

Robert G. Elliott's FINANCIAL NEWS

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Tax Planning Throughout Life

Most people do not plan their taxes throughout the year or into the future. They file their taxes and then shove the whole process aside until the next year. This is a huge mistake, often made because most people believed that tax planning is only for the ultrawealthy. In reality, anyone who earns money and files taxes can save money by planning throughout their life.

In your 20s

The good news is that you're probably not heavily taxed yet, but the bad news is it is because you are not making very much money. Chances are this is the first time you start filing taxes on your own without being claimed as a dependent of your parents. Make sure you have all of your key financial documents organized and identity information like your birth certificate and Social Security card in a secure place. If your parents opened any accounts for you when you were younger, make sure you have all relevant paperwork now. Consider meeting with an accountant or advisor to make sure you start off on the right foot. *Tips:*

- Contribute to a tax-deferred retirement account, like a 401(k) plan or IRA. Take full advantage of any employer-matching contributions, even if you want to pay off student loans quickly. That free money will likely grow in your account at a higher rate of return than your low-interest loans.

- Keep track of what you pay on student loans. You can deduct interest paid on your loans when filing taxes and can sometimes qualify for

an income-based repayment plan if you owe more than you make.

- Save receipts and records if you relocate for a job, since these expenses can be deducted.

- Make sure you are withholding the correct amount. Getting a big refund at tax time is exciting; but by withholding too much, you let the government sit on your cash instead of making it work for you during the year.

In your 30s

Now your finances get significantly more complicated as your savings increase along with your expenses. *Tips:*

- Keep saving in tax-deferred accounts, but also consider opening a tax-free account like a Roth IRA or Roth 401(k) plan, so you will have more income options in retirement.

- If you plan to get married or have children, meet with a tax or financial advisor to ensure you are making the best financial decisions for this point in your life. Consider setting up a 529 plan for your children's educations.

- Review the credits and deductions available to you, especially the ones related to child and dependent

care.

- Use a flexible spending plan and reimbursement accounts for any medical bills.

In your 40s

This is when you will probably hit your earning peak. This may bump you into a higher tax bracket, so maximizing possible deductions (like contributions to a retirement account) is more important than ever. *Tips:*

- Upgrade your charitable giving and keep track of any eligible gifts made. Keep all documentation so you can deduct your contributions at tax time.

- Make sure to meet with an

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(Allie, Bob, & Sarah)

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advisor before drawing money from taxable investment accounts for larger expenses (such as your child's college tuition), as there may be complicated tax ramifications. Also stay abreast of any tax credits for education: your child's or your own.

In your 50s

Retirement is edging closer and you should now be focused on saving as much as possible. *Tips:*

- Max out your contributions to IRAs and 401(k) plans. Now that you've turned 50, you can contribute an extra \$6,000 to your 401(k) plan and an additional \$1,000 to your IRA in 2018.

- Start planning for future healthcare expenses. Open a tax-free health savings account to reduce taxable income now and provide a fund for health expenses in retirement.

- Know the tax implications of cashing out any stock options or other perks from your employer.

In your 60s

This tax-planning decade is crucial to your retirement years. *Tips:*

- Plan for all taxes that may apply to you in retirement. For example, your retirement income level will determine whether you have to pay taxes on Social Security benefits.

- Consider converting a tax-deferred IRA to a Roth IRA for tax-free income in retirement (but know you will have to pay any taxes owed when converting).

- Be careful and strategic about how you make withdrawals to avoid paying higher taxes than necessary. Form a plan with your advisor to ensure you are not paying more than necessary.

Please call if you would like to discuss this in more detail.

What is Tax-Loss Harvesting?

Tax-loss harvesting is choosing to sell some investments at a loss to reduce taxes on realized capital gains from other investments.

Access Your Capital Gains

Thoroughly review your investments to determine a rough estimate of your capital gains. If you frequently buy and sell, you most likely have both short- and long-term gains and losses. Long-term capital gains are those on investments you've held longer than one year, while short-term capital gains are from those held for one year or less.

If you are a buy-and-hold mutual fund investor, your gains are more likely to be in mutual fund distributions.

Estimate Your Tax Liability

After figuring out the potential amount of your capital gains, you will want to estimate your potential taxes from realized gains based on the type of gain it is and your income.

Short-term capital gains are taxed as ordinary income, so your marginal tax rate applies to them. Long-term capital gains tax rates are much more favorable:

- A 0% long-term capital gains rate applies for joint filers with income of \$0 to \$77,200 and single filers with income of \$0 to \$38,600.

- A 15% long-term capital gains tax rate applies for joint filers with income of \$77,201 to \$479,000 and single filers with income of \$38,601 to \$425,801.

- A 20% long-term capital gains tax rate applies for joint filers with income over \$479,000 and single filers with income over \$425,800.

There is also a 3.8% net invest-

ment income tax for high-income taxpayers above specific income thresholds.

Harvesting Losses

Once you have an understanding of what you will owe in capital gains taxes, you can start looking for investments you may want to sell. First consider investments that no longer fit into your strategy or those that have poor prospects for growth.

Try to apply as much of your capital loss to short-term gains as possible, because they are taxed at a higher rate. The tax code states short- and long-term losses must first be used to offset gains of the same type. If you have losses of one type that exceed what you have gained, you may apply the excess to other types of capital gains.

Additionally, if you don't have any gains in a given year, the tax code allows you to apply up to \$3,000 in capital losses to reduce your taxable income.

Watch Out for the Wash-Sale Rule

Even though you took a loss on an investment to reduce your capital gains taxes, you may decide it is still an attractive investment because it has good potential and fits within your investment strategy. Be aware of when you buy it, because the IRS wash-sale rule will disallow your tax write-off if you buy the same security, an option to buy the security, or a substantially identical security within 30 days before or after the date you sold the security with the loss.

Personal Note

Human beings are obsessed with setting records. The fastest. The strongest. The first. The longest. It's exciting whenever a new record gets set. It makes us feel like we're witnesses to something important, something historic. Something we can tell our grandchildren about. And now, we can add a new record to the list:

The Longest Bull Market in History

You've probably seen the news. On Wednesday, August 22, many media outlets reported the U.S. stock market had set a new bull market record of 3,453 days.¹ This incredible stretch, which by most estimates began on March 9, 2009, surpassed the previous record set in the 1990s.

But here's the thing about records. Sometimes they matter. Sometimes they don't. And the stories they tell can be very subjective. So, in this note, let's break down what this bull market really means – and what it doesn't.

Is it *really* the longest bull market ever?

It depends on who you ask. For every article sounding the trumpets, you can find another pumping the brakes. Fact is, the definition of a "bull market" is rather nebulous – and whether or not this one is truly a record depends on which data you're using.

The Wall Street Journal provided a good example in a recent article.

*"The widely accepted definition of a bear market is a drop of 20% from the last peak in this cycle, while bull markets are usually measured from the lowest point reached until the peak before the next bear market."*²

But if this is the definition you're using, our current bull market may only have started in October of 2011. That was the month the S&P 500 fell 21.6% from its previous high. Any growth from that point would be part of a new bull market, not the old one. To which other pundits might respond, "Not so fast! That number is only accurate if you're using intraday prices instead of closing prices. If you use closing prices, the S&P 500 only fell 19.4%², which is less than the 20% needed for it to be a true bear market."

Confused yet? Don't worry – most people would be. And anyway, if you *really* wanted to get technical about the definition of a bull market, you'd have to debate about whether to only use price returns (the price of a stock) or total returns (to which dividends are added). And then there's the question of which market indices to use. The S&P 500? The Wilshire 5000? The Dow? Do we use intraday prices or closing prices?

I could go on, but I won't – I don't want this note to give you a headache. The point is, the deeper you dig into the numbers, the less certain a record like this becomes. Which means the real question we should ask ourselves isn't, "Is this

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Municipal Bonds

We offer the following bonds subject to prior sale or change in price as of September 13, 2018.

Ref No	Issuer	Maturity Date	Coupon	Yield to Maturity	Yield to Call	Call Date	Rating	Price
1	Knoxville TN Gas Revenue Sys	04/01/48	3.625	3.680	3.776	04/01/26	Aa2/AA+	99.013
2	Knoxville TN Elec Revenue Sys	07/01/37	3.375	3.580	3.792	07/01/26	Aa2/AA+	97.209
3	Met Govt Nashville & Davidson Cnty Vanderbilt Uni Med	07/01/47	4.000	3.858	3.670	07/01/27	A3	102.455
4	Rutherford Cnty TN Sch	04/01/34	3.125	3.259	3.325	04/01/28	Aa1/AA+	98.375
5	Springfield TN Ref-Public Impt	06/01/29	3.000	2.952	2.900	06/01/23	Aa3	100.434

Callable at 100% beginning of the call date above and every call date thereafter with 30 days notice.

In addition to the bonds listed, we have several other corporate bonds available. If you are looking for a specific bond or maturity, please feel free to contact me with your requests.

We are also interested in buying corporate bonds. If you have bonds for sale, please call me for a bid and details on how you can convert your present bonds to cash or alternative investments.

Finally, new bonds are coming to market every day. If you give me a call, I will be more than happy to go over current market offerings and conditions with you.

Although the information and statistics are not guaranteed, they have been obtained from reliable sources and are believed to be accurate. All put/call information may not be displayed and Wiley Bros.-Aintree Capital assumes no responsibility for such undisclosed features or omissions. All are subject to market conditions and/or prior sale.

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the longest bull market ever?"

The real question is whether it even matters in the first place.

To which the answer is, "No!"

Here's what we know: The stock market has been going up for a long time now. Sometimes slightly, sometimes sharply, but always up. Let's say all the experts got together and decided we *aren't* in the longest bull market in history. Would that change the fact that stocks have been going up for years? Would it change the performance of your own portfolio?

No, it wouldn't.

So what matters is not whether this is the longest bull market ever. What matters is how we react to a long bull market like this one.

What goes up must come down.

On March 9, 2009, the S&P 500 hit a low of 666.1 (Yes, 666.) Since then, the S&P has soared. That's over nine years of growth. Nine years of an improving economy. Nine years of soaring corporate profits. Nine years of mostly happy times for investors. *It will end eventually.*

Read that last line aloud: *IT WILL END EVENTUALLY.*

When that will happen, I can't say. Indeed, many economists foresee the current bull market continuing for some time, albeit at a slower rate. Taxes are low, unemployment is low, and the economy is humming along nicely. I can't tell you this bull market will end next month or next year. All I can tell you is that it *will end*. The reason I emphasize this so much is because *now* is the time to prepare for that inevitable day. Now is the time to accept that however well your portfolio has done, nothing can escape gravity's pull. At some point, you will see stock tickers showing a big, fat minus sign next to each of the major indices.

When a bull makes way for a bear, it's not uncommon for investors to be taken by surprise. Suddenly, it's raining – and they've been caught outside without an umbrella. When that happens, it's easy to panic. To think the sky is falling. Too many investors did that when the dot com bubble popped in the early 2000s. Too many investors did that during the worst of the Great Recession. And the reason they did is because they hadn't prepared themselves when times were good.

Maybe they thought the good times would last forever.

On the other hand...

Just as it's easy for investors to get complacent, it's also easy

for investors to get skittish. That's why an equally bad mistake would be to think, "Oh, this bull market has gone on for too long. It's probably going to crash any week now – time to get out!"

Nope. The markets don't work that way. Here's what will happen. The longer the bull lives, the more you'll see the media speculate about what will kill it. One week it might be the threat of rising interest rates. The next, it might be corporate profits, or whatever's happening in far-off lands across the sea. And sure, any of those things could well impact the markets. But even if the markets were to drop, that doesn't mean a crash is imminent. No one should abandon ship the moment they get a little wet.

The point is to not overreact.

Some records matter. Some don't. And the stories they tell can be very subjective. That's why we don't overreact to them. Here's what we do instead:

1. We prepare ourselves, mentally and emotionally, for when the other shoe drops. That way, when it *does* drop, it will be much easier to handle.

2. We don't allow ourselves to flinch at every market wobble.

3. We remember that we have an investment strategy, and it's *not* based off headlines, storylines, records, or milestones.

In the meantime, if you're worried about what will happen when this bull market ends, that's okay. Just focus on what you can control. Focus on paying off your house, setting up an emergency fund, or helping your children or grandchildren pay for college. Take care of the things that matter *now*.

Or maybe your goals have changed, and you want to take advantage of this bull market while it lasts. That's a discussion we can have, too. Just remember that our first responsibility should always be to prioritize the long term over the short.

Human beings tend to be obsessed with setting records. But our job is to help you set *goals* – and then work toward achieving them. Whether we're in the longest bull market or not, that's what we intend to do.

As always, if you have any questions about the markets, or about your portfolio, please let us know! We love to hear from you.

1 Michael Wursthorn & Akane Otani, "U.S. Stocks Poised to Enter Longest-Ever Bull Market," Wall Street Journal, August 21, 2018. https://www.wsj.com/articles/u-s-stocks-poised-to-enter-longest-ever-bull-market-1534843800?mod=article_inline

2 James Mackintosh, "Calling Bull on the Longest Bull Market," Wall Street Journal, August 22, 2018. <https://www.wsj.com/articles/calling-bull-on-the-longest-bull-market-1534940689>



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