The Edge

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IN THIS ISSUE:

Some people dread paying taxes so much that they avoid thinking about it until March or April. However, by then you may have missed opportunities to lower your tax bill. This year, as the leaves begin to fall, take time to plan for filing your 2018 taxes by reviewing the two tax-planning basics below:

REVIEW YOUR WITHHOLDINGS

The Tax Cuts and Jobs Act that went into effect on January 1 may help people keep more of their income due to higher standard deductions, but it also may complicate the number of withholding allowances you should take. The IRS recommends that taxpayers use the withholding calculator available at its website – at www.irs.gov/individuals/irs-withholding-calculator – to check if too much or too little tax is withheld from your paycheck.[1]

In addition, Congress pushed forward legislation in mid-September that would expand the Tax Cuts and Jobs Act. A vote is expected in October, in time for the mid-term elections, but there's no guarantee it will pass. Watch for updates to find out what the legislation might mean for you..

PLAN YOUR CHARITABLE SPENDING

If you're looking for ways to reduce the amount of taxes you pay, take advantage of charitable deductions. Here are four points to remember:

1. Make your gift by December 31. Generally, donations made by midnight on December 31 can be taken as deductions for that tax year.

2. Itemize your deductions. If you don't itemize charitable deductions on Form 1040, Schedule A of your tax return, you may not claim the benefit.[2]

3. Itemize your deductions. If you don't itemize charitable deductions on Form 1040, Schedule A of your tax return, you may not claim the benefit.[2]

4. Keep records of your donations. Whether you donate cash, food, goods or something else, you need to have receipts, bank records, canceled checks or

U.S. Income Tax Code 2018 vs. 2017

With the passage of the Tax Cuts and Jobs Act, the standard deductions for 2018 have nearly doubled:

RATE	2018	2017
Maximum individual tax rate	**37%**	**39.6%**
Standard deduction, single	**$12,000**	**$6,350**
Standard deduction, married filing jointly	**$24,000**	**$12,700**
Head of Household	**$18,000**	**$9,350**

Source: www.irs.gov

credit card statements to prove it.[2]

5. Deduct only the amount that exceeds any value received. If you bid and win at a charity auction, you can deduct only a portion of the amount you spend. For example, if you pay $100 for a dinner that is valued a $40, you can deduct $60 – the amount that exceeds the fair market value of the benefit you receive.[3]

Tax planning should be a year-round event. Talk with your tax professional to learn more about strategies that can help you keep more of the money you earn.

None of the information in this document should be considered tax advice. You should consult your tax advisor for information concerning your individual situation.

[1] www.irs.gov, *IRS Withholding Calculator*, Sept. 2018

[2] www.irs.gov, *IRS, Topic 506*, June 2018

[3] www.irs.gov, *IRS, Publication 526,* 2017

Should you Lease or Buy a New Car?

If you have driven a few cars during your lifetime, you may already know enough about yourself and your relationship with cars to make an informed decision about whether to lease or buy a vehicle. If not, here are a few variables to consider:

- **Budget.** If you have a limited budget – or enjoy the status conferred by a more expensive vehicle – then leasing may be an attractive option. A well-negotiated lease should offer monthly payments that are lower than the payments on a new car loan.[4] It's possible you could negotiate even lower payments on a used car; however, a used car could come with higher maintenance costs. Factor insurance into your budget calculations, too, as the cost is often higher when leasing.
- **Self-discipline.** If you visit the full-service car wash each week and get your oil changed every 3,000 miles, then you may be well suited to leasing. A leased automobile must be returned with only normal wear-and-tear, and that generally means providing regular maintenance. It also means that you cannot exceed the maximum mileage established in the lease. If you do, the penalties can add up.[4]
- **Time frame.** If you plan to keep your car for the long term, buying might be the best option.[5] Most auto loans are paid off within four to six years, so you'll own a tangible asset. On the other hand, if it's important to drive a new car every two years, then leasing could be the better option. You'll have lower payments and won't have to haggle over trade-in value.

Whether you decide to buy or lease, always negotiate. If you buy, negotiate to lower your monthly payments. If you lease, plan to negotiate the car price, mileage amount, down payment, purchase-option price and interest rate.[4] If the dealer is unwilling to negotiate its leases, go elsewhere.

[4] www.cars.usnews.com, Buying vs. Leasing, 2018

[5] www.nerdwallet.com, Lease or Buy a Car?, March 2017

back to top

IM&R Team

INVESTMENT MANAGEMENT AND RESEARCH

3Q 2018 Market Update from Shashi Mehrotra, CIO and COO Legend Advisory

A Misstep in the Bull Cycle and the Missing Steps to an Uptrend

Our bullish viewpoint has waned in comparison to our enthusiastic outlook over the last decade. While we continue to believe that we are in a secular bull market for equities, we are also in a long cycle, which sees shifts in asset classes and sectors during that time. We made some recent portfolio reallocations in response to our models tilting away from equities.

Historically, a mid-term election year is a season for volatility and calls for caution. We believe that the second derivative of the earnings growth curve may be on the cusp of turning negative, which is indicative of an inflection point. We don’t anticipate negative earnings, but rather a slowing rate of growth.

The potential landmines that exist could take this market into a tailspin and we should be cautious. Landmines include the trade conflicts over tariffs, mid-term elections and yield curve inversion. We think most of the U.S. dollar strength is behind us due to the aggressive interest rate increases planned by the Federal Reserve. The European Central Bank is on the brink of becoming more rigid with their monetary policy. The unlikely caveat for the U.S. dollar is if inflation has a negative surprise, the Fed may raise rates more aggressively.

Every asset class follows its own cycle – and events around the world may affect each class in different ways. Our models currently are slightly bullish on equities and favor domestic markets relative to both foreign developed and developing equities. Among the domestic equities, our model favors Large Cap (LC) stocks over Small Cap (SC) stocks. We are intrigued with this finding by our financial model since we believe that, relative to LC, SC stocks are under-bought and are less at risk of trade and tariff downers. We will continue to monitor asset classes regularly and reallocate as deemed necessary in an attempt to capitalize on potential market opportunities and minimize the impact of market downturns.

The 5-Step Uptrend Process

There are typically five steps the market goes through to resume an uptrend.

1. The market is oversold, which we saw at the beginning of this year.
2. It displays positive divergences, which happened in the first and the second quarter of this year.
3. The first two steps are followed by a failed rebound, which we have seen a few times this year and may be in one at the time of this writing (September 13, 2018).
4. The next step is a retest of the highs established in late January.
5. The final step is a breadth thrust on the upside, which is still missing.

One variable of particular interest is that we not only had retests of previous highs, but also have exceeded the high established in late January. However, as we went past this high we never saw the enthusiastic buying similar to the selling we saw in January and February. The rallies that took us where we sit today (at new highs on the S&P 500 Index), have been very narrow and apathetic, which are not typical of a sustainable rally. Therefore, the rallies in February, March, July, and August failed to produce a breadth thrust signal to satisfy our urge to call the resumption of this uptrend that has been intact for almost a decade. Until that happens, we believe that the equity market, particularly the U.S. equity market, will remain stuck between step 3 and step 5. The equity market can still resolve itself on the upside, but we need to watch the tape action over the next couple of months to be convinced.

Shashi Mehrotra, Chartered Financial Analyst, is the Chief Operating Officer and Chief Investment Officer of Legend Advisory. The opinions and predictions expressed herein are those of Shashi Mehrotra solely and not necessarily the opinions or expectations of Legend Advisory or any of its affiliates. Such opinions and predictions are as of September 13, 2018, and are subject to change at any time based on market and other conditions. No predictions or forecasts can be guaranteed.

Current market and economic data is as of September 13, 2018. Information contained herein has been obtained from sources believed to be reliable, but is not guaranteed.

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Past performance is no guarantee of future results.

The S&P 500 Index is a capitalization weighted index of 500 of the largest exchange-traded stocks in the U.S. from a broad range of Industries whose collective performance mirrors the overall stock market. Capitalization weighting results in the larger components (stocks) carrying a larger percentage weighting. The Equal Weighted S&P 500 consists of the same stocks but equally weighted and consequently may provide insight into the breadth/disparity of market performance. Investors cannot invest directly in an index.

Inflation is the rise in the prices of goods and services, as happens when spending increases relative to the supply of goods on the market. Moderate inflation is a common result of economic growth. Hyperinflation, with prices rising at 100% a year or more, causes people to lose confidence in the currency and put their assets in hard assets like real estate or gold, which usually retain their value in inflationary times. Foreign Equity - Issues floated by foreign companies in the domestic equity market.

Large Cap - Large Cap refers to companies with a market capitalization value of more than $10 billion. Large cap is an abbreviation of the term "large market capitalization." Market capitalization is calculated by multiplying the number of a company's shares outstanding by its stock price per share.

Small Cap - Small Cap stocks may be subject to a higher degree of risk than larger, more established companies' securities, including higher risk of failure and higher volatility. The illiquidity of the small-cap market may adversely affect the value of these investments so those shares, when redeemed, may be worth more or less than their original cost.

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back to top

Avoiding Common Investment Mistakes

When it comes to your financial future, the price you pay for a mistake can be steep. Learn from other individuals' blunders and avoid these three common investment errors:

1. Trusting your instincts. When investing, it isn't a very good idea to trust your instincts. We tend to buy when we feel confident – often that's when the market has been doing well and investment prices are high. On the other side, we tend to sell when we are afraid of losing money – usually, that's after a market turndown when prices have dropped. A sound alternative is to choose an asset allocation strategy that aligns with your financial goals and make changes when major life events require it or when your goals change.

1. Being too conservative. Many Americans have the wrong idea when it comes to investing, and claim that real estate is a "safer" way to invest money for the long term.[6] If you are one of them, it's important to remember that "safer" investments are not risk-free. In addition, investments with a low return may not grow, which may affect you reaching your long-term goals.
2. Ignoring your portfolio. Trying to time the market on your own can be a costly task. That's why it's important to work with your financial advisor to rebalance your portfolio every so often to make sure your assets are allocated in the way you intended. If your portfolio becomes too conservative, you may not reach your goals. If it becomes too aggressive, it may fluctuate in value more than you can tolerate. Through rebalancing, the allocation is returned to its original composition and realigned to your investment strategy.

Investing shouldn't be hard work. We are here to help. Contact your financial advisor to learn more. t

[6] www.bankrate.com, *You Probably Have the Wrong Idea When it Comes to Investments*, July 2017.

back to top

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