Regency
INVESTMENT ADVISORS

FOCUS360°

November 2018

New tax law may mean changes to charitable giving

Implementation of the Tax Cuts and Jobs Act of 2017 may mean changes for those who make charitable donations intending them to be a tax deduction.

"2018 will be the first year we all file our taxes under the new law, and for many tax filers, it will mean paying somewhat lower taxes and having simpler tax filings," said Dan Ray, CFP® and Client Advisor for Regency Investment Advisors. "But one change may come as a surprise to those who gift to charities: Depending upon their situation, those who donate may no longer need to claim their charitable contributions as itemized tax deductions."

Dan Ray

Why is this? Dan said it's because the new law greatly increases the standard deduction. The intent of the increased standard deduction was to simplify tax filings for many taxpayers by eliminating the need to itemize many deductions. Home mortgage interest, real estate taxes, and charitable gifts could all be affected by this change, but the simplification is not intended to increase anyone's taxes by eliminating deductions.

Changes to itemization

"Of course Regency is not in the tax business and does not provide tax advice, but we do know a lot about how taxes can affect clients," Dan said. "In previous years, if your itemized deductions exceeded the standard deduction, you'd complete Schedule A and claim your charitable gifts, along with other deductions.

"But under the new law, you'll have the option of either claiming the newly increased standard deduction, or of itemizing those deductions," Dan added. "For many, that flexibility could be good news."

According to Dan, projections show the number of people who will itemize under the new law could decrease by nearly 57 percent in 2018.

For certain tax filers, there may be a way to have that cake and eat it, too. While many will no longer need to itemize charitable gifts for deductions, those over 70 1/2 with Individual Retirement Accounts (IRAs) who are subject to Required Minimum Distributions (RMDs) may still be able to reduce their taxable income through a special kind of charitable gift.

Where RMDs meet QCDs

"While RMDs are reported as 100 percent taxable income, a person can elect to gift some or all of that RMD — up to $100,000 per year — to charity as a Qualified Charitable Distribution (QCD)," Dan said. "Money distributed from an IRA as a QCD is not reportable as income, which means a donor can receive the benefit of the new higher standard deduction, and still avoid taxes on the portion of the RMD gifted to charity as a QCD."

Now that may be a complicated alphabet soup for many tax filers, so as always consult your tax advisor about its implications for your own situation. It may require making some changes to fully take advantage of the strategy. "For some, this may not be the best strategy. For others not subject to RMDs, this strategy isn't even available to them," Dan said. "But for those 70 1/2 or older who used to itemize charitable gifts, this strategy could be valuable."

Questions about the tax law and your investments? Call your Regency advisor and your tax advisor today.

Two Regency associates earn new credentials

Regency is proud to announce that two of our associates have passed all requirements for earning new professional credentials.

Regency's Portfolio Manager Jeremy Whitt recently earned his Certified Investment Management Analyst® (CIMA®) credential. The credential recognizes completion of educational requirements, three years' industry experience, and a record of positive industry ethics.

Regency's Servicing Advisor and Paraplanner Alex Amundson successfully completed all educational, testing, and industry-experience requirements to earn his Certified Financial Planner™ (CFP®) credential.

With our commitment to continuing professional education, Regency congratulates Jeremy and Alex!

REGENCY MARKET COMMENTARY: THROUGH OCTOBER 31, 2018

Key Indexes Source: Morningstar	YTD	1 yr	3 yr	5 yr	10 yr	20 yr
			ANNUALIZED RETURNS			
DJ Industrial Average – Large Cap	3.41%	9.87%	15.25%	12.76%	13.33%	8.01%
S&P 500 – Large Cap	3.01%	7.35%	11.52%	11.34%	13.24%	6.62%
Russell 2000 – Small Cap	-0.60%	1.84%	10.68%	8.01%	12.44%	8.60%
MSCI EAFE – Foreign Large Cap	-9.28%	-6.85%	3.62%	2.02%	6.89%	4.25%
Barclays US Aggregate – Bonds	-2.38%	-2.05%	1.04%	1.83%	3.94%	4.47%
USTREAS 3-Month T-Bills	1.34%	1.49%	0.77%	0.47%	0.30%	1.81%
IA SBBI US Inflation	2.34%	2.28%	1.99%	1.56%	1.54%	2.18%

After a month like October 2018, it's easy to forget that market performance from July through the end of September was actually pretty good. In those months, the S&P 500 gained 7.71 percent, small caps showed an increase of 3.58 percent, and even bonds held their own as interest rates went up. But October's plunge reminded everyone how quickly things can change, and how investor sentiment can turn on a dime.

October brought a spike in volatility similar to the one markets experienced in February. The two elements driving October's declines were rising U.S. bond yields and geopolitical risks, such as the lack of a trade agreement between the United States and China, and the budget dispute between Italy and the European Union. If these issues remain unresolved, they could affect corporate earnings and profitability in the U.S. and economic growth in Europe, respectively. October's sell-off, however, was not as wild as February's, and to many investors, it perhaps did not feel as frantic.

October's declines

While not as turbulent as February, the S&P 500 declined 9.05 percent by Oct. 29 after peaking on Sept. 20. During this same period, the Russell 2000 declined 13.15 percent, while the MSCI EAFE index of foreign equities declined 8.87 percent. The drop in the S&P 500 was just short of the index's sixth "10% or more" correction during the current nine-and-a-half-year bull market, and nearly the second in less than twelve months.

Ordinarily we might expect to see investors clamoring for safe-haven assets during a sharp decline in equities. Yet, like February of 2018, "safe haven" fixed income assets were stung by a steep increase in bond yields. The 10 Year US Treasury yield went from 2.82 in August to 3.23 percent by Oct. 5, and ended October at 3.15 percent. Rising bond yields caused equity investor's sentiment to turn somewhat bearish. They feared increasing rates would stifle economic growth. This created a unique environment in which the usual relationship between stocks and bonds is not playing out.

Investors may have concerns about trade between the United States and China, and the possible impact on the economy should an agreement not be reached. But overall, the fundamentals remain sound and economic conditions remain good. Company earnings have been solid, perhaps not as "excellent" as earnings have been over the last two quarters, but remaining "very good" instead of excellent. GDP growth for all of 2018 is still forecast to come in around 3 percent, which is ahead of the average growth rate of 2 percent experienced during the current recovery. Inflation is almost right on target at 2 percent, and consumer confidence remains high. And while there is some concern that we may be late in the growth cycle, that does not imply that the next recession is imminent.

Investors as business owners

There will always be short-term movements and volatility in the markets; part of being an investor is understanding there's a myriad of things that can affect how markets move in the short term. But in the long term it's going to boil down to corporate earnings and economic growth. That's why investors should think of themselves as business owners, building something for the long term, rather than someone who's seeking a quick spin at the roulette tables.

With that long-term outlook in mind, it may be a good time to reassess your risk tolerances and your financial goals. Want to learn more? Call your Regency advisor today, at (559) 438-2640.

SAVE THE DATE

Watch the mail for your invitation
to Regency Investment Advisors' annual
Client Christmas Party.

Thursday, Dec. 6, 2018 - 4-7 p.m. Open House

The Palms Restaurant
7500 N. Palm Avenue, Fresno

FOCUS 360 Disclosure:

Past performance is not indicative of future results, and inherent in any investment in the market is a possibility of loss. There are inherent limitations in making assumptions due to the cyclical nature of the market.

Transitioning with grace at Fresno's Evangel Home

Despite changes and challenges, despite trials and transitions, one simple concept remains at the center of what Fresno's Evangel Home has provided to women and children in crisis for more than 60 years.

"The first word that always comes to mind when I think of this place is 'grace,'" said Sarah Dawson, incoming Executive Director for Evangel Home. "I think it's grace from God that we are here. It's grace for each other on the staff, and it's grace for the women who come in here.

"Grace is one of the most powerful things ever for changing someone's life," she added. "It moves people who come in here hardened from the world and allows them to soften, to be able to receive that love and move forward in their life, to conquer all the fears they've had."


Through the doorway: Sarah Dawson and Gerre Brenneman

Evangel Home may have begun as a shelter more than 60 years ago, but today it serves as much more. Over those six decades Evangel Home has transformed that grace into shelter, assistance, programs and a curriculum for women in crisis, all with the goal of helping those women to overcome incredible hardships and learn life skills leading to self-sufficiency.

"I use the analogy of a lid screwed tightly on a glass jar," said Evangel Home's current Executive Director Gerre Brenneman. "Say the woman has spent her life in that jar, and sees outside where she really ought to be. Maybe we get to take that lid and help loosen it just a little bit."

She added that if Evangel Home were strictly a shelter, they would be focusing more on numbers, trying perhaps to help a thousand women in only one way. "But our philosophy — like the ministry that's inspired us — is we would rather help one woman a thousand ways," she said. "The problems today are different, and we find that the women we help truly need the one-on-one attention."

Loosening the lid

Evangel Home helps "loosen the lid" by providing programs and tools for self-sufficiency, support for the women in the programs, and spiritual support for those escaping that jar and moving forward. "We've helped women find the 'center' they may have lacked, and then move forward from that center for the rest of their lives," Brenneman said. She added that Evangel Home has achieved this without ever accepting a penny of government support. "Everything we have has come from people who believe in what we're doing," she said. "That blows me away every time I think of it."

A smooth transition

But all things change, and after 30 years as "the steady hand on the plow," Gerre Brenneman will soon retire, transferring leadership with grace to incoming Executive Director Sarah Dawson, who herself has a long association with Evangel Home.

How was Sarah called to the role? "We were at a retreat a couple of years ago, and Gerre was asking about future plans, going through the list of all the jobs, and kind of randomly asked, 'What about my job?' And I laughed in her face," she recalled. "But I started thinking and praying about it and approached her later."

Dawson said there wasn't a moment when she knew it was the right decision. "It was not an exact moment. More of a process."

But as Dawson answered, Brenneman interrupted. "I knew," she said. "When I came here, I knew I had been called. Even though it was very hard, I knew without a doubt that Evangel Home was where I was supposed to be. So I always trusted I would know when it was time to move on.

"I will never forget the day Sarah and I had that conversation," Brenneman said. "She called me, and I told her she could come in and talk as long as she didn't tell me she was quitting. Instead Sarah said, 'No, I want to know what it would take to have your job.' And that's when I knew."

Sarah agrees. "Our foundation will remain the same," she said, describing her new role with Evangel Home as "less of an achievement, and more of a privilege, or an honor."

Looking back, Gerre agrees. "When I think of being able to spend most of my adult working life doing something where I made a difference, that's an incredible feeling," she said. "But it's not because I planned it. It's because we've heard that call, and answered."

For more information about Evangel Home, visit their website at evangelhome.com.

From time to time FOCUS 360 will include profiles of people and organizations making a difference in our community. It is not known whether those profiled approve or disapprove of Regency Investment Advisors or its advisory services provided. This article reflects the opinions of those interviewed, and should not be taken as a request for you to donate to any particular organization.

Regency
INVESTMENT ADVISORS℠
1312 W. Herndon Avenue, Suite 101
Fresno, CA 93711

PRSRT STD
U.S. POSTAGE
PAID
FRESNO, CA
PERMIT NO. 1920

Return Service Requested

Hot Topics: As interest rates rise...

By Alex Amundson, Servicing Advisor and Paraplanner

It's been a while since we've been in an environment of rising interest rates. That means it's a good time to look at what can happen to equities and bonds when interest rates rise, and maybe clear up a few misconceptions.

Alex Amundson

First, with interest rates going up, headlines might lead you to believe that such increases are bearish for the equity markets. That's a misconception. Historically, rising interest rates tend to be good for equities if they do not rise too quickly or too high. Gradual increases in interest rates typically indicate that there's a bit of inflation in the economy, and mild inflation can indicate healthy consumer demand leading to healthy corporate earnings.

Rising interest rates affect the bond markets, and as rates rise, the bond's market value declines to bring the yield in line with the higher interest rate. However, headlines may lead you to another misconception: that bond returns will be negative because of higher rates. Instead, most of the return over a bond's life comes from the income paid to the bondholder. Also, unlike equities in volatile environments bond prices do not tend to fluctuate as wildly. So, while bonds are unlikely to show stellar returns as interest rates rise, they're just as unlikely to take a nose dive during an equity bear market.

Not all bonds are created equal. Bonds with floating interest rates tend to do better than traditional bonds in rising interest-rate environments. It's because their interest rate will reset to the market rate periodically, keeping the bond's market value from declining as much, while simultaneously increasing the bond's generated income.

Additionally, while interest rates are rising in the United States, those increases aren't happening in much of the rest of the world. Given that, international bonds may not be affected as much by rising domestic interest rates. Regency invests in both international and floating-rate bonds to help diversify our portfolios.

Last, how you invest in bonds can make a difference. Investing in a bond mutual fund means the manager can invest the bonds' income generated into the portfolio at the new higher rates, possibly leading to better returns than a single bond over the rising rate period.

No one can predict the future. But Regency believes that investing in a diversified portfolio attuned to your own risk tolerance and looking toward the long term increases the likelihood of achieving your financial goals, regardless of market or interest-rate conditions.

Have questions? Contact your Regency advisor today.