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The Navigator

SPRING 2018

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Hurricane Irma shuts down our office, but not our services

by A. Scott White, CFP®, ChFC®, CLU®
President, Scott White Advisors

Hurricane Irma was the strongest storm to hit Florida in 12 years, causing us to evacuate our Fort Myers office for three business days. But services for clients continued uninterrupted.

Before Irma, our office is secured.

Before Irma hit the Fort Myers area on Sunday, September 10, we were prepared for the worst. We had shuttered the office windows, secured all the computers inside the building, and backed up all client information offsite. Also, we made sure Scott had remote access to all client information so he could resume work immediately from anywhere in the country via his cell phone and laptop.

While we were out of the office from Monday through Wednesday, the team at Raymond James Client Services stepped in. As our firm's broker-dealer, Raymond James Financial Services provides custodian services for our clients' funds. They also provide back-up support to handle client questions and requests in rare situations—like Hurricane Irma—when our staff isn't available. As you may know, the Raymond James home office is in St. Petersburg. On September 8, they shifted critical business operations from the Florida base to other facilities nationwide, and personnel were moved to Memphis, Detroit and Denver, where RJ has facilities.


After Irma, across the street.

Our office reopened on Thursday, September 14. Luckily none of our valued staff or their family members, or those of our office mates Uhler and Vertich, were injured by the storm. We hope we won't have another emergency soon, but please know in situations like Hurricane Irma, Raymond James Client Services is available at 800-647-7378.

Our new website offers more for you

Did you notice that our newsletter has a new look? That's because our newsletter now matches our new website.

It's easy to navigate the new Scott White Advisors website. Click on the search icon at the top right corner. When the search bar comes up, enter what interests you and you'll see a list of options. The new site also has a blog and just like on our old website, the Client Center is easy to access. It's located on the main horizontal navigation bar. We hope you find the new website to be helpful and easy to use. You'll find it at **www.scottwhiteadvisors.com**

Tax law changes affect deductions, charitable giving and more

On December 22, 2017, President Trump signed into law the Tax Cuts and Jobs Act, a sweeping $1.5 trillion tax-cut package that fundamentally changes the individual and business tax landscape. While many of the provisions in the new legislation are permanent, others (including most of the tax cuts that apply to individuals) will expire in eight years. Some of the major changes included in the legislation that affect individuals are summarized below; unless otherwise noted, the provisions are effective for tax years 2018 through 2025.

Standard deduction and personal exemptions

The legislation roughly doubles existing standard deduction amounts, but repeals the deduction for personal exemptions. Additional standard deduction amounts allowed for the elderly and the blind are not affected by the legislation and will remain available for those who qualify. Higher standard deduction amounts will generally mean that fewer taxpayers will itemize deductions going forward.

2018 Standard Deduction Amounts

Filing Status	Before Tax Cuts and Jobs Act	After Tax Cuts and Jobs Act
Single or Married Filing Separately	$6,500	$12,000
Head of Household	$9,550	$18,000
Married Filing Jointly	$13,000	$24,000

Itemized deductions

The overall limit on itemized deductions that applied to higher-income taxpayers (commonly known as the "Pease limitation") is repealed, and the following changes are made to individual deductions:

- State and local taxes — Individuals are only able to claim an itemized deduction of up to $10,000 ($5,000 if married filing a separate return) for state and local property taxes and state and local income taxes (or sales taxes in lieu of income).
- Home mortgage interest deduction — Individuals can deduct mortgage interest on no more than $750,000 ($375,000 for married individuals filing separately) of qualifying mortgage debt. For mortgage debt incurred prior to December 16, 2017, the prior $1 million limit will continue to apply. No deduction is allowed for interest on home equity indebtedness.
- Medical expenses — The adjusted gross income (AGI) threshold for deducting unreimbursed medical expenses is retroactively reduced from 10% to 7.5% for tax years 2017 and 2018, after which it returns to 10%. The 7.5% AGI threshold applies for purposes of calculating the alternative minimum tax (AMT) for the two years as well.
- Charitable contributions — The top adjusted gross income (AGI) limitation percentage that applies to deducting certain cash gifts is increased from 50% to 60%.
- Casualty and theft losses — The deduction for personal casualty and theft losses is eliminated, except for casualty losses suffered in a federal disaster area.
- Miscellaneous itemized deductions — Miscellaneous itemized deductions that would be subject to the 2% AGI threshold, including tax-preparation expenses and unreimbursed employee business expenses, are no longer deductible.

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Price and quality no longer matter

by A. Scott White, CFP®, ChFC®, CLU®
President, Scott White Advisors

As we began the new year, we witnessed the Dow Jones Industrial Average[1] soaring past 26,000 as of January 17, 2018.[2] And while many economists speculate 2018 will be a repeat of 2017, there are many who predict just the opposite—that the stock market will crash. I make no such prediction either way, just as I did in the Fall 2017 *Navigator* when the Dow raced past 22,000. As I expressed in my article "The Importance in Investing in Quality," I am suggesting that this is a very dangerous time for the investor.

The reason I make such a statement is because I realize that at moments in time like this, human emotions often replace sound logical wisdom. In other words, individuals who have already made up their minds that the stock markets are poised to repeat 2017 this year will go "all in" and abandon a properly diversified portfolio, going for more growth, and those who are fearful that this stock market bubble will burst this year will also abandon their properly diversified portfolio and seek to reduce volatility. In my mind, both camps of investors are wrong. They are wrong because abandoning a properly diversified portfolio favoring either reasoning means the individual is no longer an "investor," but instead has become a "speculator." And speculation is not an investment strategy built around an individual family's needs, circumstances and goals.

Perhaps the only thing I believe the stock market's performance in 2017 shed light on is that price and quality no longer mattered to most. Consider this recent statement by Vanguard Chief Executive Officer F. William McNabb III, "You're still seeing the highest level of flows into riskier assets than at any time in my career." He adds, "I don't think there's much that changes these flows until we have a negative market. I can't tell you when that happens, but when it does there will be a lot of very surprised investors."[3] I believe those statements reflect a clear sign that quality didn't matter in 2017.

Then there is the more recent statement by James Mackintosh, a senior columnist with *The Wall Street Journal* who spent almost 20 years at the *Financial Times*. He wrote, "Forget fundamentals: Momentum is back in the stock market. For the first time since the 2008 financial crisis, the simple strategy of buying the stocks that had already gone up the most delivered a remarkable outperformance last year."[4] Oh my, what kind of warped stock market phenomenon resulted in that brilliant observation? Can anyone believe it is a good idea to just keep buying stock in the companies whose prices have gone up the most?

But as we start 2018, this is where we are: Price and Quality no longer matter. At Scott White Advisors, we believe price and quality are the only things that should matter to the investor. When we build portfolios designed to meet your family's unique needs, four solid investment evaluation practices are followed before a company's stock is added to your portfolio. First, only buy stock in the world's most profitable businesses. Second, make sure those companies' management teams are working on behalf of their shareholders and simply not trying to line their own pockets. Third, make sure those companies do not have too much debt and have solid balance sheets. And fourth, once those companies are identified, don't pay too much for their stock when you buy it. If you pay too much for a company's stock, you can follow the first three investment practices correctly, but still have a lousy investment. Consider the investor who purchased stock in Microsoft in December of 1999. It has certainly been one of the world's most profitable companies since that date, with a great management team working on behalf of its shareholders, and it was never burdened with too much debt. Yet it turned out to be a disappointing investment because the investor had to wait until the fall of 2016 for its stock price to reach the same level it had achieved in 1999.[5]

At Scott White Advisors, we will never give up on price and quality by chasing past performance when it comes to achieving your family's goals. Often the value of our advice is based on the mistakes one *doesn't* make. And while you might think you'd never pay too much for a crappy automobile, that analogy applies to many investors today. The next financial calamity is still unknown. No one knows what will cause it and when it will happen, but happen it will. And when it happens, price and quality will reign again, as they always do, when achieving long term goals.

A Scott White

(1) Individuals cannot invest directly in any index, and index performance does not include transactions costs or other fees, which will affect actual investment performance.
(2) 'Melt Up' Powers Dow Past 26000; Wall Street Journal, January 18, 2018.
(3) Vanguard Adds $300 Billion to Arsenal; Wall Street Journal, October 11, 2017.
(4) Momentum Returns to Stock Market; Wall Street Journal, January 17, 2018.
(5) Why Microsoft Stock Just Hit an All-Time by Chris Isidore, @CNN Money, March 23, 2017.

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Tax law changes affect deductions, charitable giving and more

Child tax credit

The child tax credit is doubled from $1,000 to $2,000 for each qualifying child under the age of 17. The maximum amount of the credit that may be refunded is $1,400 per qualifying child, and the earned income threshold for refundability falls from $3,000 to $2,500 (allowing those with lower earned incomes to receive more of the refundable credit). The income level at which the credit begins to phase out is significantly increased to $400,000 for married couples filing jointly and $200,000 for all other filers. The credit will not be allowed unless a Social Security number is provided for each qualifying child.

A new $500 nonrefundable credit is available for qualifying dependents who are not qualifying children under age 17.

2018 AMT Exemption Amounts

Filing Status	Before Tax Cuts and Jobs Act	After Tax Cuts and Jobs Act
Single or Head of Household	$55,400	$70,300
Married Filing Jointly	$86,200	$109,400
Married Filing Separately	$43,100	$54,700

2018 AMT Exemption Phaseout Thresholds

Filing Status	Before Tax Cuts and Jobs Act	After Tax Cuts and Jobs Act
Single or Head of Household	$123,100	$500,000
Married Filing Jointly	$164,100	$1,000,000
Married Filing Separately	$82,050	$500,000

Alternative Minimum Tax (AMT)

The AMT is essentially a separate, parallel federal income tax system with its own rates and rules — for example, the AMT effectively disallows a number of itemized deductions, as well as the standard deduction. The legislation significantly narrows the application of the AMT by increasing AMT exemption amounts and dramatically increasing the income threshold at which the exemptions begin to phase out.

Other noteworthy changes

- The Affordable Care Act individual responsibility payment (the penalty for failing to have adequate health insurance coverage) is permanently repealed starting in 2019.
- Application of the federal estate and gift tax is narrowed by doubling the estate and gift tax exemption amount to about $11.2 million in 2018, with inflation adjustments in following years.
- In a permanent change that starts in 2018, Roth conversions cannot be reversed by recharacterizing the conversion as a traditional IRA contribution by the return due date.
- For divorce or separation agreements executed after December 31, 2018 (or modified after that date to specifically apply this provision), alimony and separate maintenance payments are not deductible by the paying spouse, and are not included in the income of the recipient. This is also a permanent change.

What these changes may mean for you

Financial advisory fees are not deductible under the new law. For those of you living outside of Florida, there are now caps on deducting state income taxes. And with the increase in the standard deduction, your approach to charitable giving may change. Please contact me to discuss your situation and how our financial and tax planning services can help you pursue your financial goals.