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After a three-month hiatus to refresh the creative juices, our newsletter is back. The cover article is written by us and is intended to present a relevant topic with our personal touch. The remaining articles are selected to present topics we believe will be of interest to you.

We wish everyone a happy and healthy 2018.

January 2018

To Bitcoin or Not To Bitcoin...

…that is the question. Occasionally, “great” investment ideas come to our attention, usually from our daily review of the markets and questions from clients. One such idea recently has been bitcoin or cryptocurrencies.

Bitcoin is a cryptocurrency, a digital asset designed to work as a medium of exchange that uses cryptography to secure its transactions and to verify the transfer of assets. It was created in 2009 but its origins are unknown.

On January 1, 2017 bitcoin was valued at $973 and seven months later it reached a then-all-time high of $5,856, surpassing established financial powers Goldman Sachs and Morgan Stanley in market capitalization. It finished the year with a value of $14,670, an almost fifteen-fold increase in value.

Sound familiar? For those who lived through the dot-com rise and fall in the late 90’s-early 2000’s, this unexplainable run-up should set off the alarm bells. Remember when “new economy” companies with no profits or even revenues were suddenly worth more than established “old economy” companies. The rules are different now, they told us. Well, that thinking didn’t end well for most investors. The stock prices of successful new economy companies like industry leaders Cisco and Intel are still nowhere near their 1999-2000 highs.

Go back and reread the second paragraph, where we describe what bitcoin is. As famed Fidelity Magellan portfolio manager Peter Lynch once said, never invest in an idea that you can’t illustrate with a crayon. A variation of that advice is that you should never invest in a business where it takes more than a few sentences to explain how the company earns a profit.

Coca-Cola earns a profit by selling sugary syrup to local bottlers. Proctor & Gamble sells household products that consumers will buy in good and bad economic times. Wal-Mart sells hundreds of billions of dollars merchandise each year at extremely low prices, earning a small profit on each item and making up for it in volume. These, and other, companies have a simple formula for success and that success is reflected in the long-term returns on its stock. Bitcoin, on the other hand, is harder to explain.

Bitcoin is largely unregulated and it is not issued by a government nor controlled through a centralized banking system. Its value can fluctuate wildly in a matter of days. It recently experienced a one-day drop of over 30%. And, as previously mentioned, it has already experienced a significant run-up in value.

So, is it a good investment or not? Should it be in everyone’s portfolio? The first question is harder to answer. Just because bitcoin has had a significant run-up in price doesn’t mean it can’t be a good long-term investment. If it truly is a game-changer, the sky may be the limit. Or it can wind up in the dustbin of great investment ideas.

The second question is a little easier. We believe it could be held by investors who have a high tolerance for risk. There will probably be significant increases and decreases in price, especially in the short-term. It should only be held as an aggressive, speculative investment and the investor should be comfortable with the prospect of a significant loss in value, even to zero.

One additional risk of investing in bitcoin or other cryptocurrencies is that they are still in their infancy and do not have the long-term track record or history of credibility to back it. After nine years the currencies still remain in their developmental stage.

As with all investment ideas, investing in bitcoin and other cryptocurriences should fit into your overall investment plan. An investor should determine how much risk they are willing to take and we will construct the portfolio accordingly. And for some, maybe even most investors, these investments may be something to be avoided.

Key Retirement and Tax Numbers for 2018

Proposed tax reform legislation may make changes to the estate and gift tax, the personal exemption, the standard deduction, and the alternative minimum tax.

Every year, the Internal Revenue Service announces cost-of-living adjustments that affect contribution limits for retirement plans, thresholds for deductions and credits, and standard deduction and personal exemption amounts. Here are a few of the key adjustments for 2018.

Employer retirement plans

- Employees who participate in 401(k), 403(b), and most 457 plans can defer up to $18,500 in compensation in 2018 (up from $18,000 in 2017); employees age 50 and older can defer up to an additional $6,000 in 2018 (the same as in 2017).
- Employees participating in a SIMPLE retirement plan can defer up to $12,500 in 2018 (the same as in 2017), and employees age 50 and older can defer up to an additional $3,000 in 2018 (the same as in 2017).

IRAs

The limit on annual contributions to an IRA remains unchanged at $5,500 in 2018, with individuals age 50 and older able to contribute an additional $1,000. For individuals who are covered by a workplace retirement plan, the deduction for contributions to a traditional IRA is phased out for the following modified adjusted gross income (AGI) ranges:

	2017	2018
Single/head of household (HOH)	$62,000 - $72,000	$63,000 - $73,000
Married filing jointly (MFJ)	$99,000 - $119,000	$101,000 - $121,000
Married filing separately (MFS)	$0 - $10,000	$0 - $10,000

Note: *The 2018 phaseout range is $189,000 - $199,000 (up from $186,000 - $196,000 in 2017) when the individual making the IRA contribution is not covered by a workplace retirement plan but is filing jointly with a spouse who is covered.*

The modified AGI phaseout ranges for individuals to make contributions to a Roth IRA are:

	2017	2018
Single/HOH	$118,000 - $133,000	$120,000 - $135,000
MFJ	$186,000 - $196,000	$189,000 - $199,000
MFS	$0 - $10,000	$0 - $10,000

Estate and gift tax

- The annual gift tax exclusion for 2018 is $15,000, up from $14,000 in 2017.
- The gift and estate tax basic exclusion amount for 2018 is $5,600,000, up from $5,490,000 in 2017.

Personal exemption

The personal exemption amount for 2018 is $4,150, up from $4,050 in 2017. For 2018, personal exemptions begin to phase out once AGI exceeds $266,700 (single), $293,350 (HOH), $320,000 (MFJ), or $160,000 (MFS).

Note: *These same AGI thresholds apply in determining if itemized deductions may be limited. The corresponding 2017 threshold amounts were $261,500 (single), $287,650 (HOH), $313,800 (MFJ), or $156,900 (MFS).*

Standard deduction

These amounts have been adjusted as follows:

	2017	2018
Single	$6,350	$6,500
HOH	$9,350	$9,550
MFJ	$12,700	$13,000
MFS	$6,350	$6,500

Note: *The 2018 additional standard deduction amount (age 65 or older, or blind) is $1,600 (up from $1,550 in 2017) for single/HOH or $1,300 (up from $1,250 in 2017) for all other filing statuses. Special rules apply if you can be claimed as a dependent by another taxpayer.*

Alternative minimum tax (AMT)

	2017	2018
Maximum AMT exemption amount		
Single/HOH	$54,300	$55,400
MFJ	$84,500	$86,200
MFS	$42,250	$43,100
Exemption phaseout threshold		
Single/HOH	$120,700	$123,100
MFJ	$160,900	$164,100
MFS	$80,450	$82,050
26% on AMTI* up to this amount, 28% on AMTI above this amount		
MFS	$93,900	$95,750
All others	$187,800	$191,500
*Alternative minimum taxable income		

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Don't Delay: The Potential Benefits of Starting to Save Now

For long-term investment goals such as retirement, time can be one of your biggest advantages. That's because time allows your investment dollars to do some of the hard work for you through a mathematical principle known as compounding.

The snowball effect

The premise behind compounding is fairly simple. You invest to earn money, and if those returns are then reinvested, that money can also earn returns.

For example, say you invest $1,000 and earn an annual return of 7% — which, of course, cannot be guaranteed. In year one, you'd earn $70 and your account would be worth $1,070. In year two, that $1,070 would earn $74.90, which would bring the total value of your account to $1,144.90. In year three, your account would earn $80.14, bringing the total to $1,225.04 — and so on. Over time, if your account continues to grow in this manner, the process can begin to snowball and potentially add up.

Time and money

Now consider how compounding works over long time periods using dollar-cost averaging (investing equal amounts at regular intervals), a strategy many people use to save for retirement.[1] Let's say you contribute $120 every two weeks. Assuming you earn a 7% rate of return each year, your results would look like this:

Time period	Amount invested	Total accumulated
10 years	$31,200	$45,100
20 years	$62,400	$135,835
30 years	$93,600	$318,381

After 10 years, your investment would have earned almost $14,000; after 20 years, your money would have more than doubled; and after 30 years, your account would be worth more than three times what you invested.[2] That's the power of compounding at work. The longer you invest and allow the money to grow, the more powerful compounding can become.

The cost of waiting

Now consider how much it might cost you to *delay* your investing plan. Let's say you set a goal of accumulating $500,000 before you retire. The following scenarios examine how much you would have to invest on a monthly basis, assuming you start with no money and earn a 7% annual rate of return (compounded monthly).

Time frame to retirement	40 years	35 years	30 years	25 years
Retirement accumulation goal	$500,000	$500,000	$500,000	$500,000
Annual rate of return	7%	7%	7%	7%
Monthly contribution needed	$190	$278	$410	$617

So the less time you have to pursue your goal, the more you will likely have to invest out of pocket. The moral of the story? Don't put off saving for the future. Give your investment dollars as much time as possible to do the hard work for you.

[1] Dollar-cost averaging does not ensure a profit or prevent a loss. It involves continuous investments in securities regardless of fluctuating prices. You should consider your financial ability to continue making purchases during periods of low and high price levels. All investing involves risk, including the possible loss of principal, and there is no guarantee that any investment strategy will be successful. Review your progress periodically and be prepared to make adjustments when necessary.

[2] Assumes 26 contributions per year, compounded bi-weekly.

These hypothetical examples are used for illustrative purposes only and do not represent the performance of any specific investment. Fees and expenses are not considered and would reduce the performance shown if they were included. Actual results will vary. Rates of return will vary over time, particularly for long-term investments. Investments with the potential for higher rates of return also carry a greater degree of risk of loss.

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What can I do to crack down on robocalls?

You may not mind if a legitimate robocall provides a helpful announcement from your child's school or an appointment reminder from a doctor's office. But sadly, criminals often use robocalls to collect consumers' personal information and/or conduct various scams. Newer "spoofing" technology displays fake numbers to make it look as though calls are local, rather than coming from overseas, which could trick more people into answering the phone.

Robocalls have been illegal since 2009 (unless the telemarketer has the consumer's prior consent). In mid-2017, federal agencies announced they are ramping up enforcement by fining violators and encouraging blocking technologies. What should you do if you want to help put an end to this nuisance?

1. Don't answer calls when you don't recognize the phone number. If you pick up an unwanted robocall, just hang up. Don't answer "yes" or "no" questions, provide personal information, or press a number to "opt out." Responding to the call in any way verifies that it has reached a real number and could prompt additional calls.
2. Look into robocall blocking solutions that may be offered by your phone service provider. If they're available, you may need to follow specific instructions to "opt in." Otherwise, consider a mobile app or cloud-based service designed to block robocalls; some of them are free or cost just a few dollars.
3. Consider registering your phone number on the National Do Not Call Registry. While taking this step can help mitigate the amount of robocalls you receive, it's only a partial solution to the problem. The Federal Trade Commission advises consumers whose numbers are on the registry but still receive unwanted calls to report robocall violations at complaints.donotcall.gov. The phone numbers provided by consumers will be released each day to companies that are working on call-blocking technologies, which largely depend on "blacklists" with numbers associated with multiple complaints.

How can I protect myself from digital deception?

Imagine that you receive an email with an urgent message asking you to verify your banking information by clicking on a link. Or maybe you get an enticing text message claiming that you've won a free vacation to the destination of your choice — all you have to do is click on the link you were sent. In both scenarios, clicking on the link causes you to play right into the hands of a cybercriminal seeking your sensitive information. Just like that, you're at risk for identity theft because you were tricked by a social engineering scam.

Social engineering attacks are a form of digital deception in which cybercriminals psychologically manipulate victims into divulging sensitive information. Cybercriminals "engineer" believable scenarios designed to evoke an emotional response (curiosity, fear, empathy, or excitement) from their targets. As a result, people often react without thinking first due to curiosity or concern over the message that was sent. Since social engineering attacks appear in many forms and appeal to a variety of emotions, they can be especially difficult to identify.

Take steps to protect yourself from a social engineering scam. If you receive a message conveying a sense of urgency, slow down and read it carefully before reacting. Don't click on suspicious or unfamiliar links in emails, text messages, and instant messaging services. Hover your cursor over a link before clicking on it to see if it will bring you to a real URL. Don't forget to check the spelling of URLs — any mistakes indicate a scam website. Also be sure to look for the secure lock symbol and the letters *https:* in the address bar of your Internet browser. These are signs that you're navigating to a legitimate website.

Never download email attachments unless you can verify that the sender is legitimate. Similarly, don't send money to charities or organizations that request help unless you can follow up directly with the charitable group.

Be wary of unsolicited messages. If you get an email or a text that asks you for financial information or passwords, do not reply — delete it. Remember that social engineering scams can also be used over the phone. Use healthy skepticism when you receive calls that demand money or request sensitive information. Always be vigilant and think before acting.

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