AMERICAN PORTFOLIOS DENVER

Investors Quarterly

What's New With Our Team at American Portfolios Denver

Meet Cole Lauinger

American Portfolios Denver is proud to announce that Cole Lauinger joined our team at our Minot, North Dakota location in the first quarter of 2018. Cole is the third advisor to join our team since the beginning of 2017. Welcome to the team, Cole!

American Portfolios Denver Rises In the Ranks

Our offices, American Portfolios Denver, now ranks as the 18th-largest group affiliated with American Portfolios Financial Services. We owe much of our success to you and your trust in our commitment to evidence-based investing. Thank you for helping us grow to better serve you in the future.

Managing Director Kris Tower Begins Term as 2018 President of Colorado Financial Planning Assocation

Mr. Kris Tower, Managing Director of American Portfolios Denver, began his appointed tenure as President of the Colorado chapter of the Financial Planning Association for 2018. The Financial Planning Association® (FPA®) is the principal professional organization for Certified Financial Planner™ (CFP®) professionals, educators, and financial services providers.

Mr. Tower's responsibilities and role as President will further support his ongoing commitment to serving the community of investors across Colorado and the financial planning profession. The Colorado Chapter of the Financial Planning Association is one of the largest chapters of the association in the nation with approximately 600 members serving over 65,000 Colorado households.

The staff and advisors of American Portfolios Denver congratulate Mr. Tower on his newly appointed role and are eager to support his efforts in further serving investors across Colorado.

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Q1 Review from Our Team

What we observed, learned, and adjusted for in First Quarter 2018

Last year, stocks marched higher with only minor pullbacks. When the year ended, the largest peak to trough decline for the S&P 500 Index was just under 3% (St. Louis Federal Reserve data on the S&P 500). It was a year that lacked turbulence and one that rewarded diversified investors.

Since the beginning of February, volatility has returned. It's a reminder that periods of relative tranquility don't last forever. It's something that the long-term investor should look past, though I recognize it can create uneasiness among some investors.

If we were facing serious economic problems, something that might be signaling a recession, it would be a cause for concern. Right now, I don't believe we are. Shorter term, however, headline risk continues to whipsaw sentiment.

Causes of Volatility In the Market

Earlier this year President Trump announced he will impose steep tariffs on steel and aluminum imports, fueling concerns over protectionism and the potential impact on the economy. His apparent goal: Pry open foreign markets to U.S. exports.

It is not my role as your financial advisor to offer up opinions on political issues. However, it is incumbent upon me to analyze and share my thoughts on headlines that are influencing shares. It's not a political statement. It is a commentary on events viewed through the narrow prism of the market.

Investors viewed the corporate tax cut and the paring back of regulations favorably. Trade tensions, however, have created uncertainty.

LOW VOLATILITY YEARS TEND TO SEE MORE VOLATILITY THE NEXT YEAR

Year	S&P 500 Return	Max Pullback	Next Year Max Pullback	1% Moves	1% Moves Next Year	S&P 500 Return Next Year
1954	45.0%	-4.4%	-10.6%	15	42	26.4%
1958	38.1%	-4.4%	-9.2%	18	22	8.5%
1961	23.1%	-4.4%	-26.4%	14	58	-11.8%
1964	13.0%	-3.5%	-9.6%	3	8	9.1%
1993	7.1%	-5.0%	-8.9%	17	27	-1.5%
1995	34.1%	-2.5%	-7.6%	13	38	20.3%
2017	19.4%	-2.8%	?	8	?	?
Average	25.7%	-3.9%	-12.1%	12.6	32.5	8.5%
Median	23.1%	-4.4%	-9.4%	14.0	32.5	8.8%
% Positive	100.0%					66.7%

Source: LPL Research, FactSet 01/09/2018

Most economists support free trade. It's a net benefit to the U.S. and global economy. But "net benefit" means there are both winners and losers.'

Losers–those whose jobs disappear amid a flood of cheaper imports. Winners–consumers who pay less for various goods, and those who work in export-oriented industries. In 2017, U. S. exports totaled $2.3 trillion (U.S. Bureau of Economic Analysis). Yes, that's trillion with a "T."

U.S. manufacturers are consumers of steel and aluminum, including farm and construction equipment, aerospace, and pipelines and drilling equipment in the energy industry.

At the margin, it may modestly boost inflation and could force some U.S. manufacturers to put projects back on the shelf or move production offshore.

Additionally, U.S. tariffs may invite retaliation, pressuring exporters, jobs and profits in globally competitive sectors. It could also spark a tit-for-tat trade war that hurts everyone.

President Trump announced he is set to raise tariffs on Chinese imports. In return, China announced new barriers to some U.S. goods, though the response was measured.

While the odds of a major trade war remain low, all this has injected uncertainty into market sentiment.

Meanwhile, troubles popping up in the tech sector have added to volatility. For example, Facebook is embroiled in a controversy over privacy and data sharing. More recently, Trump has set his sights on Amazon, expressing his displeasure in several tweets.

Yes, Facebook and Amazon are only two stocks, but both have performed admirably, leading the tech sector higher. And, they have a combined market capitalization of $1.1 trillion (WSJ as/of 4.3.18).

Some Perspective to Consider

Let me caution you not to get lost in the weeds. Day traders care about minute-by-minute swings in stocks prices. Long-term investors sidestep such concerns.

So, let's step back and gather some perspective by reviewing the data.

According to LPL Research:
+ The average intra-year pullback (peak to trough) for the S&P 500 Index since 1980 has been 13.7%.
+ Half of all years had a correction of 10+%.
+ Thirteen of the 19 years that experienced an official correction (10% or more) finished higher on the year.
+ The average total return for the S&P 500 during a year with a correction was 7.2%.

These bullet points are an evidence-based way of saying turbulence surfaces from time to time. Patient investors who don't react emotionally have historically been rewarded. We understand that some degree of risk is inevitable. Our recommendations are intended to minimize risk, and they are designed with your long-term goals in mind.

Saving for the future takes discipline, but it doesn't have to be a hard slog. Progress toward your goals creates its own sense of accomplishment and satisfaction.

More importantly, get started. And please, let us know how we may assist you.

Do Higher Contribution Limits Mean Higher Taxes?

With the recent Tax Cuts and Jobs Reform Act signed into law, it raises concerns over 401(k) and IRA plans.

In October, the IRS announced cost-of-living adjustments for pension plans and other retirement-related investment plans, namely 401(k) and Roth IRA, for the 2018 tax year. Of note, the annual contribution amount for 401(k) plan participants increased from $18,000 to $18,500. This is a welcome sign for plan participants, because one of the initial proposed tax reforms included reducing 401(k) annual contribution limits to $2,400.

Taxpayers who want to deduct contributions to their traditional IRA from their taxable income also have reason to celebrate.

The phase-out income range for single and head-of-household taxpayers rose from $62,000-$72,000 to $63,000-$73,000 for 2018. Married couples filing jointly also experience a slight increase in the phase-out income range, from $99,000-$119,000 to $101,000-$121,000. However, certain conditions must be met for the contributions to be eligible for deduction, which includes whether the plan participant or their spouse is covered by a workplace retirement plan.

Roth IRA plan participants are also experiencing a slight increase in phaseout income ranges for 2018. Single or head-of-household plan contributors saw an increase in phase-out income ranges from $118,000-$133,000 in 2017 to $120,000-$135,000 in 2018. Phase-out income ranges for married couples filing jointly when it comes to Roth IRA contribution increased from $186,000-$196,000 in 2017 to $189,000-$199,000 in 2018.

The recently approved Tax Cuts and Jobs Act of 2017 (TCJA) opens the conversation as to when the inevitable other shoe will drop. In short, what are the tax implications for retirement-related plan contributors in 2018? Do the contribution limit increases for 401(k) plan participants and IRA contributions carry any change in tax liability?

After careful consideration it appears the Tax Cuts and Jobs Act has little impact on 401(k) and IRA plan participants with three notable exceptions: rollover conversions, loan repayments to qualified plans, and hardship distribution waivers for those affected by natural disasters.

(This article is an excerpt from a featured article by Kris Tower published with TheStreet.com.)

Start a Conversation

Our team with American Portfolios Denver serves clients across the Rocky Mountain region and beyond through our main office and affiliated advisors. Reach out to our team to start a conversation today about your financial goals.

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