

# LANDMARK FINANCIAL ADVISORS, LLC

WEALTH MANAGEMENT

APR  
2018

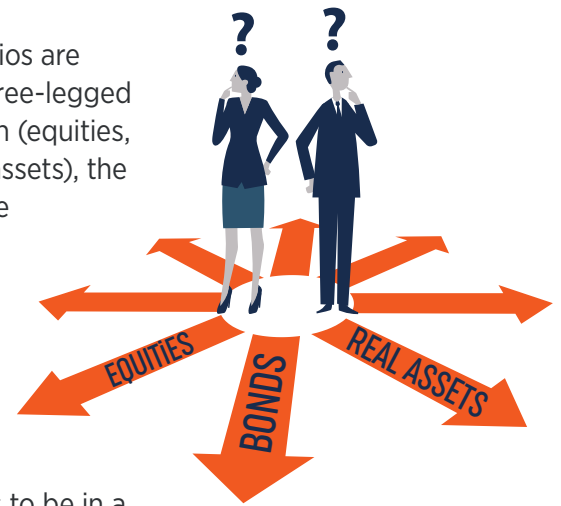
## NORMALCY RETURNS TO THE CAPITAL MARKETS

Until recently, equity markets were behaving far from normal. The S&P 500 rose for 15 straight months going into February of this year. This marked the longest stretch for the S&P 500 in history without a 5% decline. Ironically, the recent losses in capital markets occurred with general investment advisor sentiment at its most positive level since 1986. The length of this rise gave us a bit of “fool’s gold” and the impression that this market behavior is normal, but it’s not. As you have witnessed recently, declines occur on a regular basis every year and can be quite large in magnitude.

The return of volatility this quarter can be attributed to many possible culprits: inflation fears, rising interest rates, equity valuations, fiscal stimulus, trade wars, debt levels... take your pick. We are unable to predict capital markets in the short-term but feel that we can be more accurate with a five to ten-year horizon. We have been cautioning for some time to expect returns to be muted—with more historical returns—2017’s significant rise was not our base case and actually increased our conviction to expect more muted returns in the future.

We do feel that equity returns will outpace bonds, but the gap is closing, so we have been pulling back on risk exposure. We have added real assets into the mix in the event inflation breaks out as well.

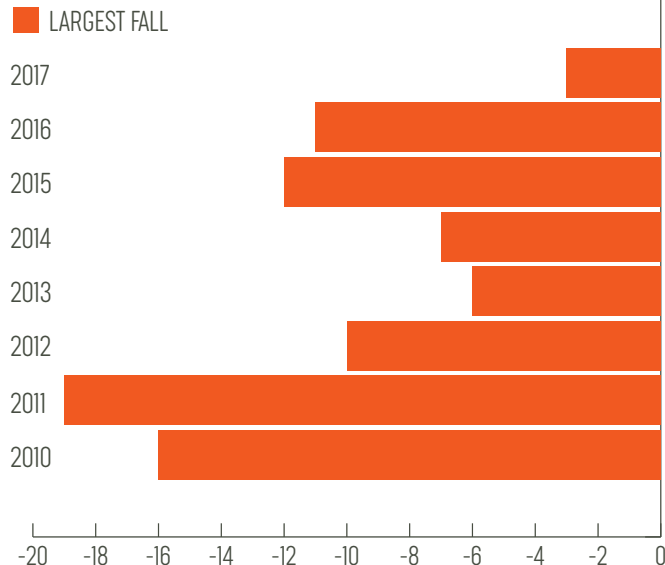
All our portfolios are built with a three-legged stool approach (equities, bonds & real assets), the only difference is the amount of potential downside you are willing to accept.



The whole world appears to be in a race for growth, economies are either growing or dying. The challenge to robust growth rests with the fact that asset prices and debt levels are very high. The impact of rising rates around the globe and central banks pulling money out of the economy by reducing the balance sheet (opposite of QE) will lead to an amplified effect on the economy. We think economic growth has been a function in the last few decades of low interest rates, increased debt levels and rising asset prices. That path could lead to unstable economic growth and asset prices. We have enjoyed a period of quantitative easing the last eight years, however, we have now entered into quantitative tightening.

Expect volatility to be a daily occurrence going forward. Although in our opinion, the environment is positive for returns, the absolute level will likely be in the 4-6% range for the near future. Staying consistent to your goals and objectives is the key to achieving long term investment success.

### LARGEST INTRA-YEAR DECLINES IN S&P 500



# PLANNING ITEMS UNDER THE NEW TAX BILL

The new tax bill passed last year has simplified the average US taxpayer's personal return. The vast majority of filers will be taking the standard deduction starting in 2018. This change will cause some items to no longer carry the tax benefits they have in the past.

## ○ PAY OFF YOUR DEBT OR INVEST?

The general answer to this statement is that if you can make more on your investments than you pay in interest, you should invest. However, it's not really that simple. Our thought is that paying off debt reduces stress and lowers your overall risk. Currently we predict that future returns will be generally in the 4-6% range, however, investing comes with risk while paying off debt is a guaranteed return. A new variable is this: if as of 2018 you are on the standard deduction, you are not getting a tax break for loan interest paid—therefore your cost is the actual rate paid. Home equity loans are usually tied to prime rate, which is currently 4.75% and may go higher later this year. Paying off debt may be a good investment strategy while asset prices are high.



## ○ IRA REQUIRED MINIMUM DISTRIBUTIONS [RMDs]

The majority of individuals over 70½ will be on the standard deduction going forward. Transferring all or part of your RMD directly to a charity will lower your income (a deduction) which probably wouldn't happen by just writing a check to the charity. Please call your advisor to discuss, we would encourage this if you give to charity.

## ○ LUMPING DEDUCTIONS AND CHARITABLE FUNDING

If you are closely over or under the new standard deduction, this strategy is worth evaluating. The strategy would be executed every three years. Consider lumping deductions (pay state estimates early and extra mortgage payment) and bundle three years' worth of charitable gifts into a charitable Donor Advised Fund. This could allow you to get a large itemized deduction every three years and use the standard deduction the other two. Please call your advisor to discuss and we can review to see if this works for you.



*IT NEVER IS YOUR  
THINKING THAT  
MAKES BIG MONEY,  
IT'S THE SITTING.*

—JESSE LIVERMORE

*THOSE WHO NEVER  
THINK OF MONEY  
NEED A GREAT  
DEAL OF IT.*

—AGATHA CHRISTIE

