

April 1st, 2018

# Money Matter\$



A Quarterly Newsletter from Sommers Financial Management

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Volume 17, Issue 2

## Tax Planning Tips and Tid-Bits for 2018

by Adam Sommers

Beginning in 2018—and until 2026—the federal tax code has been changed fairly dramatically. How does this affect you, and what should you be doing to take full advantage of these changes?

### How it may affect you:

1. The seven tax brackets have been updated, and most Americans **will pay 3% less to the U.S. Treasury—on average.**
2. The Standard Deduction has been nearly doubled to \$12,000 for individuals, and \$24,000 for married couples. This means **most Americans won't have to fill out a Schedule A and itemize their deductions.** This also means your charitable contributions, mortgage interest, state income tax and personal residence property taxes aren't as meaningful for tax purposes.
3. Investment advisory **fees paid to advisors like SFM, as well tax-preparation fees are no longer tax deductible.** We have begun deducting our fees from each account, rather than your taxable account (with the exception of Roth IRAs, if we can help it).
4. **If you own an LLC or S-Corp** you may be eligible to deduct up to 20% of your "Qualified Business Income" (QBI) on your individual tax return. Service businesses have income limitations, so reach out to us or your tax advisor for more information.

5. **State and local tax deductions are limited** to \$10,000 per year on Schedule A.
6. **Mortgage interest is limited in its deductibility,** for new purchases, refinances, and home equity loans.

### What should you be doing?

1. Consider contributing to Roth IRAs/401ks instead of Traditional—or even **converting Traditional IRA and/or 401k dollars to your Roth IRA,** depending on your marginal tax rate.
2. **If you are a small business owner,** learn more about the "QBI" deduction.
3. Consider making charitable contributions through a **Donor-Advised Fund,** to take advantage of a large, one-time donation that you can itemize on Schedule A, yet can be doled out to your chosen charities that depend on annual donations.
4. **Consider re-locating** from a high tax state to a low-tax state (from Oregon to WA, NV, or AZ perhaps?), given limited deductibility of state and local taxes.
5. **Review your 2017 Schedule A itemized deductions,** to try to gauge if you will be able to itemize again in 2018.
6. **Enjoy investing more money for your future,** rather than having it spent on the whims of those in Washington D.C.

**If you haven't made your 2017 Roth/ Traditional IRA contributions, you only have until 4/17/2018!**

### Three-Year Returns

FTSE All-World ex-US Stock Index (VEU): 6.1 %

S&P 500 U.S. Large Company Stock Index (SPY): 10.3 %

U.S. Real Estate Index (VNQ): 1.0 %

iShares Aggregate Bond Index (AGG): 1.1 %

SPDR Gold Index (GLD): 3.0 %

S&P Moderate Allocation Index (AOM): 4.3 %

S&P Conservative Allocation Index (AOK): 3.6 %

S&P Aggressive Allocation Index (AOA): 7.0 %

SFM's "THE NAKED ALPHA FUND": 4.6 %

## ETF EXTRA – iShares USA Quality Factor ETF – (QUAL)

*Information from ETF.com:* QUAL tracks an index of U.S. large- and mid-cap stocks, selected and weighted by "quality" factors relative to other stocks in each economic sector:

- ◆ High Return on Equity (net income / stockholder's equity)
- ◆ Stable earnings growth (net profits continuously rising)
- ◆ Low debt-to-equity (limited use of debt)

QUAL has beefy AUM, led by strong institutional interest from Arizona State Retirement System.

### QUAL's Notable Statistics

Dividend Yield:	2.55 %
Total Assets in the Fund:	\$ 4.5 Bil.
Expense Ratio:	0.15 %
3-Year Avg. Annual Return:	11.1 %
Maximum Drop (last 3 yrs):	- 11.5 %



## Model STOCK Portfolios

### GROWTH-oriented portfolio

% Wt.	Symbol	Description	Div. Yield	1-year Return	3-year Return	Expense
20%	XMLV	PowerShares Mid-Cap Low Volatility ETF	2.21%	6.9%	12.6%	0.25%
20%	XSLV	PowerShares Small-Cap Low Volatility ETF	2.07%	7.6%	13.1%	0.25%
20%	SPYG	SPDR S&P 500 Growth ETF	1.36%	19.7%	13.8%	0.04%
20%	QTEC	First Trust Nasdaq-100 Technology Sector ETF	0.77%	27.8%	27.2%	0.58%
20%	MTUM	iShares USA Momentum Factor Stock ETF	1.35%	30.0%	18.4%	0.15%

### INCOME-oriented portfolio

Average dividend yield: 2.1%

% Wt.	Symbol	Description	Div. Yield	1-year Return	3-year Return	Expense
28%	XMLV	PowerShares Mid-Cap Low Volatility ETF	2.21%	6.9%	12.6%	0.25%
27%	XSLV	PowerShares Small-Cap Low Volatility ETF	2.07%	7.6%	13.1%	0.25%
23%	ACWV	iShares Global Minimum Volatility ETF	2.07%	9.2%	8.0%	0.20%
22%	DON	WisdomTree Mid-Cap Dividend ETF	2.20%	7.5%	9.3%	0.38%



## Model BOND Portfolios

### GROWTH-oriented portfolio

% Wt.	Symbol	Description	Div. Yield	1-year Return	3-year Return	Expense
30%	NEAR	iShares Short Maturity Bond ETF	1.60%	1.4%	1.2%	0.25%
14%	FATRX	Frost Total Return Bond Fund	3.29%	2.3%	2.5%	0.76%
19%	BFRA	BlackRock Floating Rate Income Fund	3.52%	3.5%	3.6%	1.00%
23%	PONAX	PIMCO Income Fund	5.06%	4.9%	5.7%	0.90%
23%	FLOT	iShares Floating Rate Bond ETF	1.54%	1.7%	1.3%	0.20%

### INCOME-oriented portfolio

Average dividend yield: 4.0%

% Wt.	Symbol	Description	Div. Yield	1-year Return	3-year Return	Expense
26%	FATRX	Frost Total Return Bond Fund	3.29%	2.3%	2.5%	0.76%
31%	BFRA	BlackRock Floating Rate Income Fund	3.52%	3.5%	3.6%	1.00%
43%	PONAX	Pimco Income Fund	5.06%	4.9%	5.7%	0.90%



## Model ALTERNATIVE Portfolios

### GROWTH-oriented portfolio

% Wt.	Symbol	Description	Div. Yield	1-year Return	3-year Return	Expense
22%	FPE	First Trust Preferred Stock ETF	5.51%	5.4%	6.8%	0.85%
20%	BLADX	BlackRock Managed Income Fund	2.99%	3.3%	3.4%	0.63%
21%	NPSAX	Nuveen Preferred Securities Fund	1.51%	4.6%	5.2%	1.04%
19%	GATEX	The Gateway Fund	1.06%	3.9%	4.5%	0.94%
19%	VRP	PowerShares Variable Rate Preferred Stock ETF	3.19%	3.6%	5.3%	0.50%

### INCOME-oriented portfolio

Average dividend yield: 3.8%

% Wt.	Symbol	Description	Div. Yield	1-year Return	3-year Return	Expense
30%	FPE	First Trust Preferred Stock ETF	5.51%	5.4%	6.8%	0.85%
21%	BAICX	BlackRock Multi-Asset Income Fund	3.39%	4.2%	3.4%	0.82%
24%	VRP	PowerShares Variable Rate Preferred Stock ETF	3.19%	3.6%	5.3%	0.50%
25%	BLADX	BlackRock Managed Income Fund	2.99%	3.3%	3.4%	0.63%