Schneider
WEALTH STRATEGIES

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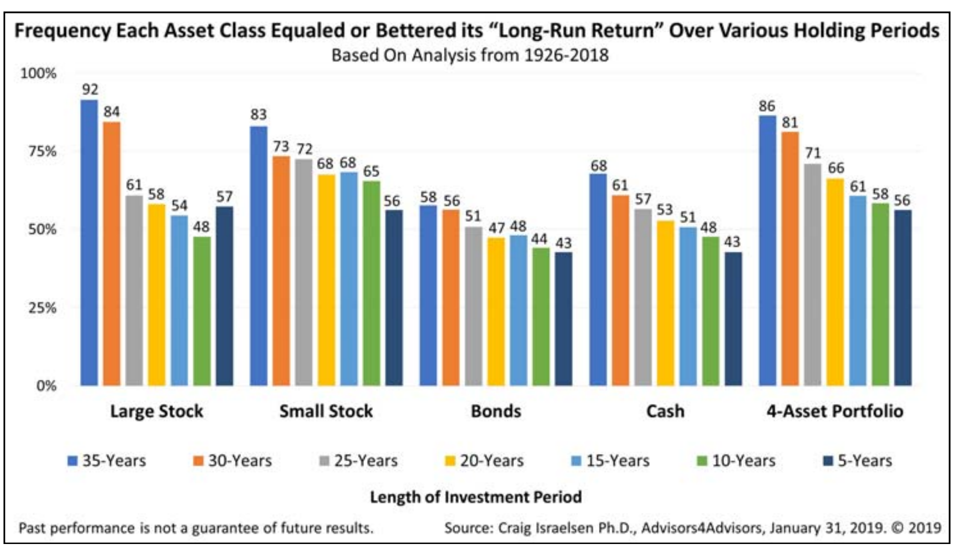
WEALTH MANAGEMENT REPORT

Staying Realistic About Investing Amid Volatile Market Swings

Despite the way securities traditionally are sold and what you hear in the media, the stock market confoundingly defies prediction. Look at the two quarters ended March 30th, 2019: The 19.8% plunge in the Standard & Poor's 500 index in the fourth quarter of 2018 was a flash bear market; in the first quarter of 2019, a recovery was just as swift, a snapback gain of 13% gain. If whipsaw emotional shifts from fear to greed make it harder to stay realistic about what to expect from a prudently-designed retirement portfolio, this chart offers a way to know what to expect based on historical data.



This chart shows the returns of four asset classes as well as a portfolio invested in a mix of the four. The returns are based on the average annual return of each asset in the 93 years from 1926 through 2018. Of the four assets, the best performing were small-company stocks, as measured by the S&P Small Cap 600 index, which averaged a total return of 11.08% annually over the 93 years.

Each group of bars shows how often the four asset classes and the diversified portfolio achieved or bettered the long-term return of that particular asset class — 9.9% for large-cap US stock, 11.08% for small-cap US stock, 5.24% for US bonds, 3.39% for US cash, and 9.23% for a 4-asset portfolio — over rolling periods of five years versus 10, 15, 20, and 35 years.

For example, large cap stocks gained 9.99% or more in 92% of the 59 35-year rolling calendar-year periods that occurred between 1926 and 2018. In comparison, the 9.99% return for large cap US stock was only achieved in 57% of the 89 rolling five years periods from 1926 through 2018.

The longer holding periods are the tallest bars, showing that the

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Five Key Factors In Funding A Child's Education

The Tax Cuts And Jobs Act (TCJA) changed funding a child's education significantly. Here are five factors to consider.

1. You can now pay tuition for kindergarten through 12th grade at private, public or religious schools with money saved in tax-advantaged 529 college savings accounts.

2. You now can draw up to $10,000 federally tax-free per student from a 529 plan. While contributions are not deductible, earnings grow free of federal income tax on withdrawals used for qualified school expenses.

3. You are not limited to 529 plans sponsored by your state and can choose from a long list of 529s sponsored by other states.

4. The TCJA axed taxes on alimony payments, so custodial parents should have it easier qualifying for need-based aid.

5. Tax deductions for interest on home equity loans and lines of credit were eliminated. These are major sources of education funding and losing their deductibility may require a change in your college funding plan.

Education tax breaks were boosted overall by the TCJA, but you almost must be a financial professional to navigate the complexities confidently. We are here to answer questions and create a strategic approach.

Opportunity Zone Investment Frenzy Requires Caution

A new provision in the tax law for the first time in 2018 is leading to a frenzy of tax-driven investment products to be promoted to affluent investors, but caution is wise.

Investors can defer paying tax on large capital gains or eliminate gains taxes entirely by investing in one of more than 8,000 places across the country designated under federal law as Opportunity Zones (OZ). The lucrative new tax-driven investments are being promoted by Wall Street firms, which already has prompted warnings in the press about the sudden investment fascination.

The New York Times

Wall Street, Seeking Big Tax Breaks, Sets Sights on Distressed Main Streets

- Hedge funds and other wealthy investors are plowing money into so-called opportunity zone funds.
- The funds are a creation of the 2017 tax law that provides incentives for spending on projects in poor areas.

With an OZ investment, a reinvested capital gain is tax-deferred, putting an additional 15% or 20% more into your OZ investment. You don't have to pay the gains tax until you sell your interest in the opportunity zone investment. If you stay in the fund for five years, you pay tax on only 90% of your delayed capital gains. Hold for seven years, and you pay tax on 85% of the gains. And if you hold it for 10 years, the appreciation on the OZ investment is tax-free when you exit the fund — assuming the investment has increased in value.

Since January 2018, more than 80 OZ funds have sprung up, even though the Trump administration has not finalized regulations governing them, according to a front-page story in *The New York Times* on February 20th, 2019. "Managers of the funds are seeking to raise huge sums of money by pitching investors on a combination of outsize returns and a feel-good role in fighting poverty."

Some of these OZ areas are more down-and-out than others. Perhaps the most prominent OZ is Long Island City, a waterfront section of the New York borough of Queens. Amazon was set to build a new headquarters there but backed out after its large tax breaks stirred controversy. Other gentrifying OZs include Oakland, Calif.; East Austin, Texas; and South Norwalk, Conn, but thousands are located in seedy parts of downtowns across the country.

The frenzy of activity is reminiscent of tax scams peddled after the enactment of major federal tax reforms in the 1980s and 1990s, which resulted in huge losses for investors and a plethora of class-action lawsuits against Wall Street firms and other promoters.

Oz investing can be expensive, and you must be comfortable with the risk as well the social objectives of a fund before investing, and it requires personal tax planning and investment research from a professional. Please let us know if you have questions about this new type of investment that must be considered cautiously. ●

Give To Charity From An IRA To Lower Your Tax Bill

To keep your tax bill down, if you are over 70½, consider a qualified charitable contribution, which makes donations of up to $100,000 from an Individual Retirement Account (IRA) to a fully deductible charity.

A qualified charitable distribution (QCD) lets you donate from a traditional or inherited IRA, provided you meet the age requirements.

A QCD can help you eliminate, or at least reduce, taxes owed on your required minimum distribution (RMD). That's the amount you are required to take out of your IRA account annually after turning 70½.

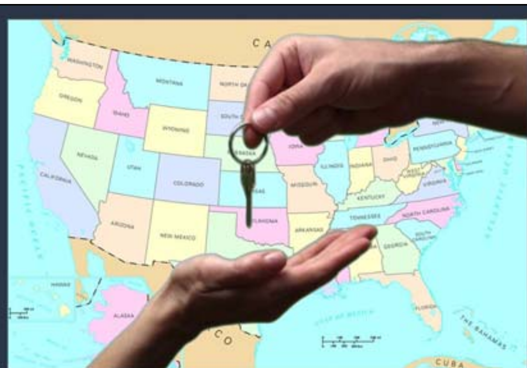
Example: Your yearly RMD is $20,000, which counts as taxable income. But if you donate that amount to a charity, it's not counted as income, which may drop you into a lower tax bracket.

Moreover, you don't have to itemize to take this tax deduction. That's good news for Americans no longer itemizing deductions on their returns. To be sure, some taxpayers are hurt by the Tax Cuts and Jobs Act's $10,000 cap on state and local tax deductions, so a qualified charitable distribution can make sense.

The New Math Of Renting Out A Vacation Home

If you've ever thought about becoming a landlord, here's an update on recent tax breaks that changed the equation for weighing whether to rent a property or be the sole tenant throughout the year.

If you bought a home in 2018, only the first $750,000 of the mortgage interest is deductible, down from $1 million under the old rules. But a rental property is not subject to these limits.



Renting out a property for at least 15 days a year means you can take a partial property tax deduction

While the math of renting out your place may not have worked before, you may want to look at it again. Your mortgage could be several million dollars, but you'd still be able to deduct *all* of the interest on it — just as you did before the new law. If you live in the residence for part of the year and rent it out for the rest, you're entitled to a partial break.

Another advantage for rental property owners is that you can now deduct only $10,000 in state and local income tax and property tax annually on a home if you are not renting it out. But if you rent out a property for at least 15 days a year, you can take a deduction on part of the property taxes paid.

A homeowner who pays $12,000 in property levies annually, for example, may deduct only the first $10,000. Renting out that property for three months qualifies you for a deduction on 25% of property taxes paid, or $3,000, and you could separately deduct the other $9,000 in property taxes paid.

Rental property owners also get a break on making home improvements. Under tax reform, landlords may immediately deduct capital spending on equipment and machinery. Gone is the requirement to take the break over many years. If you install a new kitchen in a rental property, for instance, it's deductible all at once.

Becoming a landlord is fraught with issues beyond finances, chief among them: privacy. Letting others invade your personal space literally is no small decision and a very personal one. However, the economics of renting out a vacation home have changed, and you may want to reconsider your options.

In the era of Airbnb, deciding to rent a vacation home requires advice from a professional who understands the strategic tax and financial planning as well as your personal situation. Your CPA should be able to answer any questions you have. ●

You don't have to donate the entire amount to a single charity. You can divvy up a QCD among multiple IRS-eligible charities, within the $100,000 annual limit. You don't have to use 100% of your RMD for the donation, of course, and can keep what you need to pay for your living expenses and donate the rest.

QCDs require careful attention to ensure your donation is made from an individual retirement account — not a 401(k) or 403(b). In addition, you may not make a QCD and also itemize charitable deductions. You must pick one. Plus, the charity must not be a private foundation or a donor-advised fund. These technical details are crucial.

Another QCD tip: Make the contribution straight from your IRA. The RMD money must never be in your personal, non-IRA account. Send your IRA custodian instructions to send the check directly to the charity, with the organization's name on the check. Have the IRA custodian send you documentation that you made the donation.

Finally, be sure to make the donation before you take your RMD. Should you take the RMD first, you can't give the money back to the retirement account and will be ineligible to deduct it.

The QCD is a fairly complex solution to lower taxes and requires the advice of a qualified tax professional. ●

The Big New Tax Break For Pre-Retired Professionals

Pre-retired dentists, doctors and lawyers as well as other independent professionals may be able to save tens of thousands of dollars in income taxes annually during their peak income years under the new federal tax regulations. The new rules are complex. Here are 10 things pre-retired business owners need to know about qualifying for a 20% reduction in qualified business income under Section 199(A) of the new Internal Revenue Code:

1. Sole proprietors, LLCs, S corps, partnerships and other pass-through entities qualify.

2. Real estate and rental business income — including self-rentals — may qualify.

3. Some businesses are specified as ineligible and you may need a professional to determine if you qualify.

4. Service-business owners could get a deduction on 20% of their income, subject to income limitations.

5. A business owner with $315,000 in taxable income owes tax on only $252,000 — saving more than $12,000 of income tax.

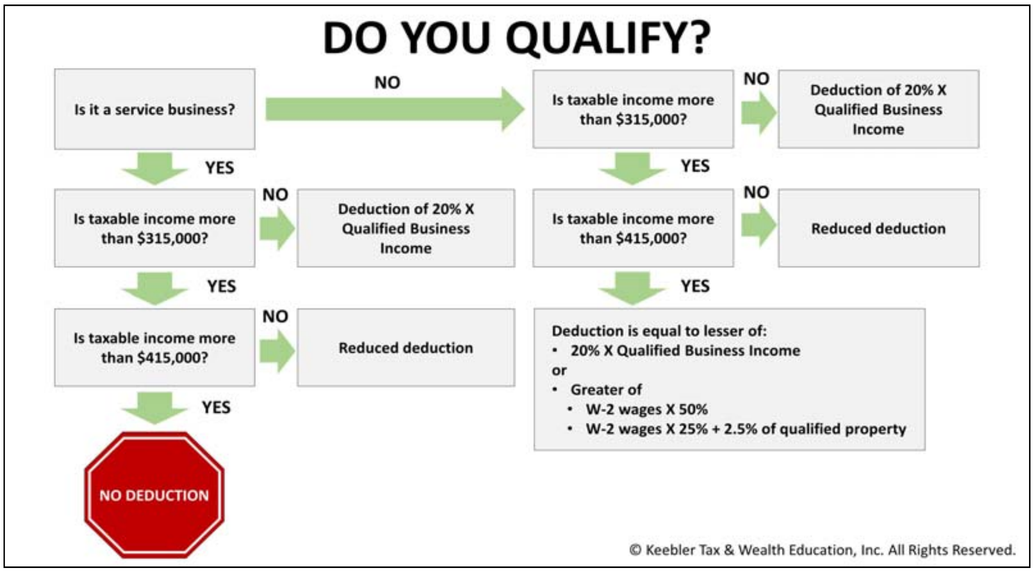
6. If you are married filing jointly and have more than $315,000 of income, the 20% deduction is subject to a phase-out. The phase-out begins at $157,500 for single filers.

7. If you have more than $415,000 of income from the service business, the 20% deduction is eliminated ($207,500 for single filers).

8. To keep your income below these thresholds, consider contributions to a defined benefit (DB) plan.

9. DB plans require you to commit to funding a defined benefit plan instead of a defined contribution plan, making them more complex.

10. A DB plan can supercharge retirement savings while minimizing your taxable income to enable you to qualify for the 20% deduction for business owners. ●



Staying Realistic About Investing

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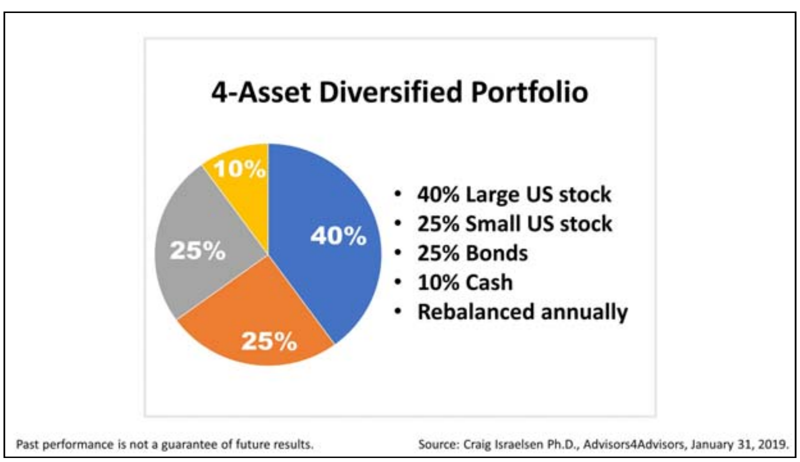
longer your time horizon, the more likely you were to achieve a long-run return.

Craig Israelsen, Ph.D., who compiled the data in this chart, has taught thousands of college students as well as financial professionals about low-expense portfolio design, says he would be the first to admit that what is happening now may not be your experience in the near future. But, over long periods of time, certain asset classes generally deliver their decent returns.

"Investors are reminded always that past performance is never a guarantee of your future results," says Craig Israelsen, Ph.D., who compiled the data in this chart. "Yet, having just been through an emotional whiplash, investors get important perspective in knowing a diversified 4-asset portfolio averaged a 9.23% return or higher in 86% of the 59 rolling 35-year periods from 1926 through 2018 with just 76% of the volatility of large-cap US stock." ●



Past performance is not a guarantee of your future results. Calculations by Craig Israelsen, Ph.D. Indices are unmanaged and not available for direct investment. Investments with higher return potential carry greater risk for loss. Performance of US Large Stock represented by S&P 500 Index (TR), US Small Stock represented by S&P Small Cap 600 Index (TR). US Bonds are represented by Barclays US Aggregate Bond Index TR USD, and Cash by USTREAS Stat US T-Bill 90 Day TR.

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