Registered Investment Advisor Firm

©ISSUE III, VOL. VII – MARCH – 2018

Are there changes to tax rates?
In the 2017 Tax Act, the seven marginal tax rates stay the same, but the dollar amounts for the brackets were increased, so more individuals will pay less in taxes because they will be in a lower marginal rate.

What are the changes to the Standard Deduction?
The Standard Deduction was increased 90% which should make filing a tax return easier and pay less in taxes for more people: Individual filers $6,350 to $12,000; Head of Household $9,350 to $18,000; Married filing jointly $12,700 to $24,000 and over 65, blind or disabled increases $1,300 for single and $1,600 for married taxpayers.

Are there any changes to the Gift Tax Exclusion?
The gift tax exclusion was raised $1,000 to $15,000. This allows a person to gift to anyone $15,000 without any tax consequence.

Were there any changes to the Mortgage Deduction?
The main change is that home equity indebtedness interest cannot be deducted for tax years 2018 thru 2025.

Any medical expense changes?
The floor for the medical expense deduction was lowered to 7.5%, so that taxpayers are entitled to deduct medical expenses that exceed 7.5% of adjusted gross income, but only for tax years 2017 and 2018.

Because of the short window, now is time to plan ahead.

Should I worry about the recent stock market pullback?

The short answer is no. With the recent 12% decline from peak to trough, the market should continue its upward trajectory, but with more volatility.

Improving wage growth was one catalyst that sparked the correction and this trend should continue putting pressure on inflation and bond yields. The tax cuts and increased federal spending may accelerate these developments.

Leading economic indicators and corporate earnings trends should assist the economic expansion and bull market. Widening credit spreads and/or tightening financial conditions are warning signs, but so far they have not materialized.

Of the 80% of the S&P 500 companies reporting results this quarter, earnings-per-share are up about 15% with 81% of the companies beating earnings expectations. The forward price-to-earnings ratio climbed to 18.4 at the market peak and had fallen to 16.3 at the trough.

Double digit market corrections are a normal part of bull markets. The S&P 500 has more than quadrupled in price since it bottomed at 666 in March 2009. Since that time there have been five different double-digit corrections: 17% in 2010; 22% in 2011; 10% in 2014; 16% in 2016 and (as of now) 12% in 2018.

We should not fear this recent pullback. The economy is solid, earnings are improving, financial conditions are sound and corporate balance sheets look healthy. With these fundamental factors and a strong global economy, stock prices should move higher.

Volatility has spiked, jolting investors out of complacency, but that doesn't mean any dramatic action is needed.

If you need help or more information on this or the **new tax laws**, contact Bob Davis at (707) 648-2024.

FED Watch

There was no meeting in February and the March meeting has 87% expectation of a ¼ point increase to 1.50 -1.75 up from the current 1.25-1.50. They will also continue the process of reversing quantitative easing by allowing assets to mature off their balance sheets, rather than re-investing them. They expect to be at $50 Billion quarterly by October 2018

Next meeting:
March 20th and 21st.

Castle Rock Wealth Management

Castle Rock Wealth Management is a Hybrid Advisory firm servicing the needs of clients across the United States.

Castle Rock Wealth Management custodies some client assets at Charles Schwab & Co. The Bob's office is located at 714 Marin Street, Suite #C, Vallejo, CA 94590. The telephone number is (707) 648-2024.

If you have questions or would like further information on this month's topics or any other financial or investment related subjects, including Social Security claiming strategies, please contact me by phone or through my email address at:
bob@crwmadvisors.com