JSW™ Financial

E-newsletter
November 2017

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We're Moving!

Due to outgrowing our current space on South Main Street, JSW Financial will be moving into a brand new office space closer to downtown Blacksburg in the new Brownstone Building! We are excited to move into the new space soon after the new year.

Some highlights of our new space include:

- Faster internet speeds to better serve you.
- More office space (increasing from 1,500 sq. ft. to over 2,500!!).
- More designated parking for our clients that is both covered from the weather and handicap accessible for easy arrival and no headache.
- Large Balcony overlooking Main Street and Downtown Blacksburg.

As the office space is built, we will keep everyone up to date on its progress. We're very excited to share the new space with you and your families and we hope you can stop by once it is finished!

— **Andrew Cialek**

Welcome, Jesse

Jesse Lineberry is a CERTIFIED FINANCIAL PLANNER™ professional and the newest member of the team. He came to us after working at a leading wealth management firm in Raleigh-Durham, North Carolina. During his three years as a Client Service Apprentice, he was an extension of the senior advisors as they worked together to serve over 100 doctors, entrepreneurs and first-generation affluent individuals.

Growing up as an avid hunter and bass fisherman, Jesse spent countless hours in the outdoors with his dad and brother. Sometimes he would pass the time in a blind by asking his dad questions about how the world works. Specifically, he was fascinated by the economy and personal finance (no, really!). However, his love of wetland conservation led him to first study biology in college. After a fortuitous fishing trip with a Virginia Tech professor where Jesse further explored his financial planning interests, he enrolled in Virginia Tech's prestigious financial planning program. Jesse excelled during his time there and graduated *cum laude*. During his senior year, he honed his skill of communicating complicated topics in a simple manner while serving as a Teaching Assistant. He gave lectures both in the classroom and off campus to other student groups wanting to learn about financial literacy.

When we were getting to know Jesse during the interview process, his former professors and peers repeatedly described him as "the smartest guy in class". Aside from being well-respected and a hard-worker, he is also warm, approachable and loves developing meaningful one-on-one relationships. We hope you enjoy getting to know him over the coming months as much as we have.

Welcome to the team, Jesse!

2018 Cost of Living Adjustments

The Internal Revenue Service (IRS) has issued Notice 2017-64 announcing cost of living adjustments affecting dollar limitations for pension plans and other retirement-related items for tax year 2018.

IRS Limit	2018	Delta
Total Defined Contribution Plan Limit	$55,000	1.9%
Defined Benefit Plan Limit on Annual Benefits	$220,000	2.3%
Section 401(a)(17) Compensation Limit	$275,000	1.9%
Employee 401(k), & 403(b) Plan Deferrals	$18,500	2.8%
Employee 401(k)/403(b) Catch-up	$6,000	Unchanged
Employee 457 Plan Deferrals/Catch-up	$18,500	2.8%
Employee 457 Plan Catch-up	$6,000	Unchanged
SIMPLE Plan Deferrals	$12,500	Unchanged
SIMPLE Catch-up	$3,000	Unchanged
Social Security Taxable Wage Base	$128,700	1.2%
Social Security Benefit Increase		2.0%

If you have questions about how this might affect your financial plan, give us a call.

— **Jesse Lineberry**

Send a Copy of Your Tax Return

Over the course of Willie Nelson's career, he has both made millions and spent millions. For quite some time, he ignored paying taxes until the IRS caught up with him in 1990 by sending him a tax bill for $32 million. Willie retorted, "Thirty-two million ain't much if you say it fast!" With such a hefty tax bill, perhaps this is why he continues to tour the country at age 84.

WHY WE NEED IT

You may have wondered why we're asking for your most recent tax return, especially since we don't prepare tax returns. Taxes are a big part of your financial life. Having your most recent tax return allows us to identify any opportunities that could result in putting money back into your pocket.

While each circumstance is different, some of the commonly overlooked savings opportunities are tax loss harvesting, contributing to a tax deferred account (IRA) or 529 college savings plan, charitable giving and strategically timing mortgage and state tax payments.

INCOME TAX STRUCTURE

The Internal Revenue Code (IRC) is over 2,000 pages long. Its complexity often times overshadows its logic. Not only that, it's saturated with exceptions to this rule and that rule.

For tax planning purposes, we first look at how your income is structured and ultimately taxed. Our Federal tax system is composed of a progressive or graduated tax, which means as your income increases so does the marginal tax rate.

TAX PLANNING VS. TAX PREPARATION

Many CPAs and tax preparers spend the majority of their time looking in the past. As early as January of each year, your tax preparer begins requesting financial documents from the previous year to prepare your tax returns.

By no means are we a substitute for the services provided by your tax preparer. Instead, we want to look ahead by forecasting your income to identify any tax saving opportunities and make sure your tax returns reflect the appropriate information.

TAX PLANNING OPPORTUNITIES

Even though Congress and the Internal Revenue Service (IRS) are constantly tinkering with tax laws, below are five general tax strategies that can reduce your tax bills:

- Maximize deductions
- Defer taxes if you'll be in a lower tax bracket in the future
- Take advantage of investments that pay capital gains and dividend income as they can be taxed at lower rates
- Shift income to family members in lower tax brackets

- Invest in municipal bonds that pay tax-exempt income

Our tax planning recommendations are designed to minimize unnecessary tax bills both now and in the future. If you haven't done so already, please send us your 2016 tax return as soon as possible so that we can employ these forward-looking tax planning strategies for you.

— **Ashley Coake**

Lessons for the Next Crisis

In early October 2007, the S&P 500 Index hit what was its highest point before losing more than half its value over the next year and a half during the global financial crisis.

Over the coming weeks and months, as other anniversaries of major crisis-related events pass (for example, 10 years since the bank run on Northern Rock or 10 years since the collapse of Lehman Brothers), there will likely be a steady stream of retrospectives on what happened as well as opinions on how the environment today may be similar or different from the period leading up to the crisis. It is difficult to draw useful conclusions based on such observations; financial markets have a habit of behaving unpredictably in the short run. There are, however, important lessons that investors might be well-served to remember: Capital markets have rewarded investors over the long term, and having an investment approach you can stick with—especially during tough times—may better prepare you for the next crisis and its aftermath.

BENEFITS OF HINDSIGHT

In 2008, the stock market dropped in value by almost half. Being a decade removed from the crisis may make it easier to take the past in stride. The eventual rebound and subsequent years of double-digit gains have also likely helped in this regard. While the events of the crisis were unfolding, however, a future of this sort looked anything but certain. Headlines such as "Worst Crisis Since '30s, With No End Yet in Sight,"[1] "Markets in Disarray as Lending Locks Up,"[2] and "For Stocks, Worst Single-Day Drop in Two Decades"[3] were common front page news. Reading the news, opening up quarterly statements, or going online to check an account balance were, for many, stomach-churning experiences.

While being an investor today (or during any period, for that matter), is by no means a worry-free experience, the feelings of panic and dread felt by many during the financial crisis were distinctly acute. Many investors reacted emotionally to these developments. In the heat of the moment, some decided it was more than they could stomach, so they sold out of stocks. On the other hand, many who were able to stay the course and stick to their approach recovered from the crisis and benefited from the subsequent rebound in markets.

It is important to remember that this crisis and the subsequent recovery in financial markets was not the first time in history that periods of substantial volatility have occurred. **Exhibit 1** helps illustrate this point. The exhibit shows the performance of a balanced investment strategy following several crises, including the bankruptcy of Lehman Brothers in September of 2008, which took place in the middle of the financial crisis. Each event is labeled with the month and year that it occurred or peaked.

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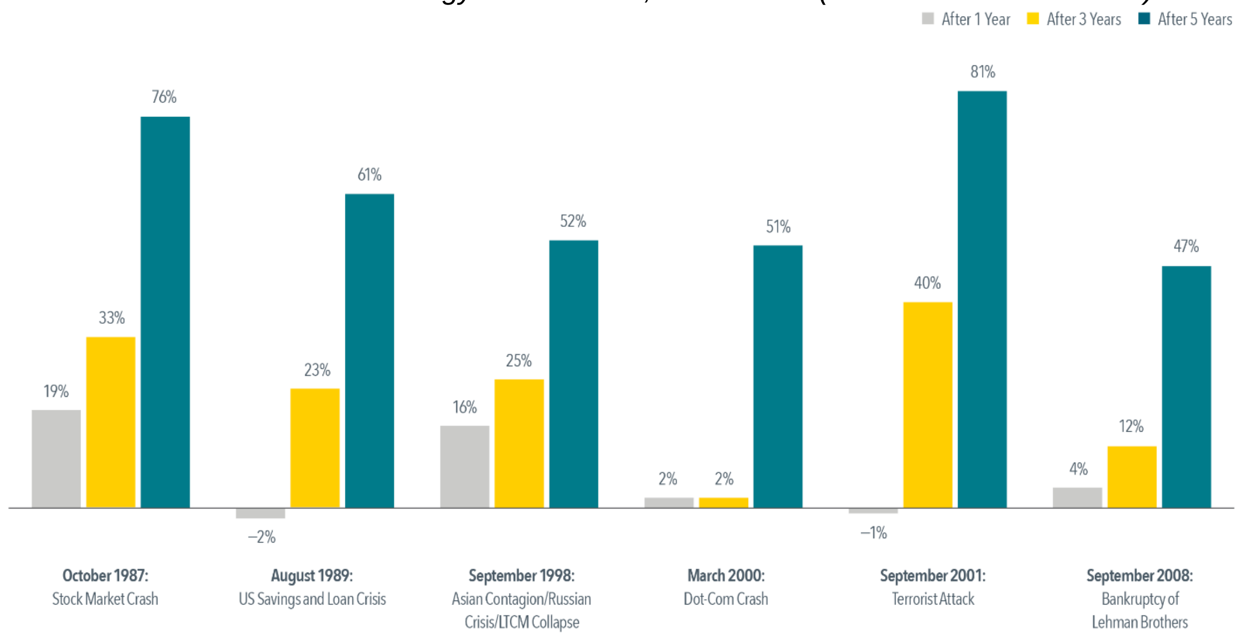
1. wsj.com/articles/SB122169431617549947.

2. washingtonpost.com/wp-dyn/content/article/2008/09/17/AR2008091700707.html.

3. nytimes.com/2008/09/30/business/30markets.html.

Exhibit 1: The Market's Response to Crisis

Performance of a Balanced Strategy: 60% Stocks, 40% Bonds (Cumulative Total Return)



In US dollars. Represents cumulative total returns of a balanced strategy invested on the first day of the following calendar month of the event noted. Balanced Strategy: 12% S&P 500 Index,12% Dimensional US Large Cap Value Index, 6% Dow Jones US Select REIT Index, 6% Dimensional International Marketwide Value Index, 6% Dimensional US Small Cap Index, 6% Dimensional US Small Cap Value Index, 3% Dimensional International Small Cap Index, 3% Dimensional International Small Cap Value Index, 2.4% Dimensional Emerging Markets Small Index, 1.8% Dimensional Emerging Markets Value Index, 1.8% Dimensional Emerging Markets Index, 10% Bloomberg Barclays Treasury Bond Index 1-5 Years, 10% Citigroup World Government Bond Index 1-5 Years (hedged), 10% Citigroup World Government Bond Index 1-3 Years (hedged), 10% BofA Merrill Lynch 1-Year US Treasury Note Index. The S&P data are provided by Standard & Poor's Index Services Group. The Merrill Lynch Indices are used with permission; copyright 2017 Merrill Lynch, Pierce, Fenner & Smith Incorporated; all rights reserved. Citigroup Indices used with permission, © 2017 by Citigroup. Bloomberg Barclays data provided by Bloomberg. For illustrative purposes only. Dimensional indices use CRSP and Compustat data. Indices are not available for direct investment. Their performance does not reflect the expenses associated with the management of an actual portfolio. Past performance is not a guarantee of future results. Not to be construed as investment advice. Rebalanced monthly. Returns of model portfolios are based on back-tested model allocation mixes designed with the benefit of hindsight and do not represent actual investment performance.

Although a globally diversified balanced investment strategy invested at the time of each event would have suffered losses immediately following most of these events, financial markets did recover, as can be seen by the three- and five-year cumulative returns shown in the exhibit. In advance of such periods of discomfort, having a long-term perspective, appropriate diversification, and an asset allocation that aligns with their risk tolerance and goals can help investors remain disciplined enough to ride out the storm. A financial advisor can play a critical role in helping to work through these issues and in counseling investors when things look their darkest.

Conclusion

In the mind of some investors, there is always a "crisis of the day" or potential major event looming that could mean the beginning of the next drop in markets. As we know, predicting future events correctly, or how the market will react to future events, is a difficult exercise. It is important to understand, however, that market volatility is a part of investing. To enjoy the benefit of higher potential returns, investors must be willing to accept increased uncertainty. A key part of a good long-term investment experience is being able to stay with your investment philosophy, even during tough times. A well-thought-out, transparent investment approach can help people be better prepared to face uncertainty and may improve their ability to stick with their plan and ultimately capture the long-term returns of capital markets.

— **Andrew Miller**

Joel's Corner: Why the Market Continues to Soar

Written October 27, 2017 | Dow Jones = 23,434

In my newsletter article (Summer 2017), my best guess was that we would see some kind of market correction by October. Well, that guess wasn't exactly on target! I was on the right track in terms of explaining what was happening, I just came up confused as the data trail ended. However, I now think I have a better feel for why the market has continued to rise since Trump's election. For those that just like to skip to my conclusions, know that they are exactly the same as my last newsletter. So here they are upfront in case you wish to skip the rest of my pontificating:

1. We are being watchful and taking just enough risk in the market to meet your goals. This helps us avoid the irrational behavior of trying to beat the market. Now is not the time to be a hero.
2. The bond allocation in your portfolio is like fire insurance for your house. You haven't needed it in almost a decade, but it is there for a reason.
3. Finally, we are not simply being passive: the Wealthcare strategy of selling stocks in small increments (3%) as the market goes up forces us to do what is rational, even when our emotions tell us otherwise. We all know we should eat broccoli instead of chocolate cake because it's better for us, just like we know that we should sell stocks high and buy stocks low. However, we seem to forget this is going on as the market goes up. We are not missing out on this increasing market. It's quite the opposite!

Okay, with that out of the way, let's talk about what's happening.

Many analysts are focused on possibilities that could cause a catastrophic event in the market: war with North Korea, a sudden recession, etc. In my opinion, these possibilities would only cause a sudden jolt to the market and would not be a long-term bear market since the fundamentals of the economy and market are healthy. For example:

- Earnings are increasing
- Job growth is very close to full employment, albeit wage rates are still meager
- Global commerce is healthy
- Developing markets are growing and increasingly able to support themselves
- US housing market has supply shortages
- Interest rates continue to remain relatively low
- Inflation has not been an issue
- The stock market has had a period of historically low volatility

However, just because we have experienced the longest bull market with no significant volatility is not a reason to move large percentages of equity allocation around. Market timing never wins in the long run. Trying to time the market is no different than a rabbit dodging traffic in the northbound lane only to get run over by traffic in the southbound lane. If you try to time the market, how do you get back in without getting run over?

So why has the market continued to soar when Quantitative Easing (QE) was implemented by Bernanke in 2014? Why have rising interest rates not kept this market train from rolling on? Some believe it's the Trump Phenomenon. That was probably true right after the election into the first quarter of 2017, but as more data surfaced, the fundamentals are pointing the finger at the true culprits! (Not surprisingly, Trump still thinks he is due all the credit for the hot stock market.)

The true culprits are the Janet Yellens of Europe and Japan. The Central Banks of Europe and Japan continue to make cheap money available and with the already bloated money supply provided by the US Treasury since The Great Recession of 2008, money has to find a place to go. Guess where it's going? Yep, into the stock market and other equity type assets, such as real estate. Prices soared and NEVER dropped even 5%.

Is this a bubble? It depends. As long as cheap money continues to be available, stock market prices and real estate will continue to go up. It's like printing more monopoly money. The underlying problem is that this only benefits those people with investments! This is the fundamental reason the wealth gap continues to increase and wages have been in a deflationary mode for four decades. This is why one sees all the chaos and populist movements around the country. People are angry and don't have anything to lose by being defiant and irrational. Long term, this will end badly.

Suffice for the moment to say coming down the road will be another reset of debt, followed by a reset of asset prices: namely stocks, real estate, currency and other financial assets. This happened in the US in 1841, 1930 and 1971. Very simply all/most debt is wiped clean. This is so that the lower socio-economic sectors of society do not create anarchy. Go to Leviticus in the Bible and read about debt forgiveness every 50 years. This is a political event, albeit caused by economic conditions that no longer can be tolerated. Over time it is caused by uncoupling of productivity of wage earners with asset values. Fiat currency is another term referencing similar symptoms of the problem.

We are entering the early stages of this period of reset, in my opinion. If I had to guess we are within twenty-four months of this becoming the leading headline in financial news and election politics. For sure, I am not advocating simply selling your investments and moving to cash: the dollar can lose its value just as much as real assets. The answer IS NOT simply getting out of the market. Investments related to natural resources, currencies and hard assets will become more important than they are currently in your portfolio.

I will discuss more of this coming "turn in the (economic) tides" (not simply a correction long overdue) in coming newsletters. Meanwhile, feel good that we do have a plan and are continually reviewing it. I encourage you to review your quarterly status report and notify the office of any changes in your situations or concerns. That's how we manage it.

Keep in mind, along with volatile or stressful markets also come opportunities…gradually! We'll be fine.

Until next time,
Joel