

KACHKOVSKY & FISHER

REGISTERED INVESTMENT ADVISOR

Winter 2018

As we dust the remnants of 2017 off our coats and look toward 2018, bright with possibility, we can each take advantage of the fresh start the New Year provides. For us, the beginning of another calendar year signals a desire to start anew, to take that leap, to excel in ways we never have before. Thinking on these things over the past few days and considering Martin Luther King Jr. Day this month, we couldn't help but recall the quote that began this. For all of his accomplishments, King truly understood how important – and, often, how necessary – taking that first, daring step toward something better can be for our lives. This knowledge was evident in every speech he gave and action he took in his lifelong fight against racial discrimination. Of course, our first steps of this year do not necessarily need to be as outstanding as King's. Whether it's taking on a more important project at work, plunging yourself into a hobby that used to intimidate or simply resolving to understand yourself better this year, taking that first step – no matter what it is – can make all the difference. We look forward to the journey. Let's take a look at the numbers.

	(As of 12/31/17)
Dow Jones Industrials	+ 25.08 %
S&P 500 Index	+ 19.42 %
NASDAQ Composite	+ 28.24 %
MSCI EAFE Index	+ 21.78 %
Major Bond Indexes	(As of 12/31/17)
Lipper U.S. Government	+ 1.59 %
Lipper Short-term Investment Grade	+ 1.21 %
Lipper Corporate A-Rated	+ 3.88 %
Major Mutual Funds Indexes	(As of 12/31/17)
Lipper Large-Cap Core	+ 21.72 %
Lipper Mid-Cap Core Index	+ 15.65 %
Lipper Small-Cap Core Index	+ 14.04 %
Lipper International Markets Index	+ 26.71 %

Source: The Wall Street Journal and Barron's

*Inclusion of these unmanaged indexes is for illustrative purposes only. Keep in mind that individuals cannot invest directly in any index and index performance does not include transaction costs or other fees, which will affect actual investment performance. Individual investor's results will vary. Past performance does not guarantee future results.

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FINANCIAL AND INVESTMENT PLANNING

“The future ain’t what it used to be.”

-- Yogi Berra

As we look to 2018, some embrace the possibilities of tomorrow, while others might feel our best days are behind us. It reminds us of the above quote from baseball great Yogi Berra. The end of 2017 brought an overhaul to our tax code. It’s the first significant reform to our tax code since 1986. None of these changes will affect the 2017 tax returns. Below are a few of the highlights for the 2018 tax year:

- The standard deduction has almost doubled. For single filers, the standard deduction has increased from \$6,350 to \$12,000; for married couples filing jointly, it's increased from \$12,700 to \$24,000.
- Tax rates have changed, but we still have seven different brackets.

New 2018 Tax Rate	2017 Tax Rate	2018 Taxable Income Brackets for Singles	2018 Taxable Income Brackets for Married Couples
10%	10%	\$0 - \$9,525	\$0 - \$19,050
12%	15%	Over \$9,525 - \$38,700	Over \$19,050 - \$77,400
22%	25%	Over \$38,700 - \$82,500	Over \$77,400 - \$165,000
24%	28%	Over \$82,500 - \$157,500	Over \$165,000 - \$315,000
32%	33%	Over \$157,500 - \$200,000	Over \$315,000 - \$400,000
35%	35%	Over \$200,000 - \$500,000	Over \$400,000 - \$600,000
37%	39.6%	Over \$500,000	Over \$600,000

- No more personal exemptions. Previously, you could claim a deduction of \$4,050 for yourself, spouse and dependents.
- The Child Tax Credit was increased from \$1,000 to \$2,000. It’s available to more people now. The credit is available to single parents who make up to \$200,000 and married parents who make up to \$400,000.
- Mortgage interest deduction was lowered. Anyone buying a new home will only be able to deduct the first \$750,000 of their mortgage debt (down from \$1 million).
- Homeowners can still sell their house for a gain and be able to exclude up to \$500,000 (for married couples) and \$250,000 (for singles) from capital gains as long as they lived in the house for two of the past five years.
- You can still deduct medical expenses. Filers can deduct medical expenses that add up to more than 7.5% of AGI (It was 10%).
- Expanded use of 529 plans. Previously, 529 plans could only be used for college expenses. Going forward, these plans can be used for primary and secondary education up to \$10,000 a year per student.
- The state and local tax deductions now have a cap of \$10,000 for those who itemize. It was previously unlimited for the states that allowed it.
- Estate tax exemption doubled. It was set at \$5.49 million for individuals and \$10.98 million for married couples. It will now be \$11.2 million (individuals) and \$22.4 million (married couples).
- Business owners that operate pass-through entities may be able to deduct more income. Those who are eligible, 20% of taxable income gets taken off the table for tax calculation purposes.
- The corporate tax rate was cut from 35% to 21%
- Going forward, U.S. multinational companies won’t owe federal taxes on income they make overseas. To help with switching to this new system, companies will have to pay a one-time tax on their existing profits from overseas of 15.5%.

The individual provisions in the new legislation are set to expire in 2025, while most of the corporate provisions are permanent. According to Scott Brown, Chief Economist at Raymond James, “The tax bill is not expected to add much GDP growth over the next 10 years, but late additions to the final bill should add a little to growth in 2018.” The tax bill is projected to add \$1.5 trillion to the national debt over the next 10 years. The national debt was at \$20.2 trillion as of 3Q’17 (source: Federal Reserve Bank of St. Louis). Our national debt was \$10.6 trillion in 2009 and is expected to top \$30 trillion by 2027. According to the Congressional Budget Office in their 2017 Long Term Budget Outlook, spending on Social Security and the major health care programs (Medicare and Medicaid) constitutes 54 percent of all federal

noninterest spending, more than the average of 37 percent over the past 50 years. If current laws generally stayed the same, that figure would increase to 67 percent by 2047.

Turning to the markets, 2017 was fueled by healthy earnings growth, low interest rates and inflation and a stable economy. Real gross domestic product (GDP) increased at an annual rate of 3.2% in the third quarter of 2017, according to the "third" estimate released by the Bureau of Economic Analysis. In the second quarter, real GDP increased 3.1%. In December, the unemployment rate was 4.1% for the third consecutive month while total nonfarm payroll employment rose by 148,000 in December. "Monthly figures on sales and construction activity have been choppy, but generally stronger than a year ago. Demand for homes remains strong, but the industry faces supply constraints and affordability issues," added Dr. Scott Brown.

Many of those tailwinds are expected to continue in the U.S. through 2018. Last year was one of the least volatile years in the history of the market. The S&P 500 only had 7 sessions where it gained or lost 1% at the close and it never lost or gained 2% in a session. "Large companies outperformed small and mid-cap companies in 2017, but we think there's a good chance we see smaller stocks do better in 2018 considering they should benefit from an environment of lower taxes and a growing economy." – Andrew Adams, CFA, CMT, Senior Research Associate, Equity Research. Many expect 2018 to bring more volatility. "Despite many fits and starts, the global oil market showed some strength in 2017, sustaining a recovery following the down cycle dating back to mid-2014. After a slow start, the recovery gained momentum in the latter part of the year, as evidence mounted that global oil inventories were falling sharply." – Pavel Molchanov, Energy Analyst, Equity Research

Looking overseas, the European Central Bank (ECB) and Bank of Japan (BOJ) are still expanding their balance sheets and are unlikely to start increasing interest rates in 2018. China saw two big developments last year - the 'Belt and Road' initiative (aiming to build a dynamic economic zone between Europe and China) and a National's People's Congress laid out a positive agenda with continued market reform for the next decade. John Parker of The Economist states, "The 'Belt and Road' is ambitious – China is spending \$150 billion/year on infrastructure investment in 68 countries. The aim is to make Eurasia (dominated by China) an economic and trading area to rival the transatlantic one (dominated by the U.S.)."

Of course, there is no shortage of potential headwinds for 2018. There has been much hand-wringing about the moderate pace of U.S. economic growth in recent years. All signs point to a messy Brexit. Chinese debt levels are raising eyebrows and geopolitical tensions are on the rise, giving way to more uncertainty, presenting a potential misstep in trade policy. Faster tightening at the Fed and slower labor force growth due to our demographics could spook the equity markets as well.

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PERSONAL

Macy and Kora developed a love for horses over the past few months, despite never being around one. When grandma (who also lives in Evergreen) found out, she arranged to have her granddaughters spend a little time at her friend Jill's stable. After school, the two sisters jumped in dad's car with an excitement that paralleled Christmas morning. Jill would introduce two of her animals – a horse named Shooter and a donkey named Donkimo. The girls put their hand out, the donkey sniffed their tiny hands and decided he could trust them. Kora had no problem feeding her new friend, but Macy wasn't so sure about letting this young and personable donkey eat from her hand. Next up, the main event – Shooter. He had a beautiful dark brown coat with a white blaze (marking) on his face. As Kora began to brush his coat and mane, she turned to her dad with a look that made his heart melt. Macy was still a little shy, so Jill picked her up and Macy began to brush Shooter's coat and mane. She loved it as much as her big sister. Since their visit, the girls are constantly running around the house and yard pretending to be horses. They also love getting on dad's back, as he makes his way around the house on all fours. The new horse lovers pretend they are riding Shooter across open meadows and up mountains. Dad's knees aren't sure how much longer they can hold up.

Ho Ho Ho! Merry Christmas! Kora and Macy turned their heads towards the deep laugh, then looked at each other, and then back at Santa. They couldn't believe he was on the same train! The girls were on Santa's North Pole Adventure in Georgetown. The historic train traversed through the mountains, as the passengers peered out the windows at countless evergreen trees covered in lights and Disney characters playing in the snow. The Georgetown Loop Railroad was completed in 1884 and was considered an engineering marvel at the time. The town was once considered the "Silver Queen of Colorado" for a short time until news spread of a large silver strike in Leadville. Georgetown quickly became a tourist center for those who ventured west to experience the wild ruggedness of the Rocky Mountains. The town sits at 8,530 feet, nestled in the mountains near the end of a valley. As Santa made his way through the cabin handing out treats and goodies to the little ones, he asked Macy and Kora what they wanted for Christmas. Before he could finish the question, the girls both exclaimed a horse!

Three days before Christmas, Kora turned 7 years old. The confident, smart and thoughtful girl continues to grow and amaze her parents. Her favorite activity is (and has always been) playing with Macy (5). Next is riding her bike, skiing and now pretending to be a horse. On the morning of December 25th, the two sisters burst out of their room towards the Christmas tree in the family room. As wrapping paper whirled in the air, the theme became apparent – it was a horse and anything related to a horse kind of Christmas!

In October Garry was inducted into the La Jolla Golden Triangle Rotary Club - at least by its members, considered the "most dynamic Rotary Club in the world." Founded in Chicago in 1905, Rotary is a non-profit organization dedicated promoting peace, fighting disease, providing clean water, sanitation and hygiene, saving mothers and children, supporting education, and growing local economies. Through its efforts, Rotary and its partners have helped immunize more than 2.5 billion children against polio in 122 countries. Today, polio cases have been reduced by 99.9% - down from 350,000 cases in 125 countries in 1988 to 37 cases in three countries in 2016. Finding a balance between running a business, spending time with family, staying physically active and pursuing charitable endeavors is a work in progress. Days are long but rewarding.

November was a busy month in the Kachkovsky household. Through a YMCA program, Garry and Ava got to spend the night on the USS Midway - an aircraft carrier of the U.S. Navy. Commissioned a week after the end of World War II, it was the largest ship in the world until 1955, as well as the first U.S. aircraft carrier too big to transit the Panama Canal. She operated for 47 years, during which time she saw action in the Vietnam War and served as the Persian Gulf flagship in 1991's Operation Desert Storm.

Decommissioned in 1992, she is now a museum ship in San Diego. Along with 100 or so dads and their sons and daughters, Garry and Ava spent a day and night on the ship, eating chow in the mess hall, sleeping in bunks and getting an incredible behind the scenes tour of one of the most important U.S. Naval ships of the last century.



Ava turned six and got her wish of going to Disneyland. Emily's mom and aunt joined in on the adventure, helping keep tabs on the birthday girl and her sister. Needless to say - everyone had an incredibly fun day. Elle, who is fighting daily naps, had no problem taking an hour long power snooze in her stroller while the rowdiness of Disney coalesced all around. Later that month, Kachkovskys travelled to Chicago for Thanksgiving. Garry's parents marveled at their grandkids, doting on them every chance they had. The highlight of the trip was a visit to Millennium Park on Michigan Avenue – Ava and Elle's first experience ice skating. Notably, this may have been Garry's last tackle football game with his high school buddies (and some of their kids), for Garry's parents are retiring and moving to Florida. After 27 amazing years of tomfoolery and camaraderie they call Turkeybowl, it is time to hang up the football cleats. And, not a moment too soon, as evidenced by the amazingly exceeding play of the 15 year old youngsters and the less than stellar performance of the 40 something year olds.

It is becoming exceptionally difficult to fend off the Santa questions. How does he fit though the chimney? What if a house doesn't have a chimney? How does he have time to visit all of the homes? Despite the stated challenges, Santa had time to drop off gifts and sneak in a cookie and milk. New Year's Day was spent at the beach. Remarkably low tide provided opportunity to frolic in the tide pools searching for hermit crabs, starfish, slugs, sea snails, and anemones. In the face of the parents' best efforts, Elle insisted on domesticating a sea snail.

Thank you for your trust, confidence and friendship.

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