Schneider
WEALTH STRATEGIES

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WEALTH MANAGEMENT REPORT

Investing For The Long Run Amid Volatility

With stocks surging one moment and plunging the next, it's good to remember that, from 1926 through 2016, a portfolio diversified across stocks, bonds and cash averaged a 9.6% annual return, with a better risk-reward ratio than any one of the four investments with large liquid markets.

Ninety-one years goes back to when stock returns were first recorded on Wall Street, but most people don't invest for 91 years. The bar chart shows returns of the four investments versus the diversified four-asset portfolio over more realistic holding periods.

91-Years, 1926-2016

1926-2016	US Large Stock	US Small Stock	US Bonds	US Cash	4-Asset Portfolio Rebalanced Annually
Annualized Return	10.04%	11.31%	5.32%	3.45%	9.64%
Standard Deviation of Returns	19.9%	31.5%	5.7%	3.2%	16.6%

* Diversified portfolio rebalanced annually.

Source: Dr. Craig Israelsen, low-expense portfolio design consultant.

Over 35 years, large-company stocks beat their long-term average return over 91 years in a whopping 88% of the 35-year rolling periods! In contrast, over all of the 10-year rolling periods between 1926 and 2017, large-company stocks beat their 91-year return in only 46% of the 12-month rolling period.

In addition, the longer you stayed in the diversified portfolio, the more likely you were to experience the 91-year results. While holding the diversified portfolio for five years beat the 91-year return of 9.6% in 56% of the 12-month rolling periods over the 91 years, holding the four-asset portfolio for 35 years beat the 91-year results in 88% of the 12-month rolling periods. Diversification neither assures a profit nor guarantees against loss in a declining market and past performance is not a guarantee of future results, but these results show that the longer you invest, the more likely you are to experience the 91-year return and risk statistics.

Recently, volatility surged after investors were spooked by rising inflation and lending rates, and growing concern over the long-term U.S. debt. Statistically, the chance of a bear market decline of 20% or more increases as the nine-year bull market grows older, and the new tax law increased the chance of a Federal

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The New Law Tax Gives Roth Converters A Little Less Wiggle Room

Retirement savers, give thanks! The recently passed tax plan doesn't harm you — much. Congress, for instance, did not lower maximum contributions for tax-deferred plans, like traditional 401(k)s and individual retirement accounts. Nor did Congress tinker with moving your money from a traditional plan into a Roth, where you pay the taxes up front and appreciation grows tax-free and your withdrawals won't ever be taxed.

With one small exception. Until Congress changed the law right before the holidays, some people who did a Roth conversion could decide they wanted to un-do it, which the tax experts call a recharacterization. Not anymore.

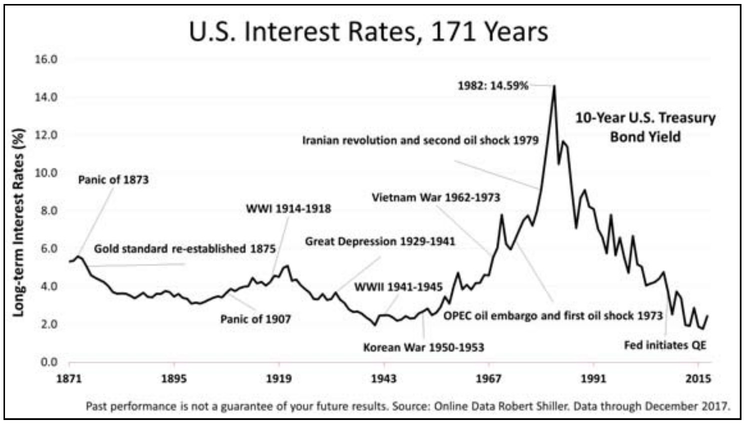
Backing out of a Roth conversion was a convenient deal. Maybe at year's end, you discovered that other unanticipated deductions, income or market conditions made the conversion look like a boneheaded idea. Maybe it turned out you lacked the money you thought you'd have to pay the Roth tax. Maybe the stock mutual fund you converted had slid since you moved the fund into a Roth IRA. Why pay taxes on higher-cost stock when you can make the conversion disappear – and maybe later convert at the lower level?

Under the new law, for tax year 2018, you can't have that flexibility anymore. Once you make the switch, you are stuck with your choice. The good news: if you want to recharacterize a 2017 Roth conversion, you have until Oct. 15, 2018 to do it.

Everything You've Learned About Interest Rates May Be Wrong

In the long arc of financial history, Americans are coming off a 50-year aberration and returning to normal interest rates.

The last 50 years represent an aberration of U.S. financial history in the context of the last 171 years. In the long arc of financial history, lessons learned over a lifetime may be wrong.



Though double-digit rates are a fear investors have dealt with for five decades, history indicates it is unlikely to occur in our future anytime soon. Beginning in the late 1960s, a 25-year period of rising intertest rates was followed by a 25-year period of declining rates, completing only in recent months a 50-year cycle highly unlikely to repeat itself anytime soon.

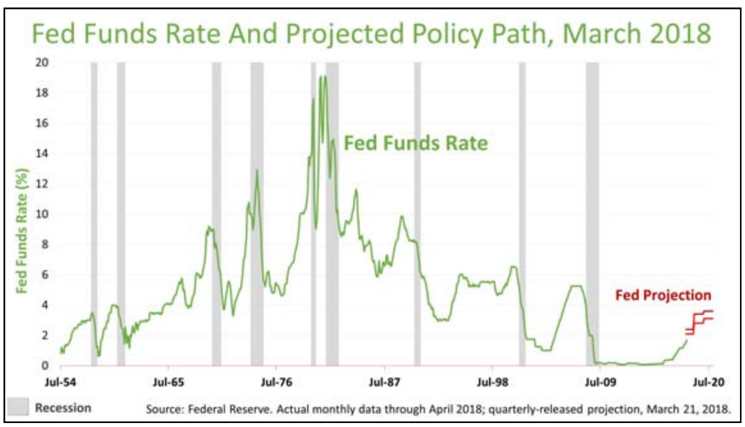
The yield on a 10-year U.S. Treasury bond, in the grand sweep of history, averaged about 4% annually. That's normal. Mortgage rates of the 70s, 80s, or 90s were abnormal.

The "new normal" ironically is the old normal. No wonder the financial press is confused.

In late March, when the 10-year T-bond yield topped 3% for the first time since 2014, it sparked a spate of headlines about the risk of rising rates. Such fears may be misplaced, using the 171-year history as a guide.

The new normal may be a 2% inflation rate and a 10-year bond yield of 4%. Headlines evoking fears that a 3% yield on 10-year T-Bonds portends 1980s'- or 1990s'-style inflation and a rise in interest rates are unlikely in the years ahead.

The Fed is expecting the 10-year Treasury bond to revert to the long-term mean of about 4% in 2020. Once a quarter, the Fed releases its interest rate policy, plan, and projection. Based on the Fed's plan and forecast, the Fed Funds Rate is targeted to hit 3% in January 2020. The Fed could be wrong, but it's not wildly wrong and it's what you should expect. Despite your life experience and widely-held notions, interest rates over the next decade probably won't be anything like what you've experienced before.



To be clear, your experience in fixed-income investing has been framed by an outlook based on aberrantly high rates. A reversion to the 100-plus year mean Fed Funds Rate is expected by the Fed. Thus, investing based on your experience isn't enough now; understanding the future of interest rates requires historical perspective. As a financial professional, our experience in investing is informed by the long arc of history. ●

10 Years After The Great Recession

Ten years ago, the economy was bleak. The U.S. was in a recession. The subprime mortgage crisis was undermining Bear Stearns, Lehman Brothers, Countrywide Financial, AIG, and other major financial institutions; General Motors looked like it might go out of business. Then, in a story for the ages, the nation bounced back and led the world out from The Great Recession.

Over the last 10 years, a dollar in America's 500 largest public companies grew to $2.48. From the stock market's low point on March 9, 2009, a dollar appreciated in value 4.75 times, to $4.72 – a 372% return!

For the past decade, what makes America exceptional was in plain sight but difficult to see in the moment. It's never easy to see why U.S. stocks would gain in value. The current period is no different.

Share prices plunged 10.2% in early February, on inflation jitters, and again in March, on fears of a trade war. In April, *The Wall Street Journal* warned of a long period of weakness

10 Common Questions About Social Security

If you're nearing retirement or you recently retired, you probably have plenty of questions about Social Security retirement benefits. Here are answers to 10 common queries posted online by the Social Security Administration (SSA).

Q1. How do I obtain a replacement Social Security card?

A. You can get an original Social Security card or a replacement card if yours is lost or stolen for free. Generally, all you have to do is submit the request to the SSA online. However, in some states, you must show additional documentation. Visit the SSA website for more information.

Q2. How do I change or correct my name on my Social Security number card?

A. If you're legally changing your name because of marriage, divorce, court order, or for any other reason, promptly notify the SSA and obtain a corrected card. This service is also free. Simply follow the procedures for getting a replacement card.

Q3. What are the ramifications if I receive Social Security retirement benefits while I'm still working?

A. If you haven't reached full retirement age (FRA) and you earn more than a specified annual limit, your benefits are reduced under this "earnings test" as follows:

- If you're under FRA for the entire year, you forfeit $1 in benefits for every $2 you earn that exceeds the annual limit. For 2017, that ceiling is $16,920.
- In the year in which you reach FRA, you forfeit $1 in benefits for every $3 earned above a separate limit, but only for what you earn before the month in which you reach FRA. For 2017, this limit is $44,880.

Beginning with the month in which you reach FRA, you can receive benefits that won't be affected by whatever you may earn.

Q4. What is my FRA?

A. It depends on the year in which you were born. The FRA gradually increases from age 65 for those born in 1937 or earlier to age 67 for those born in 1960 and after. The FRA for Baby Boomers born between 1943 and 1954 is age 66.

Q5. Can I collect benefits if I retire before my FRA?

A. Yes. You can retire and apply for benefits as early as age 62, but your monthly benefits will be reduced by as much as 30% in that case.

Q6. Are benefits increased if I wait to apply until after my FRA?

A. Yes. You can receive increased monthly benefits by applying for Social Security after reaching FRA. The benefits may increase by as much as 32% if you wait until age 70. After age 70, there is no further increase. Visit the SSA website to figure out the exact amount of your "early" and "late" benefits.

Q7. How do I apply for Social Security retirement benefits?

A. You should apply for retirement benefits three months before you want your payments to start. The easiest and most convenient way to apply is to use the online application. Note that the SSA may request certain documents to verify your eligibility.

Q8. How do I handle benefits for an incapacitated person?

A. If your elderly parent or someone else who is entitled to receive Social Security benefits needs help in managing those benefits, contact your local Social Security office about becoming that person's representative payee. Then you assume the responsibility for disbursing the funds for that person's benefit.

Q9. Who is entitled to receive Social Security survivors' benefits?

A. A spouse and children, or both, of someone who has died may be in line for benefits based on that person's earnings record. Visit the SSA website for more details. Survivors must apply for this payment within two years of the date of death.

Q10. Are Social Security benefits subject to tax?

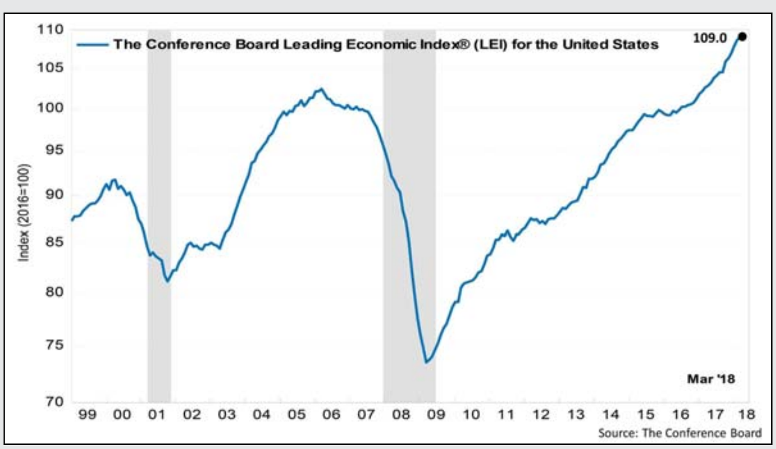
A. Yes, but not everyone is liable. You are taxed on Social Security benefits under a complex formula if your provisional income (PI) exceeds the thresholds within a two-tier system. PI is the total of (1) your adjusted gross income (AGI), (2) your tax-exempt interest income, and (3) one-half of the Social Security benefits you received.

- For a PI between $32,000 and $44,000 ($25,000 and $34,000 for single filers), you're taxed on the lesser of one-half of your benefits or 50% of the amount by which PI exceeds $32,000 ($25,000 for single filers).
- For a PI exceeding $44,000 ($34,000 for single filers), you're taxed on 85% of the amount by which PI exceeds $44,000 ($34,000 for single filers) plus the lesser of the amount determined under the first tier or $6,000 ($4,500 for single filers).

In many cases, these answers will lead to even more questions. The SSA website is helpful, but you may need additional guidance for your personal situation. Don't hesitate to contact us for assistance. ●

and cracks in global growth. Things looked bleak.

We're here to remind you that U.S. leading economic indicators released in April continued a long surge far beyond the highest point of the last expansion. This key forward-looking composite of 10 indicators points to solid growth for the rest of 2018. Despite the headlines, increased market volatility, and a weak first quarter return on stocks, very strong economic fundamentals remain in place. We're here to help you manage your portfolio for the long run. ●



Giving More To Loved Ones – Tax-Free

While it may be better to give than to receive, as the adage contends, both givers and receivers should be happy with the new tax law. The annual amount you can give someone tax-free has been raised to $15,000, from $14,000 in 2017.

Exempting $15,000 annually from gift tax, over time, transfers a lot of wealth to those you care about during your lifetime, while avoiding the tender mercies of the tax man, and married couples can have double the fun.

Take the example of a husband and wife with three married children and six grandchildren. The husband can give $15,000 each to his married children and the same amount to their spouses, and also $15,000 to the half-dozen grandchildren — totaling $180,000 — and his wife can do the same for the same 12 beneficiaries. The grand total is $360,000 per year. No federal tax will be levied on these transfers of your wealth to family as well as friends.

In addition, you can give more than the annual exemption caps for college savings. The Tax Cuts and Jobs Act (TCJA) permits bunching five years of $15,000 annual gifts into one year, by plugging it into a 529 college savings plan for a child or grandchild. That's $75,000 in total. Assets in 529 savings plans grow tax-free, if used to pay qualified education expenses.

Gifts made during your lifetime reduce your exemption from tax on your estate. The TCJA more than doubled the estate tax exemption in 2018 from $5.5 million to $11.2 million for individuals, and from $11 million to $22.4 million for couples. All of these new levels will increase with inflation, though the formula annually adjusting inflation is less generous than before.

Lifetime gifts can be made directly or through trusts. With a trust, you place the gift of cash, securities, or other assets in an entity set up to make the transfer of wealth after you die. The assets in the trust avoid probate court, and makes the transfer faster, less costly, less likely to be contested, and generally more sure-footed. Trusts can influence the values of your progeny by requiring the money you leave to be spent for religious, philosophical, or any variety of educational activities.

A trust also shields assets left to your heirs from lawsuits and business creditors. Should your grandchild get divorced, the trust money is shielded.

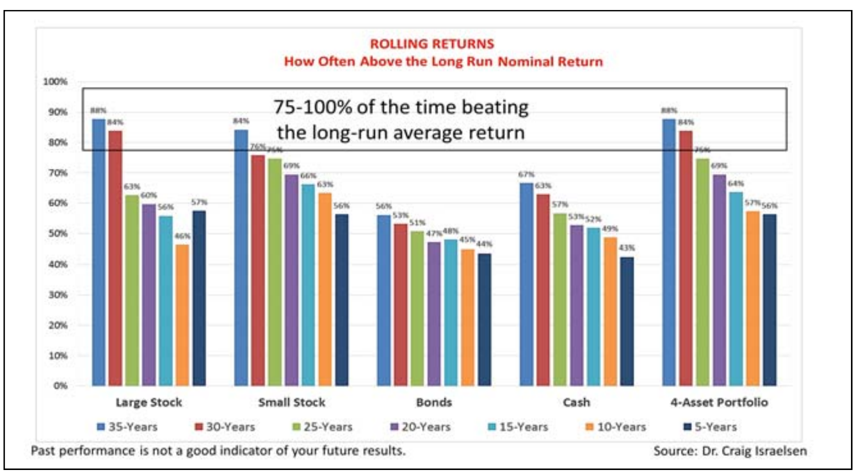
The friendlier tax treatment of transfers under the TCJA affects your estate plan and how your assets will be spent after you are gone, but it also may change your plan for gifting during your lifetime. Giving assets during your lifetime can be satisfying because you can witness your impact and influence on the future of your family. ●

Investing For The Long Run

(Continued from page 1)

Reserve interest-rate policy mistake quashing growth for allowing inflation to surge. Fed mistakes caused every recession in post-World War II history.

However, earnings drive stocks and earnings expectations have recently surged. When the tax law was signed on December 22, 2017, the average company in the S&P 500 was expected to earn $131 a share in 2018, but that was revised to $152 and could be boosted again. S&P 500 operating earnings per share as of February 7, 2017 were $132.40 for 2017, $155.26 in 2018, and $170.93 in 2019, according to data from Yardeni Research, Inc. and Thomson Reuters I/B/E/S. According to independent economist Fritz Meyer, 2018 and 2019 estimates were revised up in December 2017 from, respectively, $146.19 and $160.69.



With real wages continuing to grow, consumers are spending and consumers account for 69% of economic growth. So, despite the recent correction, the bull market and economic expansion could strengthen and last many months longer. ●

US Large Cap represented by S&P 500 Total Return Index; US Small Cap represented by S&P Small Cap600 Total Return Index; US Bonds represented by Barclays US Aggregate Bond Index TR USD; Cash represented by USTREAS Stat UST-Bill 90 Day TR.

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