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No End Run

By now, you probably know all about the so-called SALT (state and local tax) deduction limitations imposed by the Tax Cuts and Jobs Act. If your property, local and state taxes exceed $10,000 (couples) or $5,000 (singles), well, too bad. That's all you can deduct on your federal tax returns.

Some of the highest-tax states had plans to fight back, in some cases by allowing people to make deductible charitable deductions to their school districts in lieu of property taxes and receive a credit for those taxes at the state level. The IRS vowed to fight these measures, and now it has come out with new regulations that fulfill that promise.

The IRS issued rulings that the credits against state taxes amounted to a *quid pro quo* received for the charitable contribution, which negates the deductibility of the charitable contribution. This is actually not a new position for the IRS to take; generally, under existing rules, the value of anything you receive in return for a charitable contribution has to be subtracted from the contribution when claiming deductions. The IRS simply made it clear that this also applied to state tax credits.

Nice try, but the states are going to have to come up with something more creative.

5G On the Way

Get ready for faster broadband coverage. Engineers at the University of Sussex and collaborators around the telecom industry have successfully tested the so-called "5G" mobile broadband signals, which have data rates that are 20 times faster than the 4G systems introduced in the U.S. market a decade ago. The first 5G coverage could be available as early as next year in the U.S. marketplace, and roughly a year later in Europe and elsewhere.

Advisor Corner

Financial Focus, Inc.
PO Box 2250
40 Mill Street
Wolfeboro, NH 03894
info@yourfinancialfocus.com
www.yourfinancialfocus.com
603.569.1994

The Long Bull

You can be forgiven for wondering what all the hoopla was about when, on August 22, the newspapers erupted with the announcement that the current bull run in the U.S. stock market was the longest in history. Wasn't the day before and the day before that part of that run?

The answer is no. The S&P 500 index had to get back up over its previous high (set way back in January) in order for the streak to continue; otherwise, the period after the previous high might have been counted as a precursor to a bear market. So, the roughly six and a half months of the current bull were technically in limbo until the markets again breached the record.

How, exactly, do we define a bull market? The most popular definition is a period that starts at the bottom of the previous bear market (a market drop of at least 20%), and continues moving up without a new bear market drop of 20%. By that narrow definition, the current bull market has now extended to 3,453 days, and it may have a bit more to go before it ends.

During the period since March 9, 2009, the index has gained 321% in total—almost exactly tripling in value, not counting reinvested dividends. By this measure, we are definitely not in record territory; from June 1932 through March of 1937, the markets gained 325%, or about 36% a year. Some define the period from October 1990 through March 2000 as a bull—and lucky investors who bought and held during that period saw total gains of 417%, or roughly 19% a year. By contrast, the current bull has delivered still-respectable 16.5% annual returns.

Of course, whenever the markets go up for this length of time, investors get nervous—and that's not surprising, since every other bull market in history had turned back on itself by this time. But the length of a market upturn is really not a good way to determine whether the markets are a good place to invest; the market environment, and things like corporate revenue and profits, borrowing costs, inflation and the health of the economy are all much more important indicators than whether stocks have managed to avoid a 20% drop over some arbitrary period of time.

The bottom line here is that markets are supposed to go up; that is, all the hard work put in by all the workers at all the companies that make up the U.S. economy should be adding value every day, week, month and year. If the markets were to trend downward for any significant length of time, that would mean that the companies (and their workers) are somehow failing to add value. If you believe that is about to take place, then this might be a good time to take your money off the table. Otherwise, hang on and recognize that all good things come to an end, and there is a bear market waiting for us at some indeterminable time in the future

The Growth Spike

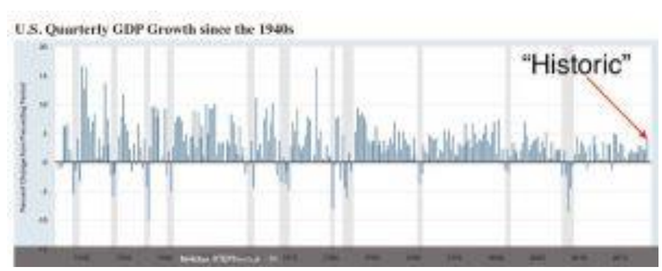
Recent reports about the U.S. economy were a case of good news and bad news. The good news is that, in the second three months of the year, the U.S. economy grew at an estimated 4.1%—better than the 2.2% growth posted during 2018's first quarter. The 4.1% figure is subject to revision as economists refine the numbers, but a 4% growth rate, if sustained through a period of years, would greatly bolster the wealth of all Americans.

The bad news is that the economy will almost certainly not sustain this growth rate. And despite what you are hearing from political pundits, there is also nothing remarkable about a single quarter's 4.1% GDP increase. As you can see from the chart, what has been labeled "historic" is actually pretty ordinary over the long term. The economy exceeded last quarter's level four times during the Obama presidency, in 2009, 2011 and twice in 2014. 4.1% growth would have been considered alarmingly slow during the Reagan presidency.

Why can't we sustain even this ordinary level of GDP growth? Economists have noted that this spike in economic activity was not entirely unexpected and is the result of a number of one-off events. You might remember that Congress passed a significant corporate tax cut last year, which kicks in at an unusual time: toward the end of a very long economic expansion, with consistently falling unemployment and rising home values. The U.S. economy just entered its tenth consecutive year of growth. Typically, Congress will pass a stimulus package to bail the country out of recession. One economist described the second quarter as an economy on a "sugar high." If you have ever had small children, you know how those often end.

In addition, the quarter was aided (predictably) by foreign companies stockpiling U.S. goods before the threatened tariffs disrupt the flow of products across borders—temporarily boosting U.S. exports.

Long-term, the GDP of any country is determined by the growth in the number of workers and the rising productivity of those workers as they labor at their desks and on the factory floor. Neither of those factors are growing at anywhere near a 4% rate currently, which suggests that next quarter will see a return to the average 2-2.5% rate that we've experienced since 2009. That, in turn, may explain why the U.S. stock indices actually fell on the day of the "historic" GDP announcement. Savvy investors know better than to project one quarter's results forward indefinitely into the future.



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Charitable Contribution Rules: 10 Years in the Making

Ten years ago, the Internal Revenue Service proposed regulations that would define how to value (and prove the actual value) of non-cash donations to charity. The regs involved things like artwork, jewelry and other possessions whose value is often in the eye of the beholder.

Now, a decade later, the Service has issued its final rules, which apply to all contributions made on or after January 1, 2019. The gist of it is that you need a qualified appraiser to provide you with a qualified appraisal document of the value of the gift you're making to charity—but the devil is in the details. Now, the qualified appraiser is defined as somebody who has completed professional or college-level coursework in evaluating the type of property you are donating and has two or more years of experience in valuing that type of property. This person should also have received a "recognized appraiser designation" awarded by a professional organization. Your uncle Fred, who has a pretty good eye for the value of jewelry, will no longer be able to give the IRS an acceptable appraisal.

The appraisal document should describe the item to be donated in layperson's terms, and estimate the fair market value, and provide an effective date of the valuation. There should also be a discussion of any terms of agreement or understanding of how the item will be used; that is, if it is to be displayed (as in a museum) or sold (as in a charitable organization). The report must be signed and dated by the qualified appraiser no earlier than 60 days before the date of the contribution.

Obviously (although the regulations specify this), the item must be donated before the due date of the donor's tax return in which the charitable deduction is claimed.

This sounds like an expensive headache, and it probably will be for many donors of appreciated property, art or valuables. Worse, there has to be a separate qualified appraisal for each item of property being donated. However, the IRS has ended a particularly expensive practice that carries with it a conflict of interest: qualified appraisers can no longer base their fees on the appraised value of the property in question.