Money Matter$

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Asset Returns (Trailing 12 months)

U.S. Stocks (IWV):	17.9 %
International Stocks (VEU):	3.1 %
U.S. Real Estate (VNQ):	1.4 %
U.S. Bonds (AGG):	- 1.3 %
Gold (GLD):	- 8.1 %
S&P Conservative Index (AOK):	2.6 %
S&P Moderate Index (AOM):	3.7 %
S&P Aggressive Index (AOA):	8.6 %
SFM's CEF-Arb—Balanced Model:	9.9 %

The Magic of a Tax-Free, 1031-Exchange

By Adam Sommers

In 2018, with the passage of the Tax Cut and Jobs Act, tax-free 1031-exchanges are limited only to real-property. Each taxpayer is allowed $250,000 of gains for their primary residence (having lived in the property for 24 out of the past 60 months), but investment property is treated differently. Real estate investors can still trade "like-kind" investment properties tax-free: **Sell one property, and then buy another of equal or greater value, and avoid capital gains tax**.

Real estate investing is all about cash flow. For example, in order to increase your rental income/cash flow (not subject to self-employment tax!), you may be ready to trade your equity in your single-family rental home for a 12-plex, and double your monthly cash flow.

The rules of a 1031-exchange are fairly straight-forward, but the execution is anything but. You need to have a 1031-exchange company on-board, as well as your tax-preparer. Any cash taken at closing of the sale is subject to tax, and considered all taxable gain. However, if you leave all proceeds in escrow, and flip that money to the next investment property, you can carry over the tax basis of your original investment to the next property, ***delaying the tax on the gains***. You'll need to identify your next property purchase within 45 days of sale, and you'll need to close on it within 180 days. You cannot live in the exchange purchase for at least two years to satisfy the exchange rules of "like kind," and avoid tax.

With some up-front planning, there are some tricks to consider—and **planning the exit strategy is where we come in**. Some clients plan to leave their investment properties to their heirs, who will get a "step-up in basis", which means all unrealized gains vanish upon the death of the investor. It works the same with stocks. One problem with this plan is that real estate is not as liquid as stocks, and some heirs will want to fix up the property (spend money), some will want to keep it, and some will want to sell it immediately. We hope to avoid family quarrels, so we have some other ideas for you. One includes moving into the property after two years, which will begin to reduce your taxable capital gains as it becomes your primary residence. There are nuances we must discuss, but you get the gist.

Another solution we have is called an Up-REIT, where your property is exchanged by a Real Estate Investment Trust, and you're given shares in return. Those shares are not taxable until sold by the original investor. If heirs inherit the REIT shares, they are tax-free, and each heir can decide when to sell. ***Better yet***, ***you can manage your tax*** (**couples that make less than $100k pay 0% federal long-term capital gains tax!)** and sell off portions of your REIT shares each year to stay in the 0% long-term capital gains tax bracket. If you're thinking of real estate investing, we can help as part of our financial planning service — just reach out to chat!

ETF EXTRA — iShares U.S.A. Momentum Factor ETF — (MTUM)

MTUM's Notable Statistics

Expense Ratio:	0.15 %
Total Assets in the Fund:	$ 10.5 Billion
3-Year Avg. Annual Return:	25.9 %
Dividend Yield:	1.0 %
Maximum Drop (last 3 yrs):	- 12.9 %

Information from ETF.com: MTUM tracks an index of large- and mid-cap US equities, selected and weighted based on price appreciation over 6- and 12-month periods and low volatility over the past 3 years. MTUM aims to pick stocks that have steadily increased in price lately. It selects and weights stocks by looking at both 6- and 12-month holding period returns, scaled by the volatility of returns over the past three years. The fund uses modified Sharpe ratios to find stocks with a smooth, positive trend line. The resulting portfolio of between 100 and 350 stocks makes large sector bets and carries high market risk. MTUM offers factor-based exposure at a competitive fee, with an expense ratio that rivals those from some plain-vanilla cap-weighted funds.

SFM's Sustainable Income Portfolios

SFM Model	Risk Number	Dividend Yield	1-year Return Net of Fees	2017 Return Net of Fees	2016 Return Net of Fees	Expense Ratio
Ultra-Conservative	18	3.9%	1.5%	3.4%	4.0%	0.3%
CEF-Arb Hedged	34	5.4%	0.9%	6.6%	6.4%	0.9%
Conservative Income	41	3.6%	5.2%	8.6%	5.2%	0.4%
Moderate Income	50	3.6%	9.2%	10.1%	7.8%	0.3%
Aggressive Income	53	3.3%	8.0%	13.7%	7.6%	0.3%
CEF-Arb Balanced	68	6.8%	9.9%	17.2%	N/A	0.9%

SFM's Growth Portfolios

SFM Model	Risk Number	Dividend Yield	1-year Return Net of Fees	2017 Return Net of Fees	2016 Return Net of Fees	Expense Ratio
Conservative Growth	45	2.2%	8.6%	9.2%	5.6%	0.3%
Moderate Growth	53	2.3%	10.8%	13.1%	6.2%	0.3%
Aggressive Growth	58	2.2%	13.2%	13.2%	9.0%	0.2%
All-Stock	74	1.6%	12.6%	20.4%	14.8%	0.1%

SFM Clients' Top Holdings

Asset Class	Symbol	Description	Dividend Yield	1-year Return	3-year ROR	Expense Ratio
Alt	TNAF	The Naked Alpha Fund, A Limited Partnership	0.0%	6.4%	11.3%	Profit-share
Stock	QUAL	iShares USA Quality Factor ETF	1.7%	19.1%	19.2%	0.15%
Stock	SPYG	SPDR S&P 500 Growth ETF	1.3%	25.7%	23.3%	0.04%
Stock	MTUM	iShares USA Momentum ETF	1.0%	26.5%	25.9%	0.15%
Stock	ACWV	iShares Global Minimum Volatility ETF	2.0%	10.5%	13.3%	0.20%
Stock	DON	WisdomTree Mid-Cap Dividend ETF	2.1%	13.1%	17.3%	0.38%
Stock	LGLV	SPDR U.S. Large-Cap Low-Volatility ETF	1.9%	14.2%	17.6%	0.12%
Bond	FLOT	iShares Floating Rate Note ETF	2.0%	2.3%	1.8%	0.20%
Alt	BAICX	BlackRock Multi-Asset Income Fund	3.6%	2.5%	5.8%	0.82%