Regency
INVESTMENT ADVISORS℠

FOCUS360°

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Tax Cuts and Jobs Act might mean it's time to take a deeper look at your 2018 tax picture

In our last issue, *Focus 360* took a look at the Tax Cuts and Jobs Act (TCJA) of 2017 — commonly called "tax reform" — and how it might affect individuals in the coming years.


Dan Ray

Since then, Regency has been hearing a lot from CPAs in the Fresno area. With tax advice outside the scope of Regency's services, a lot of clients — especially business owners — are approaching their CPAs now, seeking projections of how their 2018 taxes might look in the wake of tax reform.

Sense of urgency

"At Regency, while we're not in the business of giving tax advice, we do understand a lot about taxes and how they can affect your overall financial goals," said Dan Ray, President and Client Advisor for Regency Investment Advisors. "What we're hearing from the investment community is clear: Get in to see your CPA sooner rather than later. Consider the benefits of having that CPA project your tax picture for 2018 now, while there's time to take advantage of what 2017's tax legislation had to offer."

Recently, Regency representatives have attended a number of presentations by local and regional CPAs. "What we found is those CPAs feel a real sense of urgency about inviting their clients to come in and see how the TCJA might affect them," Dan said, "The consensus is there may be elements of the Act that can create real advantages if they're implemented early enough. And without taking advantage of that projection, people might just roll right along and miss out, because they didn't know about what could be done differently until right before the end of the year. We don't want our clients to miss out on those changes they might find advantageous."

Seeking advantage

According to Dan, the TCJA contains a number of advantages that investors might not know about, especially those investors who are in business or in the process of forming a business. For example:

- After the TCJA, the corporate tax rate is now a "permanent" and flat 21 percent. Also, beginning in 2018 there is no Alternative Minimum Corporate Tax.
- Changes to the rules of depreciation affect how much a business can depreciate in the first year, and the depreciation of real assets went up.
- Pass-through entities get a 20 percent deduction of qualified business income, but there are caps and phase-outs that must be calculated. For these entities, earnings and expenses are passed through and reported on the owners' personal tax returns.

Dan's advice? "In the wake of the TCJA, tax planning is more important than ever," he said. "Consider setting an appointment with your CPA now, and get a preview of how your taxes might look in 2018.

"If you have questions about how your investments might fit into that tax plan, contact your Regency advisor today," Dan added.

Regency welcomes Client Service Specialist Raymond Cabrera

Regency Investment Advisors is pleased to welcome Raymond Cabrera as our new Client Service Specialist.


Raymond Cabrera

Reporting to Chris Comstock, Raymond will take on a significant role in scheduling client reviews and assisting our advisors with client service.

Currently in his senior year at Fresno State, Raymond is earning his degree in Business Administration with a focus in Accounting. In his spare time he plays basketball, enjoys challenging hikes, gym workouts, travel, and new adventures.

Raymond is reachable at rcabrera@regencyinvests.com.

REGENCY MARKET COMMENTARY: THROUGH JULY 31, 2018

Key Indexes Source: Morningstar	YTD	1 yr	3 yr	5 yr	10 yr	20 yr
			ANNUALIZED RETURNS			
DJ Industrial Average – Large Cap	4.07%	18.75%	15.68%	13.11%	11.25%	7.89%
S&P 500 – Large Cap	6.47%	16.24%	12.52%	13.12%	10.67%	6.72%
Russell 2000 – Small Cap	9.54%	18.73%	12.04%	11.33%	10.39%	8.58%
MSCI EAFE – Foreign Large Cap	-0.36%	6.40%	5.03%	5.86%	3.43%	4.40%
Barclays US Aggregate – Bonds	-1.59%	-0.80%	1.49%	2.25%	3.73%	4.69%
USTREAS 3-Month T-Bills	0.88%	1.27%	0.62%	0.39%	0.32%	1.85%
IA SBBI US Inflation	2.14%	2.86%	1.80%	1.51%	1.36%	2.19%

An eventful few months dashed hopes for a quiet second quarter. Political headlines, tariffs, and trade wars ruled the headlines, and central banks across the globe were in action. We experienced what one analyst called "tweetable volatility" as politicians traded threats and barbs via social media. All this was reason for continued turbulence in the markets.

International economic and geopolitical concerns held investors' attention during the second quarter and throughout July. Concerns about a trade war with China and the potential impact of tariffs affected large global companies. A strong U.S. dollar and rising interest rates hurt emerging markets as well. Global growth slowed a bit during the quarter but remained above the historic average. U.S. growth momentum has picked up thanks to fiscal stimulus, shifting global growth leadership in the developed world from the Eurozone to the U.S.

Positive returns despite turmoil

Despite all the headlines and central bank action, domestic equity markets generated positive returns both year-to-date and for the last three months. The S&P 500 returned 6.87 percent the past three months, bringing the year-to-date from slightly negative to 6.47 percent. Given the international trade disputes, many investors looked to small-cap stocks, which typically do the bulk of their business domestically. The Russell 2000 returned 8.69 percent for the three months ended July 31, 2018, bringing the year-to-date return to 9.54 percent.

Foreign equities are a different story. The weakness foreign markets experienced during the first quarter spilled over into the second. Foreign equities (MSCI EAFE) declined 1.24 percent during the second quarter before rebounding in July with a 2.46 percent return. Although July was a strong month, foreign equities remain slightly negative for the year with a year-to-date return of negative 0.36 percent. But there is some evidence of growth rebounding, as Eurozone job creation and income growth are intact and Japan's unemployment rate hit a 24-year low.

Fixed income markets continued to bounce around throughout the quarter. The Federal Reserve (Fed) raised rates in June by another 25 basis points. Fed Chairman Jerome Powell described the latest rate increase as "another sign that the U.S. economy is in great shape. Growth is strong. Labor markets are strong. Inflation is close to target." The yield on the ten-year treasury oscillated between 3.0 and 3.3 percent for most of the quarter before ending the quarter at 2.9 percent. Domestic Bonds (Bloomberg Barclay's Aggregate bond index) increased 0.61 percent in the last three months, yet is still down 1.59 percent for the year.

Moving higher slowly

The U.S. economy continues its slow grind higher. U.S. GDP growth is expected to come in around 3 percent for the year, significantly exceeding the 2 percent trend growth we have experienced during this long expansion. Private consumption continues to be the driving force of the economy and appears to be growing at a stable rate. The Purchasing Managers Index was at 58.7 at the end of the quarter, indicating strong manufacturing growth for the 27th consecutive month. Unemployment in May reached 3.8 percent, the lowest it has been since 1969.

Given the rough markets investors have faced in the first seven months of 2018, it could be easy to become discouraged or want to try to guess market direction. Regency believes that in the long run, ***time in*** the market is a better strategy than ***timing*** the market. Therefore, we feel a diversified portfolio with an appropriate allocation given your individual needs and circumstances makes sense for the long term. If you are unsure if your current portfolio is correct for you, contact your advisor at (559) 438-2640.

EPU Children's Center:

42 years of creative approaches for helping children

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.*

Back in 2014, *Focus 360* told the story of the EPU Children's Center, a local organization founded as "Exceptional Parents Unlimited" in 1976 by Marion Karian, a local genetics nurse who sought a way to help new parents meet the unique challenges presented by "children with exceptionalities." Back then we highlighted how EPU had grown organically over the years, filling more and more of the community's needs along the way, all while always remaining laser-focused on the needs of children.

But there are always new challenges, and new families needing help to meet those challenges. So EPU has grown and evolved along the way.

Lowell Ens

"If you were to look back at our history, we've really always focused on children ages 0-5, along with their parents and families," said Lowell Ens, CEO of the EPU Children's Center. "When we began, it was more about helping children born with exceptionalities like Down syndrome, challenges that could present developmental difficulties throughout life."

The challenges today

"But as we've grown, we've found that a lot of today's needs have to do with children and families struggling with challenging and/or traumatic backgrounds and situations," Ens said. "They're struggling with lack of parenting understanding, neglect, abuse, and other issues, sometimes coming through county social services, like Child Protective Services or through other referrals."

Ens said that such traumas can sometimes impact the developmental growth of children just as much as a condition diagnosed at birth. But with EPU's long history of working to help children and families overcome such impediments, applying EPU's expertise and compassion in this area seemed a natural path to follow.

"I think what we're doing is continuing to serve young children and their families," Ens said. "We're adapting our services to the unique needs of families, in everything from minimal intervention to accepting the hard cases."

Finding ways

It can be unfortunate, but for nonprofit community-benefit organizations like EPU, funders and benefactors sometimes tie their funding via contract to more strict definitions of whom is to be helped. They may specify only children bearing a specific diagnosis, or only families living in a specific neighborhood or ZIP Code can receive the benefits of their funding. Despite this reality, EPU helps children and families across Fresno County, and even provides services in locations farther away like the Central Coast and San Bernardino.

"It's easy for organizations like ours to experience 'mission drift,' but our relationships with our funding partners are very strong," Ens said. "EPU has done a great job of keeping our end of the bargain over the years, successfully helping families while remaining creative and recognizing areas where families aren't getting the help they need."

Ens said it's a balancing act. "We look to expand services and help children we can see are not being served," he said. "For a community-benefit organization like EPU, it can be challenging to find ways to meet the needs of those who don't quite fit into those easily defined categories. But that's exactly what we do."

So how does EPU define itself today? "I would say we are an amazing and compassionate organization that is driven to serve young children and families in Fresno County and beyond," he said. "We help those who struggle with medical, developmental and behavioral challenges in their lives."

Getting involved

Want to get involved? The first annual EPU Walk for Children is happening Oct. 27 at Fresno City College. "It'll highlight some of the work we do, in an event that gets people on their feet and involved," Ens said. For more information about the EPU Children's Center and its work, visit the website at www.epuchildren.org.

EPU
Children's Center
Hope Starts Here

Hot Topics: International Small Caps

By Jeremy Whitt, CIMA® and Portfolio Manager

Have you heard of International Small Caps? It's not a new asset class; they've been around for quite a while. But some of the recent research has investors looking at them in a new way.

Jeremy Whitt

International small caps — or "International Small Capitalization Stocks" — is an asset class comprised of small companies domiciled outside the U.S., generating more of their revenues in their home markets than internationally. Recent research has shown this asset class to be attractive and worthy of consideration by investors, especially as part of a diversified strategy.

Why are they gaining attention now? First, the size of the international small cap universe is more than twice the size of the domestic small cap universe, containing more than 4,500 companies. The size of the universe and a lack of analyst coverage allows investment managers the possibility of providing value because of information inefficiencies that may exist in the asset class.

Second and perhaps more important, there's been reluctance on the part of some investors to participate in international small caps because of the perception they're more risky than domestic equities. Research shows that over the last 48 calendar years domestic equities have not been the best performing equity market in any given calendar year. In fact, they have been the worst in two of the 48 calendar years. We believe there are better investment opportunities located outside of the U.S. Individual international small caps are historically more volatile than international large caps, but when combined in a portfolio they are able to reduce the overall risk of the portfolio.

At Regency, our goal is to maintain portfolios within our clients' risk tolerance, reducing risk wherever and whenever possible while maximizing returns. During the course of our research we found that international small caps offset risk in the portfolio because of their historically low correlation to other asset classes.

We're continuously reminding investors to diversify. That diversification principle applies across countries as well; having all of one's investments dependent upon the economy of a single country or only one's home country goes against the diversification principle. Given that, international small caps are one essential way to help with diversification.

Of course, whether domestic or international, small cap investing carries higher volatility. But within a diversified portfolio, international small caps carry benefits investors should consider. To learn more, contact your Regency advisor at (559) 438-2640 today.