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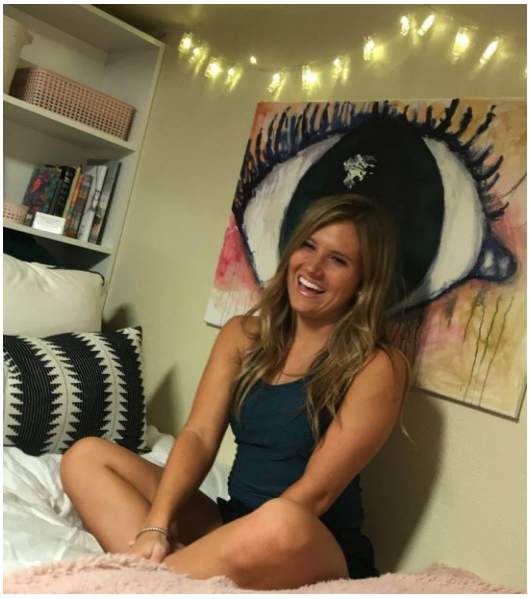
INVESTMENT SERVICES

E-News
August 2019

Topics:

A New Sooner



I personally experienced recently what I've spoken to so many of our clients about….sending their 1st child off to college. Yes, my daughter Deryn is officially a full-time college student at OU. We had a little dorm room construction party, wished her good luck, and gave her a parting kiss. I won't lie and say that no tears were shed, but we are certainly proud of her and believe that she's prepared to do great things! To all of you that have been through that experience, we are with you!!!

Tax Topics 2019

If you have had time to carefully compare your 2017 and 2018 tax returns, you will notice some major differences. For 2018, most people paid less tax on the same income as compared to 2017. Making sure you are planning properly to maximize your tax savings is an important part of the work we do. In this case, a dollar saved is as good as a dollar earned!

Here is a good chart to remind you of some of the major differences between the old and new tax laws:

Deductions and Credits 2017 versus 2019		
	2017 (Married/Individual)	**2019 (Married/Individual)**
Standard Deduction	$12,700 / $6,350	$24,400 / $12,200
Personal Exemption	$4,050 / person	Eliminated
Child Tax Credit	$1,000 / child (phaseout began at $110,000 / $75,000)	$2,000/child (phaseout begins at $400,000 / $200,000)
State and Local Taxes	Unlimited	Maximum Deduction of $10,000
Mortgage Interest Deduction	Interest on certain debt up to $1,000,000	Interest on certain debt up to $750,000
Miscellaneous Itemized Deductions	Deductible if greater than 2% AGI	Eliminated
Pease Phaseouts (limitations on itemized deductions)	Itemized deductions limited at $313,800.00/$261,500.00	Eliminated
Charitable Deductions	Maximum Deduction: 50% of AGI	Maximum Deduction: 60% of AGI

Here are a few notes to remember based on your age, filing status, and income:

1) Age 70+ = Consider using a QCD for all charitable contributions
2) Bracket Tops = Review Table, adjust taxable income via pre-tax withholdings where possible to eliminate tax (to your SIMPLE IRA or 401k for example)

2019 tax brackets

RATE	SINGLE FILERS	MARRIED FILERS
10%	$0 – $9,700	$0 – $19,400
12%	$9,701 – $39,475	$19,401 – $78,950
22%	$39,476 – $84,200	$78,951 – $168,400
24%	$84,201 – $160,725	$168,401 – $321,450
32%	$160,726 – $204,100	$321,451 – $408,200
35%	$204,101 – $510,300	$408,201 – $612,350
37%	$510,301+	$612,351+

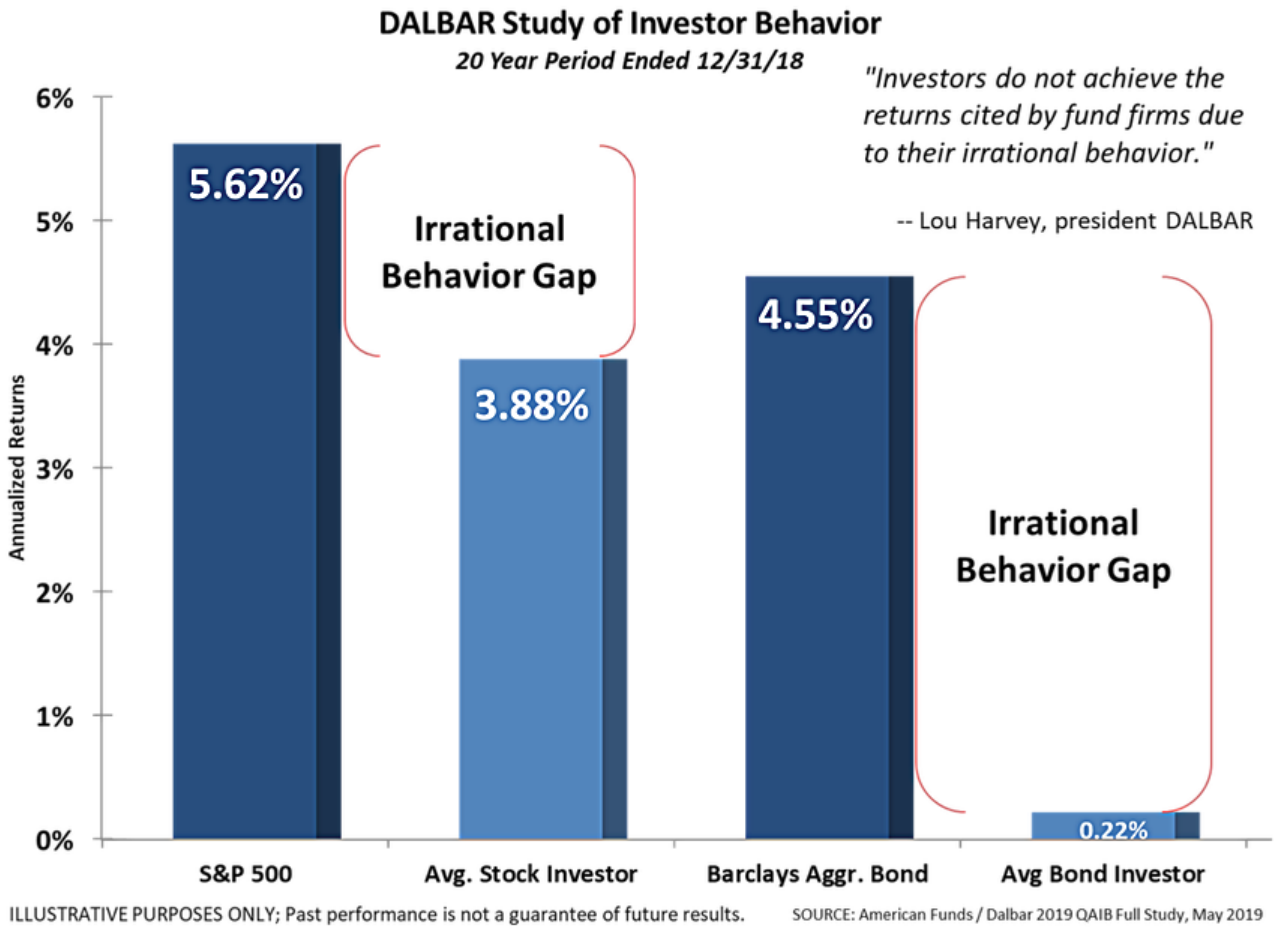
3) Maximize Roth IRA Funding = Removes future earnings from ever being taxed
4) Maximize Qualified Dividends and Long-Term Gains = More favorable tax rates

We recommend that each and every one of our clients drop by for a tax return review to assure that all avenues for tax reduction are being considered. Let us know what questions and concerns you have in this area.

The DALBAR Study of Investor Behavior

For many years, DALBAR has been a leading expert in the financial services industry with expertise in the areas of evaluating, auditing and rating business practices, customer performance, and product quality and service. Many investors might know the company for what is perhaps their most well-known product, the annual study they call, "**Quantitative Analysis of Investor Behavior.**"

Essentially this study attempts to illustrate the "behavior penalty" imposed on investors for "bad" behavior – the decisions made during markets swings that ultimately impact investor performance. Here is the 2018 summary of results that they distill to a chart:



The most striking point taken from this illustration, and for that matter from the illustrations produced by this study year after year, is what they term the "Irrational Behavior Gap." You might note that this gap persists with both stocks and bonds and if you look back in history the only differences are the amount of the penalty that the average investors impose upon themselves.

So, why does this "Irrational Behavior Gap" exist and how can we as smart investors avoid it?

The basic answer to this question is to do our best to eliminate emotions from the investment equation. Markets have always gone through cycles, and those cycles can be hazardous to your wealth if not navigated properly. Here is another graphic often used to illustrate the emotions common to all investors as a cycle progresses:

If you have been an investor for any time at all, you can likely point to a time where you have experienced these emotions personally. It is one thing to look at it in a picture or on a graph, but when we are talking about your money it's hard to remove your emotions from the equation. Getting overly excited during periods of market advances and panicking at a market bottom are unfortunately realities for investors who either invest improperly or who do not have the patience to allow a good plan to come together. The wisdom of experience is often the best teacher in avoiding this counterproductive behavior, and we are here to support you during those challenging times!

Stats of the Month

M&A – The number of publicly listed companies, i.e., companies traded on an exchange, has dropped from a peak of 8,090 in 1996 to just 4,336 today.

On The Payroll – 83% of full-time state and local government employees were participants in a defined benefit pension plan in 2018. Just 16% of full-time workers in the private sector were participants in a defined benefit pension plan in 2018.

Record Student Debt – Student loan debt has doubled in the United States since 12/31/09 and has quadrupled since 6/30/05.

May I Guarantee You A Loss? – There are $13 trillion of "negative-yielding" government bonds in the world today, i.e., a bond investor who holds the debt instrument to maturity will receive less money back over the bond's lifetime, including annual interest, than what he/she paid for the bond up front. $6 trillion of the $13 trillion is Japanese sovereign debt. None of the $13 trillion is US government debt.

How Bout Them Cowboys – The world's most valuable sports franchise is the NFL's Dallas Cowboys, worth an estimated $5 billion. The Cowboys generate $365 million of operating income per year, or $1 million a day.

Sources: Bloomberg, Federal Reserve Bank of New York, Forbes, theglobaleconomy.com, Urban Institute

The Markets

July was another positive month for stocks and a notable month for financial news. The US market as measured by the S&P 500 hit a milestone topping 3,000 for the first time and the Fed entered the action cutting interest rates. Across the pond, Brexit advocate Boris Johnson was elected as the new Prime Minister of the UK, and the European Central Bank indicated that more stimulus is on the table to kick start economic activity.

US Market Highlights		Global Market Highlights	
Consumer Confidence	↑	Brexit	?
Jobs	↑	Tariffs	?
Consumer Spending	↑	ECB Rates	↓
GDP	↑	US Dollar vs Euro	↑ ↓
Interest Rates	↓	MSCI World & Emerging Markets	↑ ↓
Taxes	↓	Gold, Platinum, Silver	↑ ↑ ↑
US Stock Market	↑	India, Japan, UK	↓ ↑ ↑

Here are the selected updated market stats:

Index	7/31/2019	12/31/2018	12/31/2017	12/31/2008	12/31/1998
DJIA	26,864	23,327	24,719	8,776	9,181
NASDAQ	8,175	6,635	6,903	1,577	2,193
S&P 500	2,980	2,507	2,674	903	1,229
MSCI EAFE	1,897	1,720	2,051	2,849	2,631
10 Yr UST Yield	2.02%	2.67%	2.40%	2.48%	4.66%

** Source: Yahoo Finance, MSCI.com

Summary

On July 31, the Federal Reserve cut interest rates for the first time in more than a decade. The ¼ point rate reduction in the federal funds rate was approved by a vote of 8-2. There was great debate among economists regarding the need for reversal in rate movements, but evidently the Fed felt that preemptively moving will keep the economy humming along. Fed Chairman Jerome Powell characterized the cut as a "mid-cycle adjustment."

The latest hiring and consumer spending reports from the federal government suggested an economy in good shape, and the latest data on consumer prices showed no great inflation pressure. Employers expanded their payrolls with 224,000 net new jobs in June and both personal spending and retail sales both increased as well.

In late July, the Bureau of Economic Analysis announced that the economy grew at a 2.1% rate in the second quarter. This was the lowest gross domestic product (GDP) number seen since Q1 2017; it was also 1.0% lower than the previous quarter. The drop was primarily attributable to reduced business spending as consumer spending increased at a 4.3% pace in Q2.

By the end of July, China and the U.S. had resumed face-to-face negotiations on trade matters. A new trade pact did not appear to be quickly forthcoming: Secretary of the Treasury Steven Mnuchin told the media in late July that he expected there would be "a few more meetings before we get a deal done." China's gross domestic product declined to 6.2% in the second quarter. That was a 27-year low. This implies some present and near-term difficulties for other Asia-Pacific economies, as China imports large quantities of electronics, palm oil, iron, copper, and petroleum products from nations within the region, and less economic activity means less demand.

July saw a new record high for the S&P 500 at 3025.86 on the 26th and the Dow and NASDAQ also enjoyed gains. With a growing economy, ultra-low interest rates, and strong corporate earnings, financial markets still appear to be reasonably priced even after solid gains so far in 2019. I continue to encourage investors with time on their side to put the asset of time to work for them by making and keeping quality investments in their portfolio. As the old Einstein quote, "Compound interest is the 8th wonder of the world" is true only when we keep our investments working for us. Yes, we should expect market volatility, but the key is to keep your goals in focus and keep up the good work!

10 Bad Money Habits to Break

Do bad money habits derail your financial progress? It's easy to fall into bad financial behavior patterns. If you sometimes succumb to these financial tendencies, now is the perfect time to alter your behavior. So here is quick list of common behaviors that might lead to financial trouble:

#1: Lending money to family & friends - You may know someone who has lent a few thousand to a sister or brother, a few hundred to an old buddy, and so on. Generosity is a virtue, but personal loans can easily

transform into personal financial losses for the lender. If you must loan money to a friend or family member, mention that you will charge interest and set a repayment plan with deadlines. Better yet, this might be something to avoid entirely. Leave the lending to the banks.

#2: Spending more than you make - Living beyond your means, living on margin, or whatever you wish to call it – it is a path toward significant debt. Wealth is seldom made by buying possessions; today's flashy material items may become the garage sale junk of the future.

#3: Saving too little or nothing at all - Good savers build emergency funds, have money to invest and compound, and leave the stress of living paycheck to paycheck behind. If you are not able to put extra money away, there is another way to get some: a second job. Even working 15-20 hours more per week could make a big difference.

#4: Living without a budget - You may make enough money that you don't feel you need to budget. In truth, few of us are really that wealthy. In calculating a budget, you may find opportunities for savings and detect wasteful spending.

#5: Frivolous spending - Advertisers can make us feel as if we have sudden needs; needs we must respond to, or ones that can only be met via the purchase of a product. See their ploys for what they are. Think twice, or even three, four, or more times before spending impulsively.

#6: Not using cash often enough - No one can deny that the world runs on credit, but that doesn't mean your household should. Paying with cash has a feeling that's completely different than using plastic. Try it as often as your budget allows.

#7: Thinking you'll win the lottery - When the headlines are filled with news of big lottery jackpots, you might be tempted to throw a few bucks at a lottery ticket. It's important, though, to be fully aware that the odds in the lottery and other games of chance are against you. A few bucks once in a while is one thing, but a few bucks (or more) every week could possibly lead to financial and personal issues. Just remember this truism, "Gambling is nothing more than a tax on people bad at math!"

#8: Inadequate financial literacy - Is the financial world boring to you? If so, you are not alone. The Wall Street Journal is not exactly Rolling Stone, and The Economist is hardly light reading. You don't have to start there, however. There are great, readable, and even, entertaining websites filled with useful financial information. Reading an article per day on these websites could help you greatly increase your financial understanding and give you some tips for creating good $ habits.

#9: Not contributing to retirement plans - The earlier you contribute to them, the better; the more you contribute to them, the more compounding of those invested assets you may potentially realize. Like much of life, what you hope to get out is largely dependent upon what you put in.

#10: The DIY retirement strategy – What's the biggest risk to many investors? It's making a huge financial mistake (see the article above on Investor Behavior). Those who save for retirement without the help of a caring and qualified professional may leave themselves open to abrupt, emotional investing mistakes and other oversights. Few people have the time to amass the knowledge and skill set possessed by a Certified Financial Planner® practitioner with years of experience. Instead of flirting with trial and error, see a professional for insight.

Taking action, the right action, early and proactively will exponentially increase your odds for success. It's up to you to decide!

Quotes of the Month

"Folks are usually about as happy as they make their minds up to be."
-- Abraham Lincoln

"Opportunities multiply as they are seized."
-- Sun Tzu

"Enthusiasm is the mother of effort, and without it nothing great was ever achieved."
-- Ralph Waldo Emerson

"No one can make you feel inferior without your consent."
-- Eleanor Roosevelt

Riddle of the Month

I am very strong and tough, but never rigid. I can be broken, but only in a certain sense. What am I?

Last Week's Riddle

There is a five-letter word that means "nice" in English, and all four letters used within this word are also Roman numerals. What is this word?

Answer:

CIVIL

Best regards,

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