XML FINANCIAL GROUP
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Spotlight on Finance

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A Message to Our Clients

In our effort to take advantage of technology and provide you with less clicking, we are using a new software tool for delivering information through email, such as the recent tax law changes you received a few weeks ago. Our newsletter, *Spotlight on Finance*, will also be delivered as an email and not as a separate attachment with your quarterly account review. So that you don't miss any of our email blasts, be sure to add updates@xmlfg.com to your address book. Please be sure to check out our website too, as we provide timely announcements displayed as banners, found here xmlfg.com.

As a reminder, 1099s typically don't come out until late February, or even late March if corrections are needed. For those of you who transferred accounts from LPL to Fidelity during 2017, you will receive a 1099 from both LPL and Fidelity (or a 1099R for retirement accounts if you withdrew money). Make sure you have everything you need prior to filing your taxes.

And speaking of LPL, if you no longer have accounts held with them but you are still receiving requests to update your personal information, no response is needed.

View on the Market: 1st Quarter

Happy New Year to all and what a happy year it was. 2017 was the 34th calendar year since

1926 that the S&P 500[1] had a total return in excess of 20%. Looking at the year following each of those 20%+ annual returns, the S&P 500 was positive 70% of the time and had an average return of 11.56%.

Last year at this time the talk was about the Trump stock market rally and would it continue and for how long. Throughout the year we mentioned the low volatility and possible corrections that didn't surface. One by one, analyst and economists predicted this market couldn't last and the markets were ripe for a correction. Each of those "Bears" were wrong and those who stayed invested were rewarded. As we have mentioned before, it is impossible to predict the markets, but much easier to look backwards and point out all the mistakes that usher in a bear market.

As we measure the markets by a large brush (S&P 500, Dow Jones[2] and NASDAQ) not all the markets performed the same. The actual leader for 2017 was the International markets with Emerging taking first place. For those invested in "Value Stocks" (2016 leaders), they did well but didn't perform as well as their growth peers and especially Small Value.

So where do we do go from here? The new administration couldn't get the health care bill changed but did manage to get a sweeping tax bill passed (see XML website for more details). The Federal Reserve did raise rates by .25% three times in 2017 and the prediction for 2018 is three times as well. As the U.S. economy has continued to grow it has spilled over into global economies and global expansion has been synchronized. We see inflation at a very modest comeback. The new U.S. tax laws could boost near-term growth, which in turn might speed up the Fed's pace of raising interest rates. The Eurozone and Japan are slightly behind the U.S. in policy normalization, but are taking steps in the right direction. We prefer to take economic risk in equities over high quality credit given the tight spreads, low yields and maturing economic cycle. For the first six months of the year, the economy should continue at the same pace backed by the new tax laws. The second half of the year might be a little more challenging, however we should be able to get a clearer picture as we move into the summer months. We would not be remiss without saying we still have to be aware of the volatility of regime shifts, assessing vulnerabilities in China and Russia, the ongoing Middle East crisis and our friends in North Korea. Any events in these areas could put pressure on the global stage.

[1]The S&P 500 Index is a market capitalization–weighted index of 500 common stocks chosen for market size, liquidity, and industry group representation to represent U.S. equity performance.

[2]The Dow Jones Industrial Average is comprised of 30 stocks that are major factors in their industries and widely held by individuals and institutional investors.

Social Security Benefits to Increase by 2% in 2018

Monthly Social Security benefits for more than 66 million Americans will increase by 2% in 2018. The higher payments will begin in January. This increase also applies to recipients of Supplemental Security Income (SSI).

This will result in the average retired worker's benefit increasing by $27 per month to $1,404 per month next year. The maximum benefit for someone who retires at full retirement age in 2018 will be $2,788 per month compared to $2,687 per month this year.

However, those who are on Medicare and have their Plan B premiums deducted from their monthly Social Security check may not receive any increase to speak of. A rule called the "hold harmless clause" makes sure that Part B monthly premiums don't rise at a faster pace than Social Security's cost of living adjustments. That will likely eat up the extra monthly income.

IRS raises 2018 contribution limit for qualified plans to $18,500

The Internal Revenue Service announced cost of living adjustments affecting dollar limitations for pension plans and other retirement-related items for tax year 2018.

Highlights of Changes for 2018

The contribution limit for employees who participate in 401(k), 403(b) most 457 plans and the federal government's Thrift Savings Plan will increase to $18,500 in 2018, up from the current limit of $18,000.

The IRS also increased the income ranges for determining eligibility to make deductible contributions to traditional individual retirement accounts, contribute to Roth IRAs and claim the saver's credit.

Taxpayers can deduct contributions to a **traditional IRA** if they meet certain conditions. If during the year either the taxpayer or their spouse was covered by a retirement plan at work, the deduction may be reduced, or phased out, until it is eliminated, depending on filing status and income. (If neither the taxpayer nor their spouse is covered by a retirement plan at work, the phase-outs of the deduction do not apply.) Here are the phase-out ranges for 2018:

For single taxpayers covered by a workplace retirement plan, the phase-out range is $63,000 to $73,000, up from $62,000 to $72,000, the IRS said in a release. For married couples filing jointly, where the spouse making the IRA contribution is covered by a workplace retirement plan, the phase-out range is $101,000 to $121,000, up from $99,000 to $119,000.

For an IRA contributor who is not covered by a workplace retirement plan and is married to someone who is covered, the deduction is phased out if the couple's income is between $189,000 and $199,000, up from $186,000 and $196,000. For a married individual filing a separate return who is covered by a workplace retirement plan, the phase-out range is not subject to an annual cost-of-living adjustment and remains $0 to $10,000.

The income phase-out range for taxpayers making contributions to a Roth IRA is $120,000 to $135,000 for singles and heads of household, up from $118,000 to $133,000. For married couples filing jointly, the income phase-out range is $189,000 to $199,000, up from $186,000 to $196,000. The phase-out range for a married individual filing a separate return who makes contributions to a Roth IRA is not subject to an annual cost-of-living adjustment and remains $0 to $10,000.

The income limit for the saver's credit — also known as the retirement savings contributions credit — for low- and moderate-income workers is $63,000 for married couples filing jointly, up from $62,000; $47,250 for heads of household, up from $46,500; and $31,500 for singles and married individuals filing separately, up from $31,000.

Highlights of Limitations that Remain Unchanged from 2017

The limit on annual contributions to an IRA remains unchanged at $5,500. The additional catch-up contribution limit for individuals aged 50 and over is not subject to an annual cost-of-living adjustment and remains $1,000.

The catch-up contribution limit for employees aged 50 and over who participate in 401(k), 403(b), most 457 plans and the federal government's Thrift Savings Plan remains unchanged at $6,000.

Benefit Plan Limitations for 2018

Plan Limits	2018	2017	2016
401(k)/403(b) Deferrals	$ 18,500 *	$ 18,000	$ 18,000
401(k)/403(b) Catch Up	$ 6,000	$ 6,000	$ 6,000
SIMPLE Deferrals	$ 12,500	$ 12,500	$ 12,500
SIMPLE Plan Catch Up	$ 3,000	$ 3,000	$ 3,000
457 Deferrals	$ 18,500 *	$ 18,000	$ 18,000
IRA	$ 5,500	$ 5,500	$ 5,500
IRA Catch Up	$ 1,000	$ 1,000	$ 1,000
Defined Contribution	$ 55,000 *	$ 54,000	$ 53,000
Defined Benefit	$ 220,000 *	$ 215,000	$ 210,000
Includible Compensation	$ 275,000 *	$ 270,000	$ 265,000
Tax Credit ESOP Maximum Balance	$1,105,000 *	$ 1,080,000	$ 1,070,000
Social Security Taxable Wage Base	$ 128,700 *	$ 127,200	$ 118,500
SEP Minimum Participation Threshold	$ 600	$ 600	$ 600
SEP Maximum Participation Threshold	$ 275,000 *	$ 270,000	$ 265,000
Key Employee	$ 175,000	$ 175,000	$ 170,000
Highly Compensated Employee	$ 120,000	$ 120,000	$ 120,000
Maximum Monthly Social Security	$ 2,788 *	$ 2,687	$ 2,639
HSA Individual Contribution	$ 3,450 *	$ 3,400	$ 3,350
HSA Family Contribution	$ 6,900 *	$ 6,750	$ 6,750

** Indicates a change from 2017 to 2018*

10 Rules to Follow to Make You a Better Long-Term Investor

Rule 1 - Have a plan and stick with it. Have a plan, and we mean a real plan, and commit to it!

If you're building a house you get blue prints. If you decide to challenge yourself and run a marathon, then you would come up with a training program. If at some point you want to "retire," and we'll put "retire" in quotes here because retirement means so many different things, but if you want to "retire" at some point then you need a plan.

The plan is the foundation. It tells you what you need to do savings wise and it tells you what your investments need to do for you. Once you know this you can then start to develop your asset allocation of stock, bonds and cash.

If you don't need to take a lot of risk, then you shouldn't.

Since it's still football season I'll give you a sport analogy. If your favorite team is winning 40-0 in the first half, do you think they are going to come out in the second half and throw Hail Mary's? No! They are going to play smart, play more defense and try not to blow it. The goal is to win the game not to score as many points as you can.

To sum it up—have a plan (turn the invisible into the visible), develop a reasonable asset allocation with the goal being to meet or exceed your plan with the appropriate amount of risk.

Studies show you are much more likely to succeed if you have a written plan. **Rule 2** - Value, Value, Value.

Be Value oriented. This is something we will talk more about in future articles. Value is a relative term. We focus on investments that are good value, and many growth investments could be a good value at this time, based on future potential.

If you buy quality companies and you buy them inexpensively then you naturally assume less risk. That doesn't mean NO risk. There is always risk in investing. Our point here is; if you can take less risk and still get to where you want to be, then that sounds like good common sense to us.

We think the world would be a better place with more common sense in it.

Rule 3 - Be patient.

Don't expect to have an investment pay off right after you buy it. It's not going to happen.

Own good companies based off their fundamentals and exercise patience.

Rule 4 - Know your limits.

Albert Einstein said if you can't explain it to a six-year-old then you probably don't understand it yourself.

If you're managing your own portfolio it's important to know what you're good at and what you're not good at; what you understand and what you don't understand.

If you really know what you own and why you own it, by doing your research, it will give you the conviction you'll need when the markets go sideways, and many people start to panic and act irrationally.

Don't ever feel bad about sitting out on something that you don't understand. Getting outside your circle of competency is not such a great idea. Emotional attachment to investing can be a tricky thing.

Rule 5 - Don't trade! There are a lot of new investors who trade stocks back and forth taking small profits here and

there, but any experienced investor knows the futility of that strategy.

When you're trading in and out, you need to look at the cost; the cost of commissions, fees and taxes but most importantly it's the missed opportunities. You spent a great deal of time researching a great company that you bought and then you sold it because you made a quick profit. Now what? There aren't that many great investments

Rule 6 - Be cheap- be proud!

Usually when someone says so and so is cheap, it's with a bad connotation. When it comes to the market, we think it's a badge of honor. There is nothing wrong with being cheap in the stock market.

You want to figure out what a company is worth and then buy it for less than that. You want to give yourself an ample margin of safety in case your calculations are wrong or your expectations for the future of the business are incorrect.

Simply put, you are trying to buy a dollar for fifty cents. **Rule 7** - Don't get caught up in short-term price movements.

Pepsi may go up a couple dollars one day and down a couple dollars the next. The chances are they didn't sell more Pepsi one day and a lot less the next.

Long-term, real wealth is created by latching onto a great business run by good, honest managers who act like owners. Those managers who make the right asset allocation decisions, who grow the dividends and who grow the value of the business over the long term.

That should be your focus: the long term. **Rule 8** - Don't go chasing for yield.

In our experience, some of the biggest mistakes we've seen have come from yield chasing -- Investors who bought what they didn't understand.

If something is yielding twice as much as everything else, you need to be careful! **Rule 9 -** Look at what you have now.

You should review your portfolio (and your financial plan) and pay attention to the poor performers. There are plenty of investors who tend to sell their winners and hold their losers and ultimately, they end up with a big ball of yuck! They're holding all their losers because they didn't want to accept losses. You should be doing just the opposite. You should be looking to exit your losers and holding on to your winners.

Rule 10 - Remember the real rules to investing.

According to Warren Buffet: Rule number #1-don't lose money. Rule #2- don't forget rule #1!

Don't Let Down Your Guard

Data breaches were up in 2017. We shared some ways to help protect yourself after a potential data breach on our website. Here are three ongoing safeguards:

1. Only share personal data with trusted sources. Make sure you're on a secure connection while sharing information online.

2. Use services such as PayPal, Apple Pay, or Android Pay to make purchases online more secure. Instead of passing along bank, credit, or debit card numbers and your contact information, these services maintain control of that data.

3. Check your credit with the major credit reporting companies regularly through the free Annual Credit Report program (AnnualCreditReport.com). Under federal law, you're entitled to a free credit check every 12 months.

As a reminder, if you put a credit freeze on your credit reports, be sure to unfreeze them prior to applying for new loans, or even renewing certain insurance policies, such as auto and homeowner's. Otherwise, you may be treated as a consumer with no credit history and get a less favorable rate.

Recent Data Breaches		
2017	Equifax	143 million
2016	Adult Friend Finder	412 million
2015	Anthem	78 million
2014	eBay	145 million
	JP Morgan Chase	76 million
	Home Depot	56 million
2013	Yahoo	3 billion
	Target Stores	110 million
	Adobe	38 million
2012	US Office of Personal Management (OPM)	22 million
2011	Sony's PlayStation Network	77 million
	RSA Security	40 million
2008	Heartland Payment Systems	134 million
2006	TJX Companies, Inc.	94 million

Receipt of Unsolicited Merchandise

A company sends you a gift in the mail--a ball point pen, a key chain, a tie. But you didn't order it. What do you do? If you are the type of person this company is looking for, you may feel guilty about accepting the item without paying for it. Don't feel guilty! It's yours, and you are under no obligation to pay anything.

You, the consumer, may only legally be sent two types of merchandise through the mail without your consent or agreement:

Free samples which are clearly and conspicuously marked as such. Merchandise mailed by a charitable organization that is soliciting contributions.

And in these two cases, you can consider the merchandise a gift if you wish. In all other situations, it is illegal to send merchandise to someone, unless that person has previously ordered or requested it.

These rules are codified in Title 39, United States Code, Section 3009. That section of the Postal Reorganization Act of 1970 incorporates these protections for American consumers and makes the mailing of unordered merchandise unfair methods of competition and unfair trade practices under the law.

If you do not wish to pay for unsolicited merchandise or make a donation to a charity sending such an item, you may do one of three things (in each case, by law, you have no obligation to the sender):

If you have not opened the package, you may mark it "Return to Sender," and the Postal Service will return it with no additional postage charged to you. If you open the package and don't like what you find, you may throw it away. If you open the package and like what you find, you may keep it for free. In this instance, "finders-keepers" applies unconditionally.

Furthermore, it is illegal for a company that sends you unordered merchandise to follow the mailing with a bill or dunning communication.

If you are aware of violations of the federal law prohibiting the mailing of unordered merchandise, or if you have personally had difficulty with such items--especially if you are sent statements demanding payment for the merchandise--you should contact your local postmaster or the nearest Postal Inspector.

This article and other information can be found on the Postal Inspectors Service website: https://postalinspectors.uspis.gov/

Bitcoin

Since Bitcoin (BTC), the original blockchain based cyber currency, appeared a few years ago, interest in it and the increasing array of similar cyber currencies has increased steadily. The estimated market value of these currencies continues to increase as they dominate headline news, which no doubt feeds the speculative frenzy.

We remain highly skeptical of unregulated cyber currencies. As seen with other speculative frenzies, we get the common phrases of being a “dinosaur”, ignorant of the underlying merits, this is different, everyone is investing, fake news and so on. We feel this is a speculative investment for various reasons.

Numerous deficiencies which expose its users to fraud Governments are bound to become concerned with the prospect that virtual currencies are being used for money laundering, tax evasion, terrorism and other criminal activities. The trading platforms are unregulated, liquidity is questionable, and there is good reason to be suspicious of market quotes for the currency. It is unlikely any virtual currency will become a form of legal tender absent government oversight

Bottom line, this is a speculative investment that we don’t endorse at this time. However, it’s gaining momentum and we are monitoring it to see how it evolves over the years.

Staff News

Business Development Officer, **Jon Lowe**, participated in the annual Tribute 21 Gala on November 11th, helping to raise over $300,000 for the cause. Jon is a founding board member of Tribute 21, which is a component fund of the Community Foundation for the National Capital Region, dedicated to raising awareness and raising funds to support those with Down syndrome.

Jon also participated in the placement of Veteran’s Remembrance Wreaths at Arlington National Cemetery on December 16th.

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We value our client relationships and appreciate you sharing your opinion about our firm. Any suggestions? Ways for us to improve? Let us know!

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