aren't so sure. They say that it costs you more in the long run because you're selling assets that could appreciate in the future for a short-term tax break. You're basing your investing strategy not on long-term considerations and diversification but on a short-term tax cut. And if you repurchase the stock you're essentially deferring your capital gains taxation to a later year.

State Taxes on Capital Gains

Capital gains aren't just taxed at the federal level. Some states levy taxes on capital gains, too. Most states tax capital gains as they tax regular income. So, if you're lucky enough to live somewhere with no state income tax you won't have to worry about capital gains taxes at the state level.

New Hampshire and Tennessee don't tax income but do tax dividends and interest. The usual high-income tax suspects (California, New York, Oregon, Minnesota, New Jersey and Vermont) have high taxes on capital gains, too.

I will be glad to show you how I have helped many other area residents plan for a more secure future for themselves and their heirs. Have you done enough to determine that your investments allocated properly for you goals, dreams, and legacy? Call today to schedule your personal appointment date and time.

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