Registered Investment Advisor Firm

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Should I own Muni Bonds?
In recent years, huge gains – and massive turbulence – in the stock market have driven investors into bonds. The bonds of state and local governments and many of their agencies, such as school and sewer districts, are generally exempt from federal income taxes and often state and city taxes as well. The effect is that the after-tax return of these bonds is higher than yields of US government bonds. Even though tax-free municipal (muni) bonds have been shaken by city bankruptcies, like Detroit in 2013 and state fiscal crises, like Illinois, the overall muni bond market has been flooded with money. Should you add to this investment flow? It depends, but probably.

Because muni bonds generally are exempt from federal income tax, these tax advantages are only available in after-tax investment accounts, not 401(k) and other retirement accounts.

Investors in the 22 percent federal tax bracket, and higher, can better take advantage of the after-tax yields. The tax equivalent yield is a calculation for the return that is required on a taxable investment to make it equal to the return on a tax-exempt investment. This allows investors to make apple-to-apples comparison among securities with different tax consequences.

A few states and at least a dozen large cities are in fiscal peril. This means that investors' path can be fraught with serious risks, especially when you buy individual muni bonds instead of muni bond funds. The average investor can reduce risk through bond funds, which are diversified among many issues and achieve economies of scale through lower trading costs.

So if you are in a high income tax bracket and are using money in an after-tax account, then yes, muni's are a great way to diversify your portfolio and get a good after-tax return. It depends if you are not.

What are the new max retirement contributions?
Annually the IRS publishes the maximum contributions for retirement accounts. So for 2019, 401(k), 403(b),

most 457 plans and the federal government Thrift Savings Plan, the maximum contribution is raised from $18,000 to $19,000.

IRA contributions, not raised since 2013, will now be $6,000, up from $5,500. The catch-up contributions remain at $1,000.

Income ranges that determine eligibility for deductible contributions to traditional IRAs, ROTH IRAs and to claim the savers credit have all increased.

Contact me if you want more information on this aspect of the contribution limits.

Can I trust computers to pick stocks?
The peril isn't that computers will take over the world. The real danger is that humans trust computers to make important decisions. Computers have no common sense, no wisdom, don't know what words mean in a sentence and lack critical thinking and judgement. Computers also lack competence to pick stocks; they don't even know what a stock is or what it should be worth.

While computer algorithms are great at finding patterns and performing narrow tasks, they are bad at assessing the reliability of the data as well as whether their statistical analyses are plausible. Consequently, human reasoning is needed.

Don't trust investment decisions to a computer. They mine data and find patterns, but they have no way of knowing whether a pattern makes sense because they don't understand them.

Yes, they can get lots of data on stocks, but you need humans to step in to ask, "Is this a good reason to buy or not?" You can't trust computers to do things they are incapable of, such as picking stocks, approving loans or screening for job applications. John Bogle, founder of The Vanguard Group, claims Vanguard has a superior robo-system because clients have individuals to talk to.

If you need help or more information on this or any other financial matters, contact Bob Davis at (707) 648-2024.

REMINDERS:
Don't forget to take advantage of year-end tax loss selling.
Don't forget to review tax laws to utilize now and in the future.

FED Watch

The November Fed meeting was as expected, no rate increase and their look ahead is still the same. There is now an 80% chance of a rate increase at the December meeting, up from 67%. The Fed will also continue the process of reversing quantitative easing by allowing assets to mature off their balance sheets, rather than re-investing them.

Next meeting:
December 18th and 19th

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

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