The
FINANCIAL UPDATE

DAY & ENNIS, LLC
FEE-ONLY FINANCIAL PLANNING

First Quarter 2019 | NAPFA - Registered Financial Advisor | (478) 474-7480

Retirement Income Portfolio Survival

As financial professionals, we believe understanding the dynamics of retirement income portfolio risk can be crucial to investment success. The survivability of five hypothetical retirement portfolios over the 20-year period ended December 31st, 2018 shown in the accompanying table is not intended as investment advice but is intended to help clients better understand retirement portfolio risk and conquer perhaps the worst of all financial fears: running out of money in retirement. The data is based on a continuing professional education session by Professor Dr. Craig Israelsen, an independent economist whose research we license.

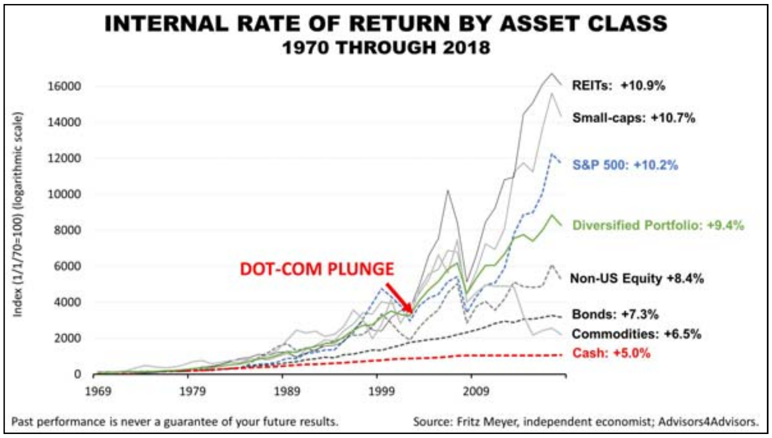
Retirement Portfolio Survival Analysis
20-Years Ended Dec. 31, 2018

Risk Level	Asset Allocation	20-Year IRR (%)	Starting Balance: $250,000 Withdrawn $335,880	Starting Balance: $500,000 Withdrawn: $671,760	Starting balance $1M Withdrawn: $1,343,520
			BALANCE AFTER 20 YEARS ($)		
Very Conservative	100% Cash	2.09	-3,538	-7,077	-14,154
Conservative	50% Cash/50% Bonds	3.37	53,562	107,124	214,248
Moderate	60% US Stock/40% Bonds	4.76	137,933	275,867	551,734
Moderate	12-Asset Portfolio	7.29	379,494	758,987	1,517,974
Aggressive	100% US Large Stock	2.69	20,778	41,556	83,113

Past performance is never a guarantee of your future results. Source: Craig Israelsen, Ph.D., Advisors4Advisors, Jan. 31, 2018.

The results of the five portfolio risk levels illustrated a range from very conservative to aggressive. All five portfolios assume a retiree withdrew 5% of the portfolio value annually, and annually increased withdrawals by 3% to keep up with inflation. Pick whichever starting balance — $250,000, $500,000 or $1 million — best applies to your situation.

What stands out is that the most diversified of the five portfolios outperformed considerably — broad diversification worked! That diversification worked may come as no great surprise; conventional wisdom



Past performance is never a guarantee of your future results. Source: Fritz Meyer, independent economist; Advisors4Advisors.

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Leave A Trust That Works According To Plan

To leave a meaningful legacy to your family or charity, you need someone you can count on to administer it through the years. Family members may lack the expertise to protect the trust from excessive taxation. They may also feel ill equipped to deal with friction that may arise from administering the trust.

You can provide peace of mind to all concerned by having Day & Ennis plan the trust with your attorney. We can serve as sole trustee, co-trustee or successor trustee for revocable, irrevocable, charitable and special needs trusts.

Here are the areas we can handle:

- Portfolio creation and prudent investment management
- Cash management and bill payment
- Distributions to beneficiaries
- Consolidated asset reporting and record keeping
- Coordinate annual trust tax return preparation.

We'll design your trust to make sure you preserve as much of your assets as possible, taking advantage of available tax benefits. And since we're not a large financial institution, you'll find us accessible to answer questions as they arise.

Please give us a call at (478) 474-7480 in Macon or 706-400-5763 in Blairsville to start planning your legacy in a trust.

Sincerely,
Day & Ennis, LLC

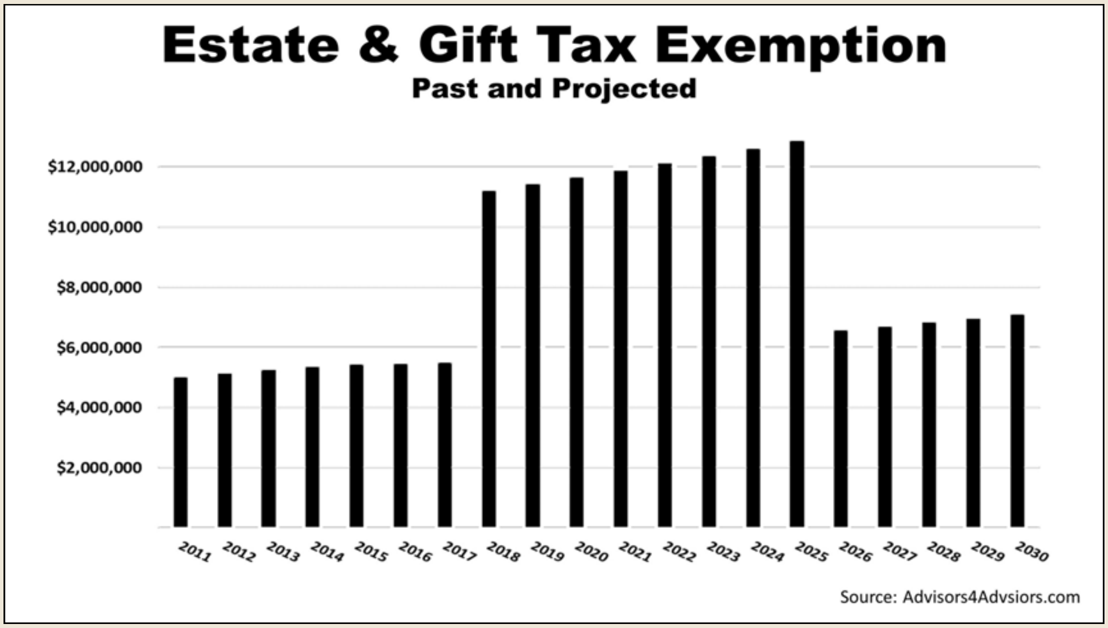
Be Prepared For Tax Policy To Swing Back

For business owners, professionals, and wealthy families, tax rules are about as favorable as they've been in decades, but the tax policy pendulum could swing back again. Be prepared to make some important financial decisions much sooner than had been expected.

For example, the lifetime tax exemption for gifts made in 2019 is $11,400,000, up from $11,180, 000 in 2018. It doubled over the $5.43 million in effect in 2017 and is scheduled to ratchet higher through 2025, as a result of the enactment of the Tax Cuts & Jobs Act (TCJA). In 2026, the exemption reverts back to the level in effect before the TCJA became effective in December 2018.

That means families should have many years before they would be forced to decide whether to make gifts in 2025 to maximize their exemptions from tax in passing their wealth to family members. The 2025 peak in the exemption amount forces a decision about whether to give assets to loved ones while you're still alive or hold onto your assets and give them away after you die. In 2025, you use the $12-million-plus exemption or lose it, and the exemption reverts back to a much lower amount in 2026 and beyond.

However, the tax policy pendulum — a politically charged issue — could swing in the other direction in the months ahead. Business owners, professionals, and other high-net worth individuals may need to make decisions about gifting assets much sooner. There is no assurance that you will have until the end of 2025 to make this important strategic decision about passing on your family wealth.



Point is, if tax policy changes, business owners, professionals and individuals benefiting from strategies enabled under the TCJA, may be forced to make decisions about income tax as well as estate and gift tax strategies much sooner than they might have expected. It's not an issue you want to fall behind on and will require personal and professional tax advice. ●

Time Itemized Deductions To Reduce Taxes

You can't have your cake and eat it, too, but this tax planning strategy lets you have a tax break and repeat it, too.

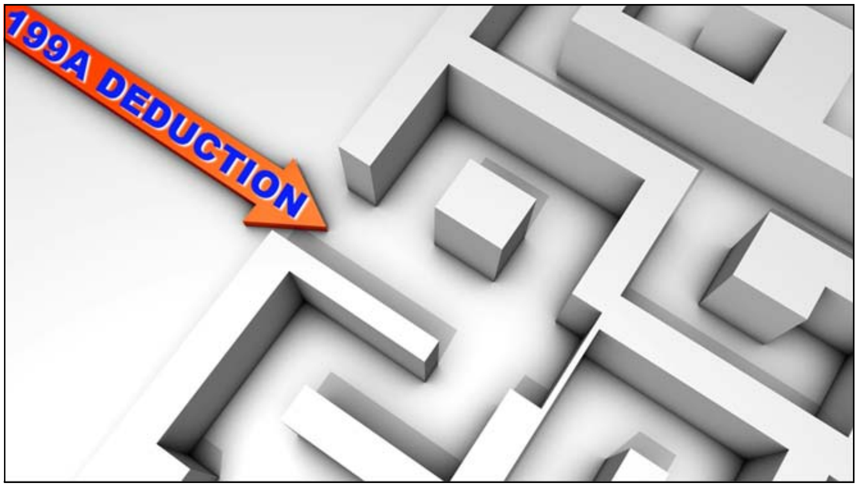
An old tax tactic, bunching deductions, is used in an entirely new way to minimize your tax bill under the Tax Cuts and Jobs Act (TCJA). By planning to take the new enlarged standard deduction some years and bunching deductions in other years, you may save thousands of dollars in income taxes over two or three years.

The TCJA almost doubled the standard deduction to $12,000 for singles and $24,000 for couples filing jointly in 2018. Trouble is, if you take the standard deduction, you can't itemize other deductions. You no longer can lower your taxable income by itemizing deductions such as charitable donations, medical expenses, mortgage interest, and other miscellaneous expenses.

By bunching, you do both: This year, you take the enlarged standard deduction. For 2019, you don't. Instead you bunch your deductions and itemize them when you file your taxes for 2019. If your itemized deductions aren't higher than the standard

Business Owners: Avert Obstacles To Tax Savings

The Tax Cuts and Jobs Act (TCJA) gives business owners new ways to save significantly on federal income taxes, but there are obstacles to getting the full benefits. Here's a primer on tactics to get around some of the barriers.



TCJA permits business owners to deduct 20% of the income passed to them through an S-Corp, LLC, sole proprietorship, and other business forms — excluding C-Corporations.

Section 199A of the tax code makes it harder to qualify for the 20% deduction for businesses that perform services, such as healthcare, law, accounting or consulting. For them, the deduction was phased out above $157,500 for an individual filer and $315,000 for a married couple in 2018, and that will be adjusted for inflation in 2019 (to $160,700 for a single, $321,400 for a couple). The deduction was entirely eliminated for a single-filer on taxable income of more than $207,500 in 2018 and for married taxpayers with more than $415,000 (rising to $210,700 and $421,400 for 2019). Earning more than that means you can't take any 199A deduction whatsoever.

How can service-business owners avoid such impediments? By whittling income down below the thresholds.

As an example, let's take Lisa, a dentist, whose profession is definitely in the service business. Her husband contributes no income, as he is retired. She receives $400,000 in pass-through income from her practice, the profit after she meets all her overhead. Beyond her pass-through income, she pays herself a salary of $150,000. So, her taxable income ($550,000, adding the pass-through and the salary money) exceeds the $410,000 ceiling — with the result that she is not eligible for the 20% deduction.

But Lisa can make moves to lower her reported income. First, she can start her own defined contribution plan for herself and her employees — a receptionist, hygienist, and bookkeeper. That usually means establishing a 401(k) retirement plan in her business qualified under the tax code and it would involve research, services and liability to a business owner as well as added costs.

Since Lisa is 55, she can contribute a maximum $25,000 yearly to the plan — the standard $19,000 maximum contribution, plus a $6,000 additional contribution permitted those over-50 to encourage them to catch-up on retirement savings, and that would reduce her taxable income to $525,000.

Lisa also can open a defined benefit plan for herself and employees. This is a traditional type of pension plan qualified under the tax code to allow participants and their beneficiaries an annual payment for life based on their earnings and life expectancy. In Lisa's case, she can contribute up to $150,000 annually to a defined benefit plan, as that is the average of her past three years' salary. That shaves her taxable income to $375,000, and she now is below the $415,000 ceiling.

Should she wish to pare it further, perhaps to below $315,500 to nab the full 20% pass-through tax deduction, Lisa has additional options: She could make charitable donations or invest in oil and gas ventures that may allow deductions on intangible costs of drilling a well.

For business owners, this is a complex area of tax and financial planning and requires expert advice. Please contact our office with any questions about this specialized advice. ●

deduction, you take the standard deduction again in 2019 and then itemize in 2020 tax year.

This strategy also helps overcome another downside of the TCJA: It capped deductions on property and state taxes at $10,000 annually. These breaks used to be unlimited, and in some high-tax states exceeded the standard deduction.

By planning to bunch two or three years of charitable donations and other deductions you can control into a single year, your itemized list of deductions every other year could exceed the $24,000 ($12,000 for singles) standard deduction.

For example, a married couple itemizes and claims the maximum property and state income tax deduction of $10,000. They also pay $8,000 in mortgage interest. They'd need to make more than $6,000 of charitable donations to surpass the $24,000 standard deduction threshold. The couple usually gives $4,000 to charity yearly, so they choose to make the gift by combining two years of donations into one tax year. As a result, they can itemize deductions one year and claim $26,000 in deductions. Next year, they take the $24,000 standard deduction.

Planning to benefit by bunching deductions depends on your expected income as well as the specific deductions you can control, but with a little clever planning, you can have your tax break and repeat it, too! ●

Sun Starts Setting On Solar Tax Credit From Uncle Sam

The sun is shining on the tax credit for solar power but this federal tax credit that lightens your tax burden significantly starts sunsetting in 2020.

The good news is that the cost of solar panels and equipment is dropping, down about 6.5% in 2018, and putting in solar panels can cut your utility bills by a lot. The bad news is the upfront cost isn't cheap — an average of $13,188 in 2018, according to EnergySage, a marketplace for solar equipment.

Luckily, federal tax credits can cut your cost. That $13,188 upfront cost is after taking the tax credit. Far more valuable than a deduction against your taxable income, a credit reduces your tax dollar for dollar. But you better hurry to beat the phase-out of the credits.

Currently, the tax credit reduces the net cost of a solar system in residential and commercial properties by 30%. In 2020, that drops to 26%, and drops again in 2021 to 22%. The credit then zeroes out in 2022. The break for commercial use does remain, but only at 10%.

One small saving grace is that some states, local governments, and utilities also offer rebates and other tax incentives that can further lower the solar system costs. In the meantime, while the credit lasts, qualifying expenses include the panels themselves, the wiring to connect them to your home electrical system, and the cost of the labor in the installation.

If you don't have a big enough tax liability to use the full credit to cut your tax bill, the amount left over can be carried forward to the next tax year. The home served by solar power does not have to be your principal residence, and no limit is placed on the dollar amount of your credit, which is good if you own a large home.

A caveat: Should you rent out your home for part of the year, you have to reduce the credit for the time you're not present. In an example from TurboTax, if you live in the house for just three months, your credit is one quarter of the amount you'd benefit by had you lived in the place year-round: So, for a system costing $10,000, the 30% credit is $3,000, but you as a part-time resident and landlord get only $750. Rent out the house for the entire year, and you get zilch.

Certainly, some systems cost more than others. For instance, if you have a rectangular south-facing roof, your installation is simple. Yet if the roof is broken up by dormers, skylights and multiple levels, putting in a system is trickier, and more expensive. Nonetheless, whatever you end up paying, the shiniest deals are available now, so you may want to act before the sun starts to set on solar tax credits from Uncle Sam. ●

Ret. Income Portfolio Survival

(Continued from page 1)

and academic research hold that diversifying is wise. Remarkably, diversification worked even though this was a 20-year period of low returns on stocks.

Stocks, a riskier investment in a retirement portfolio, showed an internal rate of return over the 20 years of just 2.69% — only six-tenths of 1% better than the least risky of the five portfolios, the one 100% invested in short-term Treasury Bills.

Why did stocks perform so poorly? The 20-year period started in 1999, at the peak of the dot-com bubble. The Standard Poor's 500 index did not recover until 2006, and then it dropped again in the bear market of 2008. A retiree picked a terrible 20 years to be an aggressive investor 100% invested in stocks.

Over the much longer 49-year period, stocks did outperform cash by a huge amount and they also outperformed a diversified portfolio.

The point is that even in this terrible period for stocks, the growth engine of a retirement portfolio, a broadly diversified portfolio outperformed. The next 20 years are likely to be as unpredictable as the last 20 years, but this illustrates how broad diversification helped a retirement portfolio survive through a period in which stocks performed unexpectedly poorly. ●

Disclosure

These are the indexes that represent the ETFs used in the Passive 7Twelve® Portfolio.
Calculations By Craig Israelsen, Ph.D., Raw data source: Steele Mutual Fund Expert.

Performance reflects performance of the following indexes:

US Large cap	S&P 500 Index (TR)
US Mid Cap	S&P Midcap 400 Index (TR)
US Small Cap	S&P Small Cap 600 Index (TR)
Non-US Developed	MSCI EAFE Index NR USD
Emerging	MSCI EM Index GR USD
Real Estate	S&P Global REIT Index TR USD
Natural Resources	S&P North American Natural Resources Index TR
Commodities	Deutsche Bank Liquid Commodity Optimum Yield Diversified Commodity Index Total Return
US Bonds	Barclays US Aggregate Bond Index TR USD
TIPS	Barclays U.S. Treasury US TIPS Index TR USD
Non-US Bonds	Barclays Global Treasury Index TR
Cash	USTREAS Stat US T-Bill 90 Day TR

INTERNAL RATE OF RETURN BY ASSET CLASS LINE CHART 1970 THROUGH 2018

Performance reflects performance of the following indexes:

Small-cap US equity represented by the Ibbotson Small Companies Index from 1970-1978, and the Russell 2000 Index starting in 1979. Non-US equity represented by the MSCI EAFE Index. Real estate represented by the NAREIT Index from 1970-1977 and the Dow Jones US Select REIT Index starting in 1978. Commodities represented by the Goldman Sachs Commodities Index (GSCI). As of February 6, 2007, the GSCI became the S&P GSCI Commodity Index. U.S. Aggregate Bonds represented by the Ibbotson Intermediate Term Bond Index from 1970-75 and the Barclays Capital Aggregate Bond index starting in 1976. Cash represented by 3-month Treasury Bills.

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