



SilverOak

WEALTH MANAGEMENT LLC

Quarterly Webinar
October 26, 2018

Presented by:
Shannon King and
Jonathan Scharlau

Introduction

- Shannon King, CPA, CFP[®], PFS, CIMA[®], CPWA[®], MBT
President, Partner and Chief Compliance Officer
- Jonathan Scharlau, CFA, CFP[®]
Partner and Lead Analyst

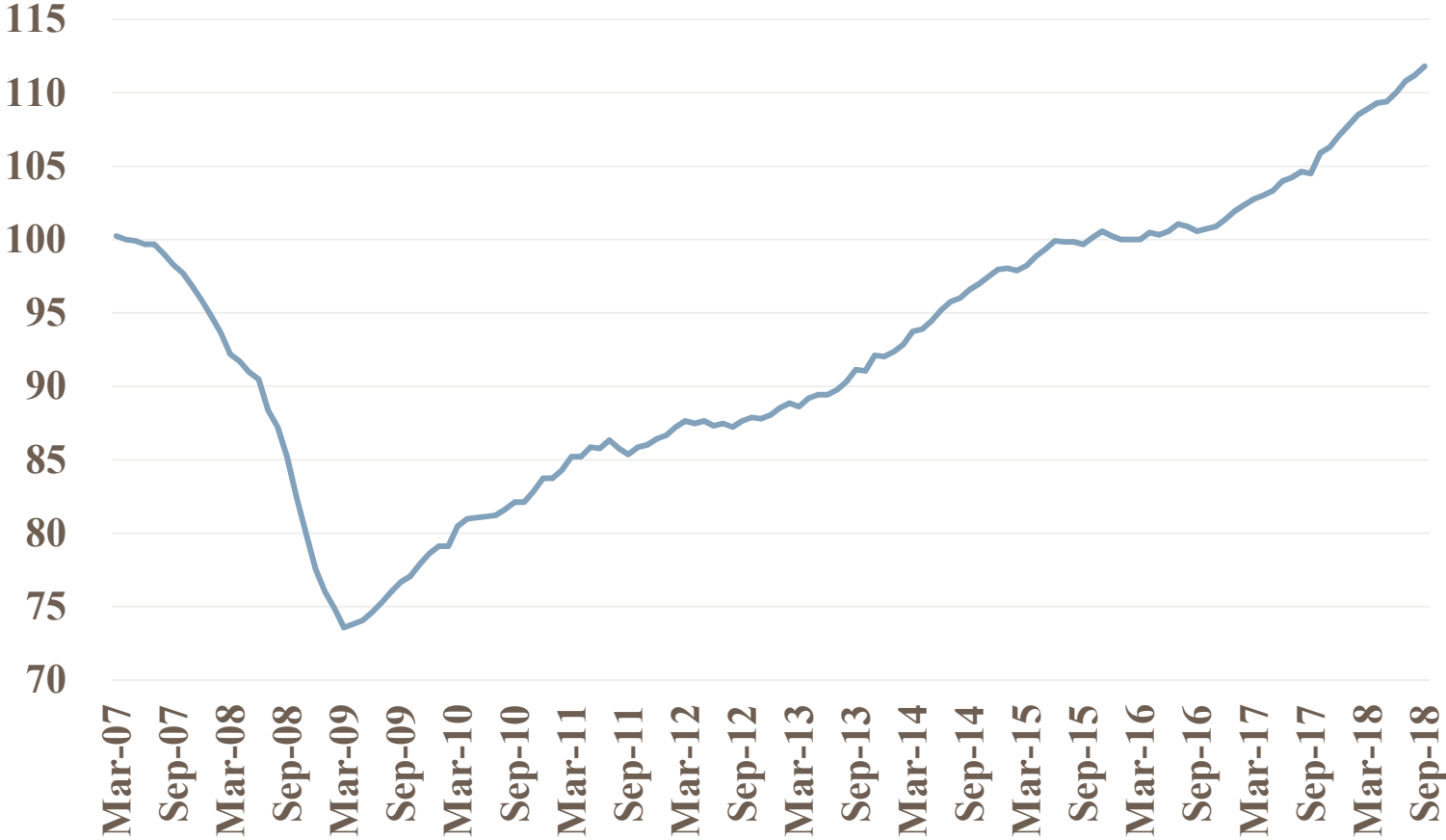
Agenda

- Economic data
- Market data
- SilverOak's outlook
- Gift planning
- SilverOak updates, Year-end reminders and Other noteworthy updates
- Questions

*Economy:
Continued Growth
During
3rd Quarter*

Leading Indicators Continue to Trend Higher

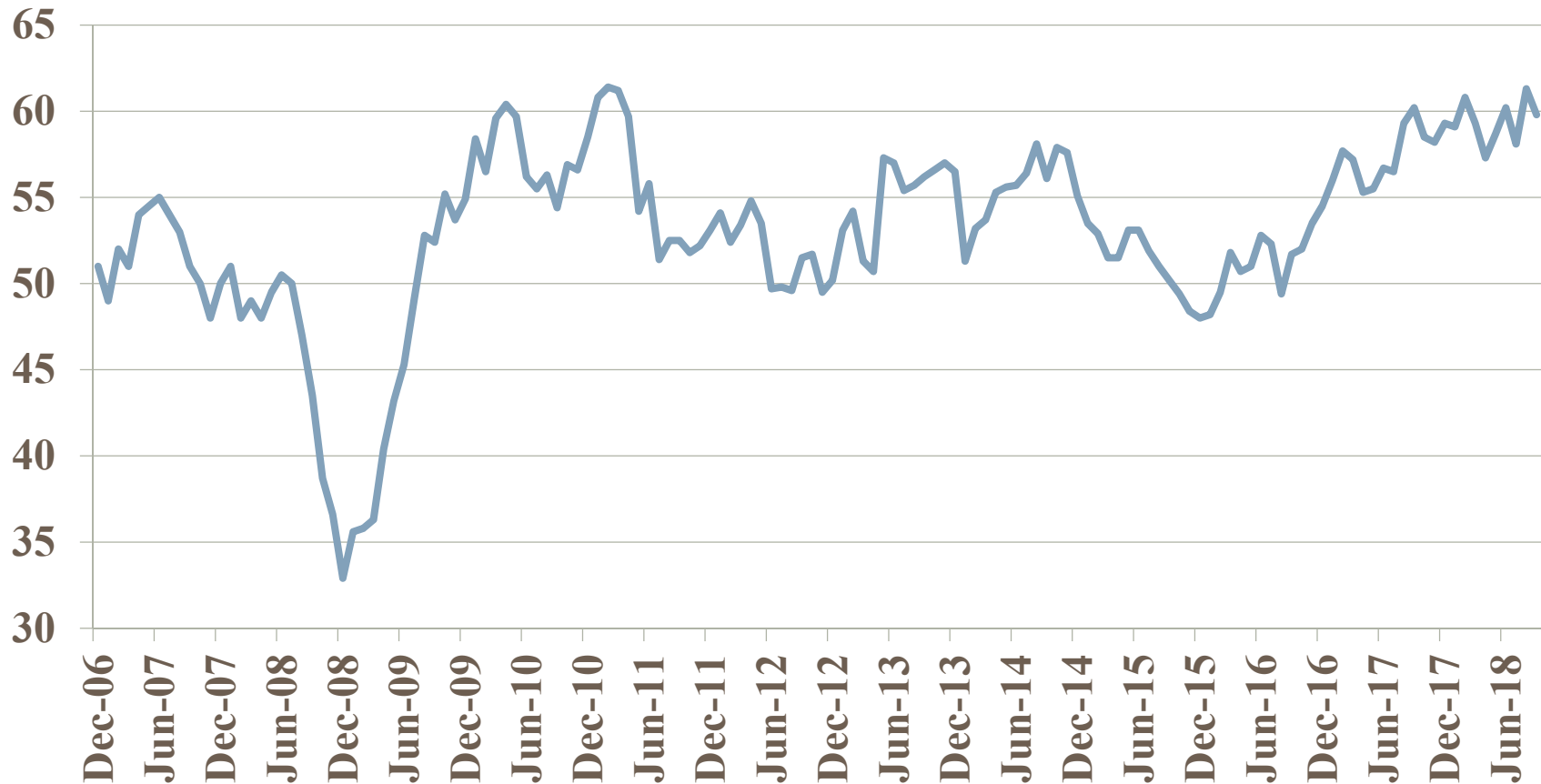
— Leading Economic Indicator Index



Source: The Conference Board

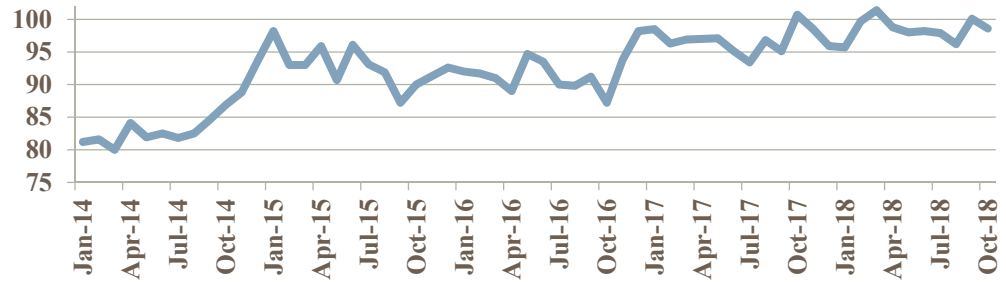
Manufacturing Activity Remains Strong

Purchasing Managers Index (PMI)

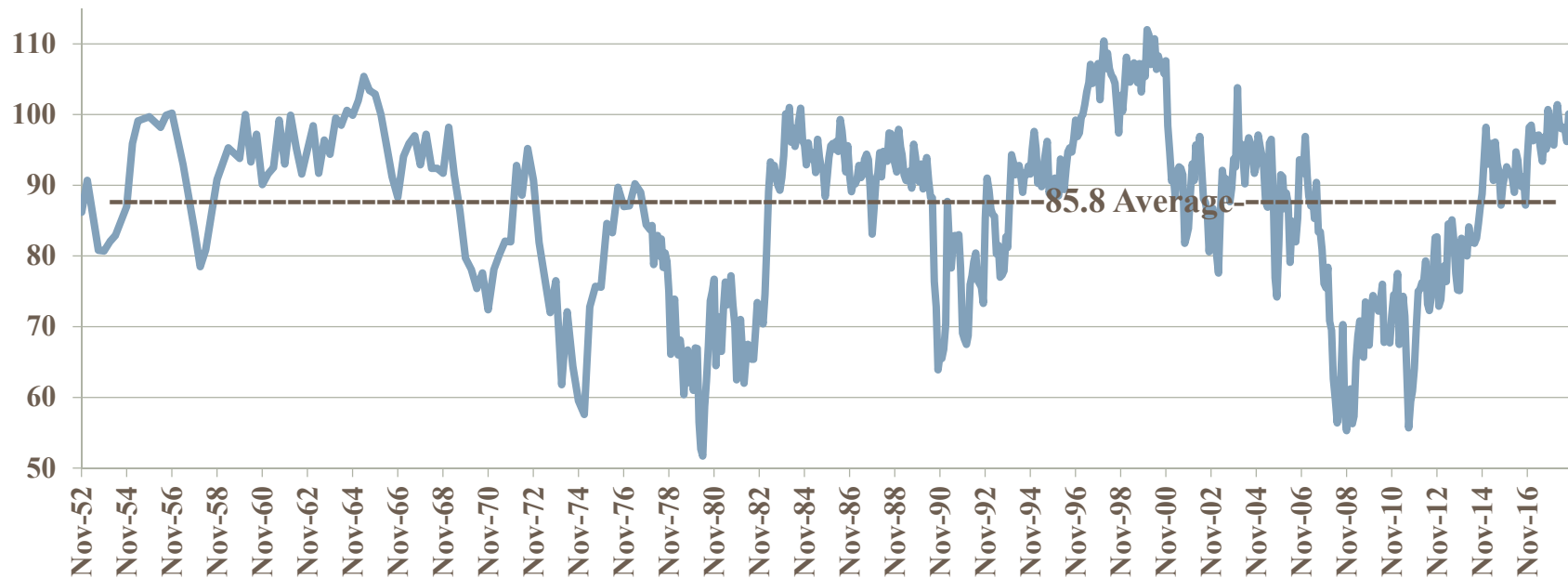


Source: Institute for Supply Management

Strong Consumer Confidence Continues

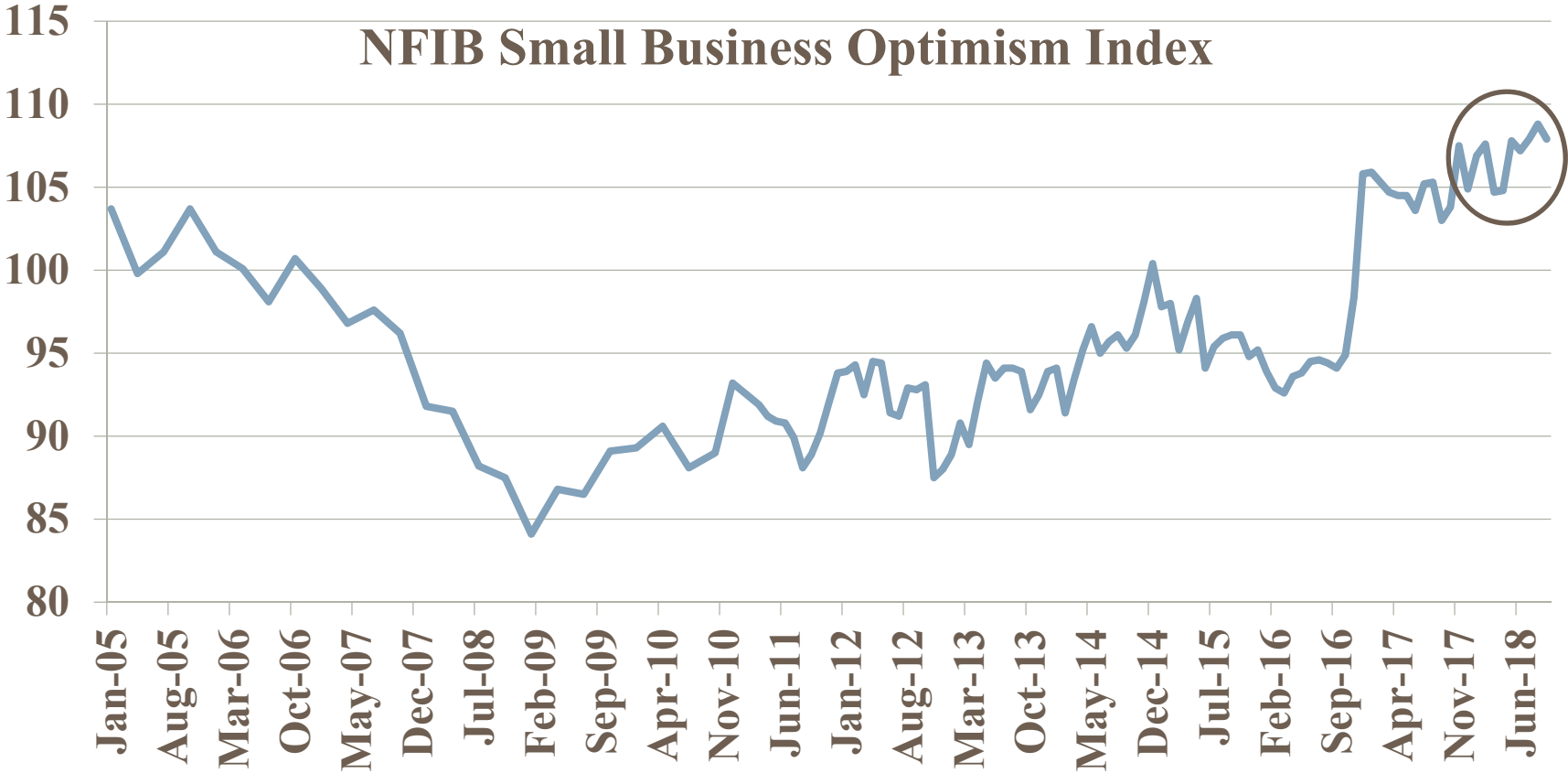


University of Michigan Consumer Sentiment Index



Source: The University of Michigan

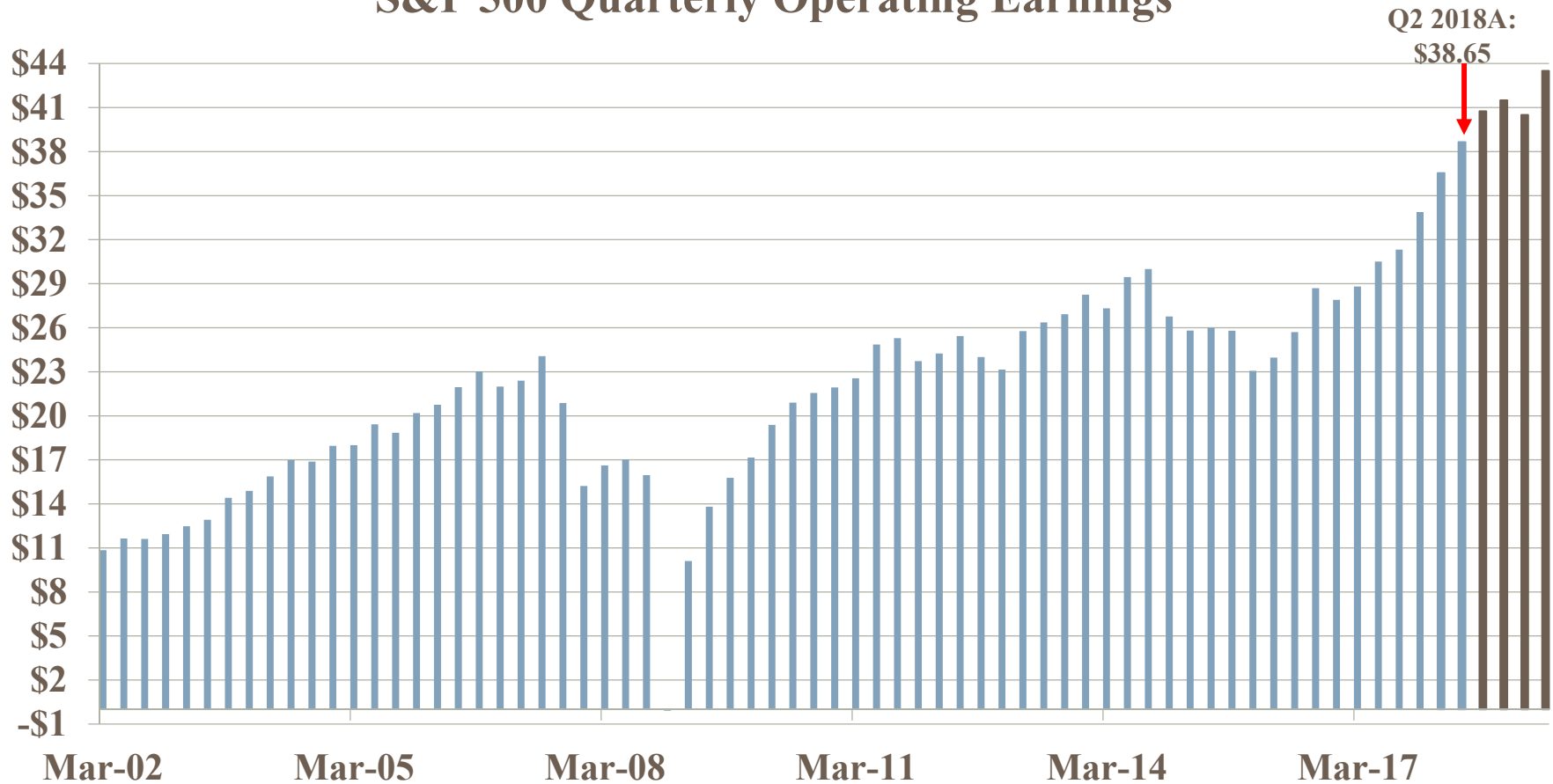
Small Business Still Confident



Source: National Federation of Independent Business

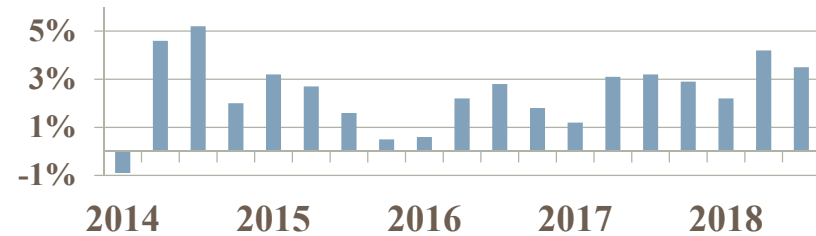
Earnings Hit New Highs

S&P 500 Quarterly Operating Earnings

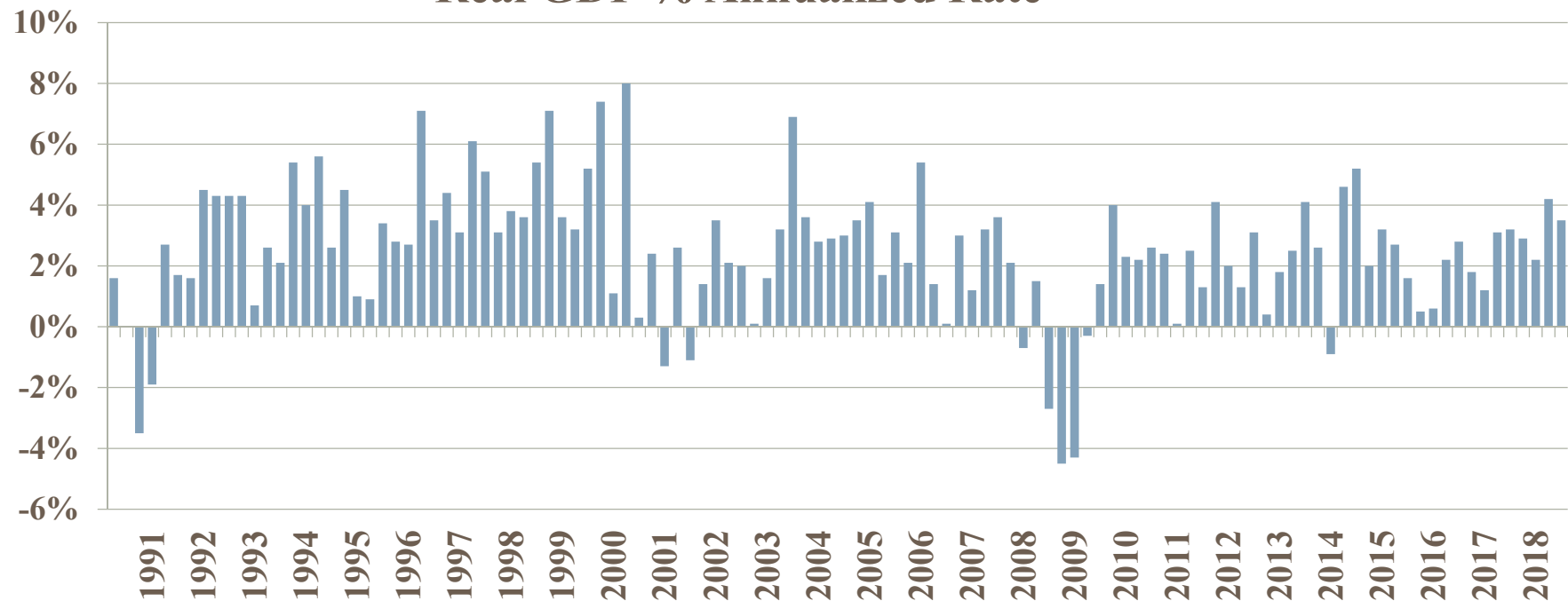


Source: Standard & Poor's, J.P. Morgan Asset Management

Strong GDP Growth In the 3rd Quarter



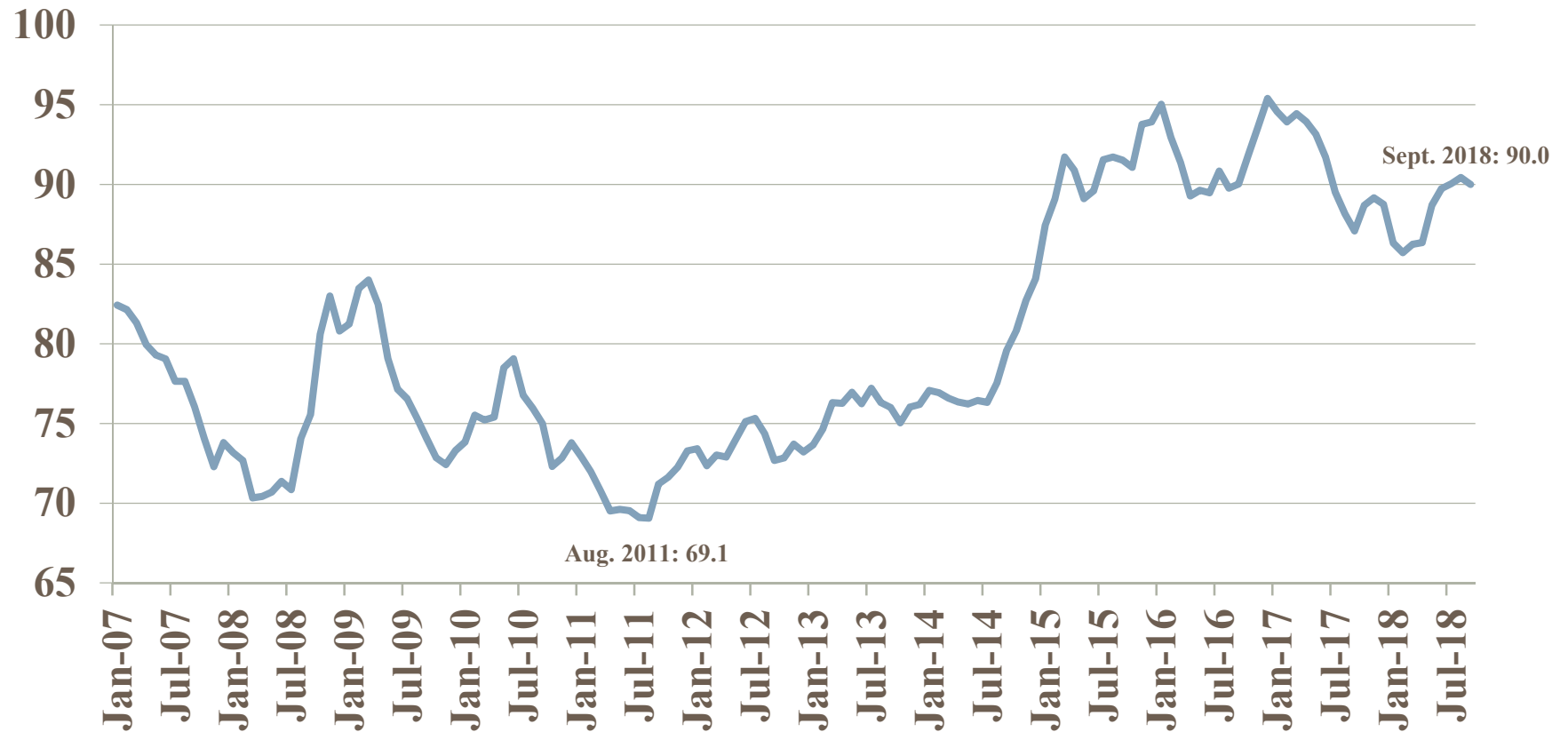
Real GDP % Annualized Rate



Source: Bureau of Economic Analysis

US Dollar Has Strengthened in 2018

U.S Dollar Index



Trade Weighted U.S. Dollar Index: Major Currencies
Past performance is no guarantee of future success

Current Economic Factors Scorecard

Positive

Credit Conditions

Housing ↓

Consumer Confidence

Employment

Corporate Sector

Fiscal Policy

Neutral

Commodity Prices

Interest Rates ↓

U.S. Politics

U.S. Dollar ↓

U.S. Inflation

Global Growth ↓

Eurozone ↓

China ↓

Negative

Geopolitics (-)

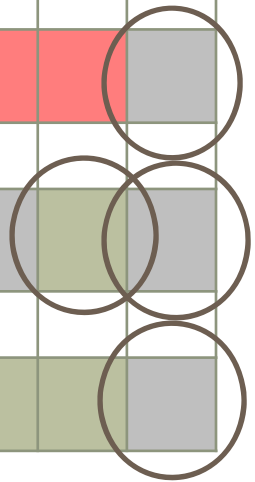
Tariffs

Market Dashboard

Projected

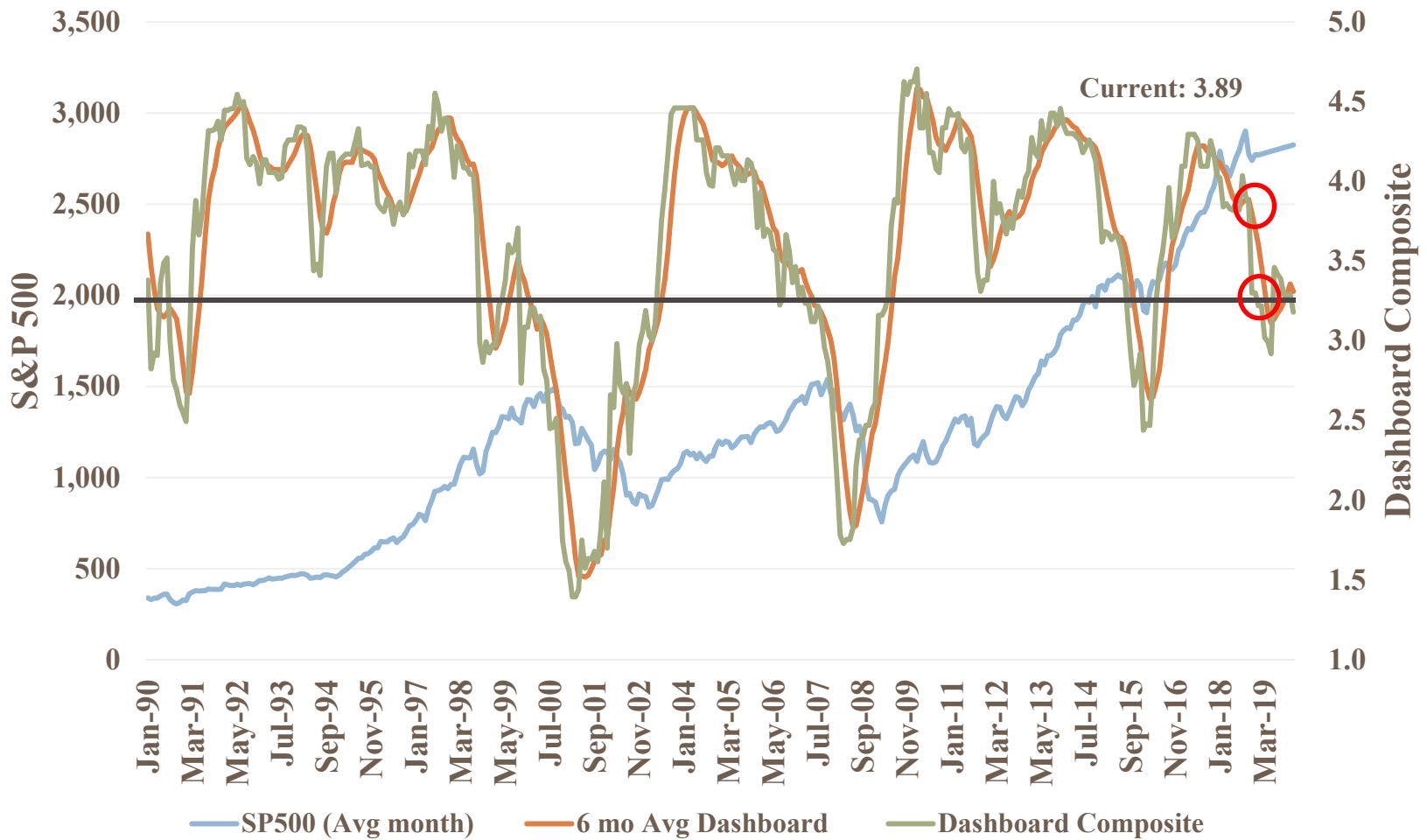


	1Q 2015	2Q 2015	3Q 2015	4Q 2015	1Q 2016	2Q 2016	3Q 2016	4Q 2016	1Q 2017	2Q 2017	3Q 2017	4Q 2017	1Q 2018	2Q 2018	3Q 2018	4Q 2018	
Economy	Green	Green	Green	Grey	Grey	Grey	Grey	Green	Green	Green	Green	Green	Green	Green	Green	Green	
Credit Markets	Green	Green	Grey	Grey	Grey	Grey	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	
Valuations	Grey	Grey	Grey	Grey	Grey	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red	Grey
Market Sentiment	Green	Green	Grey	Grey	Red	Green	Green	Green	Green	Green	Green	Green	Green	Grey	Green	Grey	Grey
Composite	Green	Green	Grey	Grey	Red	Grey	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Grey



As of 10/22/2018

Market Dashboard



As of 10/22/2018

Markets:

3rd Quarter Performance

Split Between

U.S. vs International

Market Summary

■ Equity market performance

	<u>Q3</u>	<u>YTD</u>
– US large cap		
• S&P 500	+7.7%	+11.0%
– US mid cap		
• Russell Midcap	+5.0%	+7.1%
– US small cap		
• Russell 2000	+3.6%	+10.0%
– International equities		
• MSCI ACWI ex US	+0.7%	-3.2%
– International small cap		
• MSCI ACWI ex US SMID	-0.7%	-3.6%
– Emerging markets		
• MSCI Emerging Markets	-1.1%	-7.8%

Market Summary

■ Bonds and other asset class performance

	<u>Q3</u>	<u>YTD</u>
– US fixed income		
• Barclay's Aggregate	+0.02%	-1.7%
– Global fixed income		
• Barclay's Global ex US	-1.7%	-3.3%
– Commodities		
• Bloomberg Commodity TR	-2.0%	-0.7%
– Long short		
• Morningstar Long Short	+2.8%	+2.1%
– REITS		
• MSCI US REIT	+0.8%	+0.4%

Equity Market Conditions

■ Third Quarter

	<u>Value</u>	<u>Blend</u>	<u>Growth</u>
Large	5.7%	7.7%	9.2%
Mid	3.3%	5.0%	7.6%
Small	1.6%	3.6%	5.5%

■ YTD

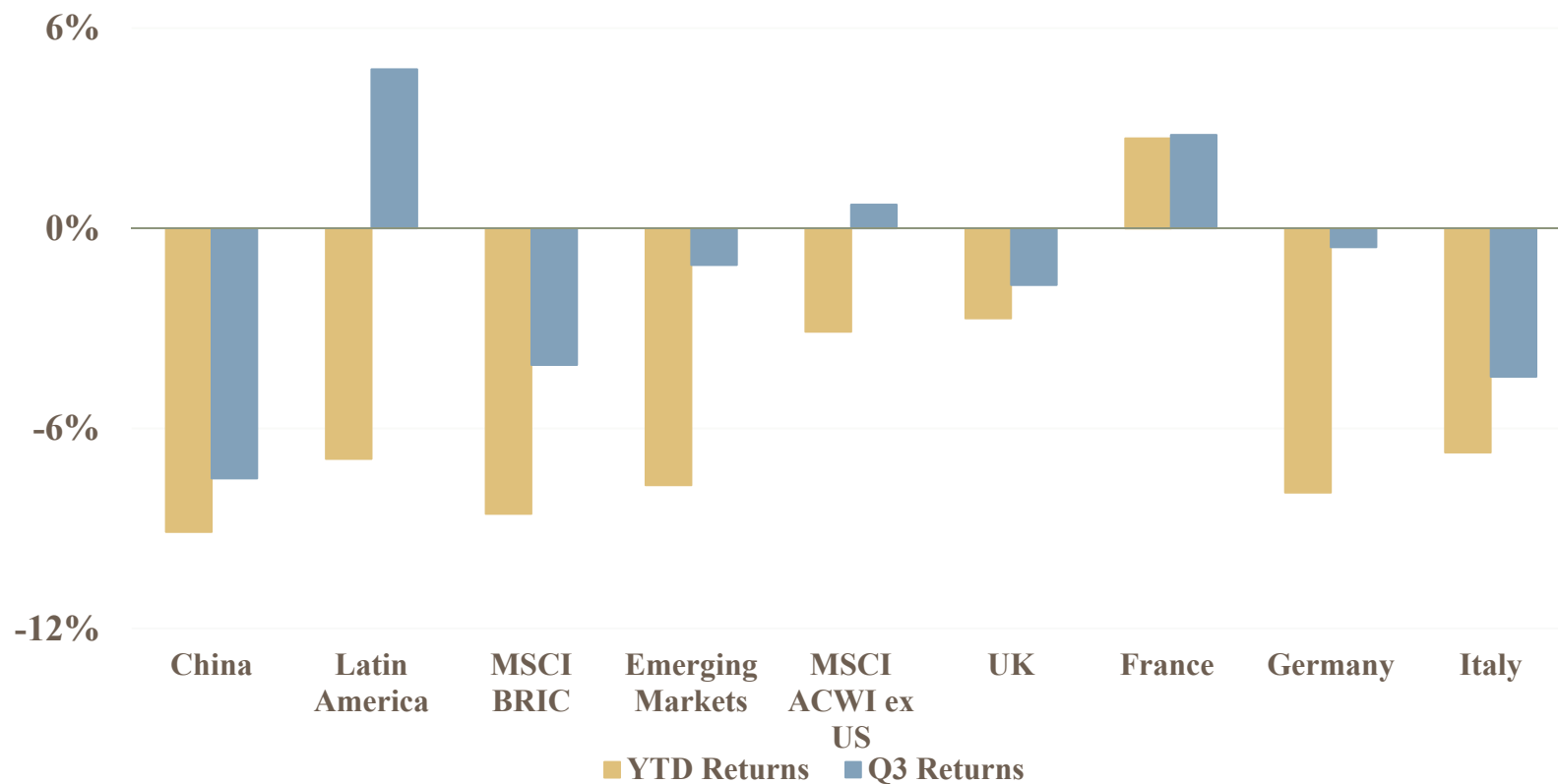
	<u>Value</u>	<u>Blend</u>	<u>Growth</u>
Large	3.9%	10.6%	17.1%
Mid	3.1%	7.5%	13.4%
Small	7.1%	11.6%	15.8%

All calculations are cumulative total return as of 9/30/2018.

Russell style indices utilized for all performance with the exception of large blend, which reflects the S&P 500 Index.

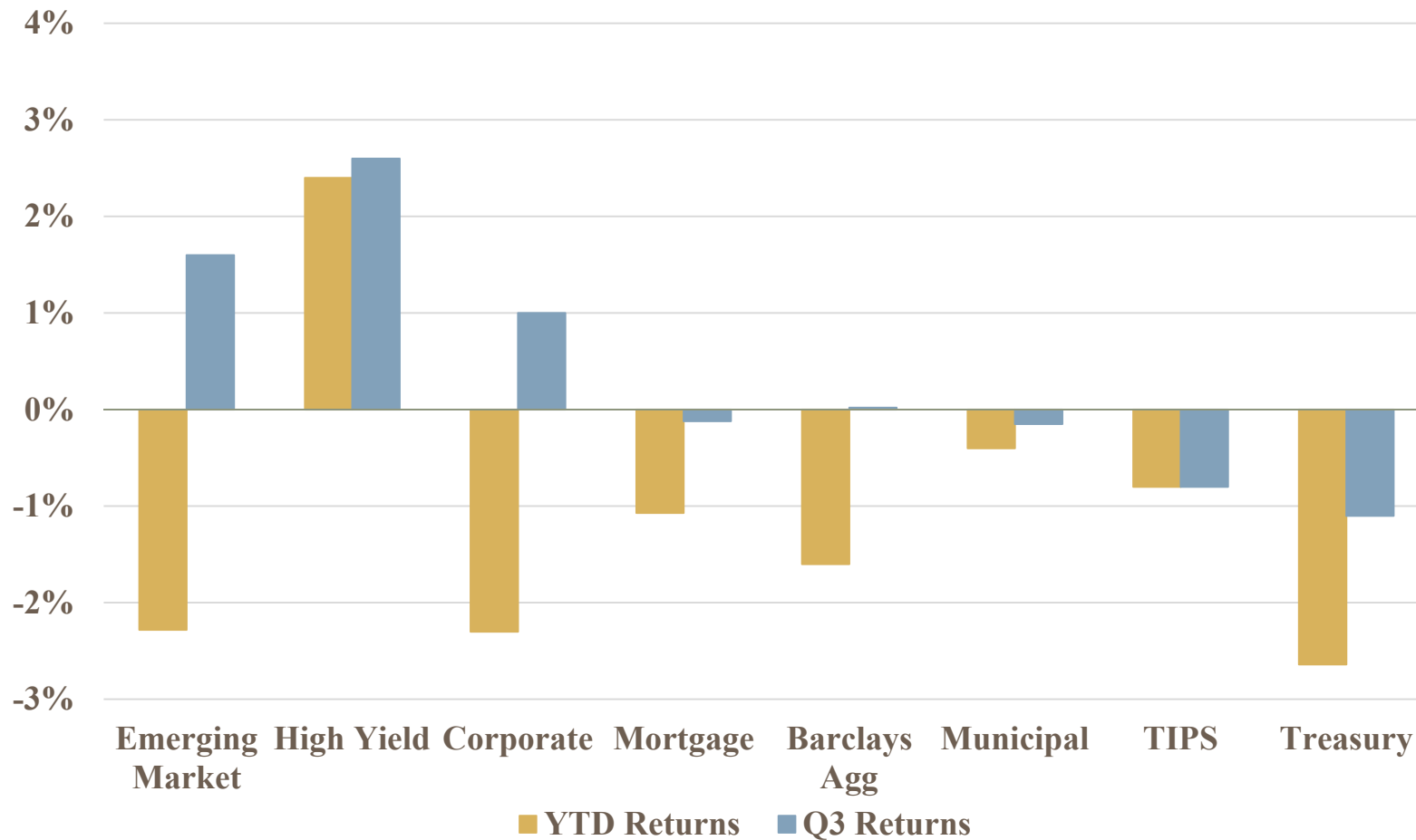
Past performance is no guarantee of future success.

Strong Dollar and Tariffs Hit Int'l Equities



Past performance is no guarantee of future success.
Returns in US dollars.

Mixed Bond Performance During 3rd Quarter



Past performance is no guarantee of future success.

Returns in US dollars.

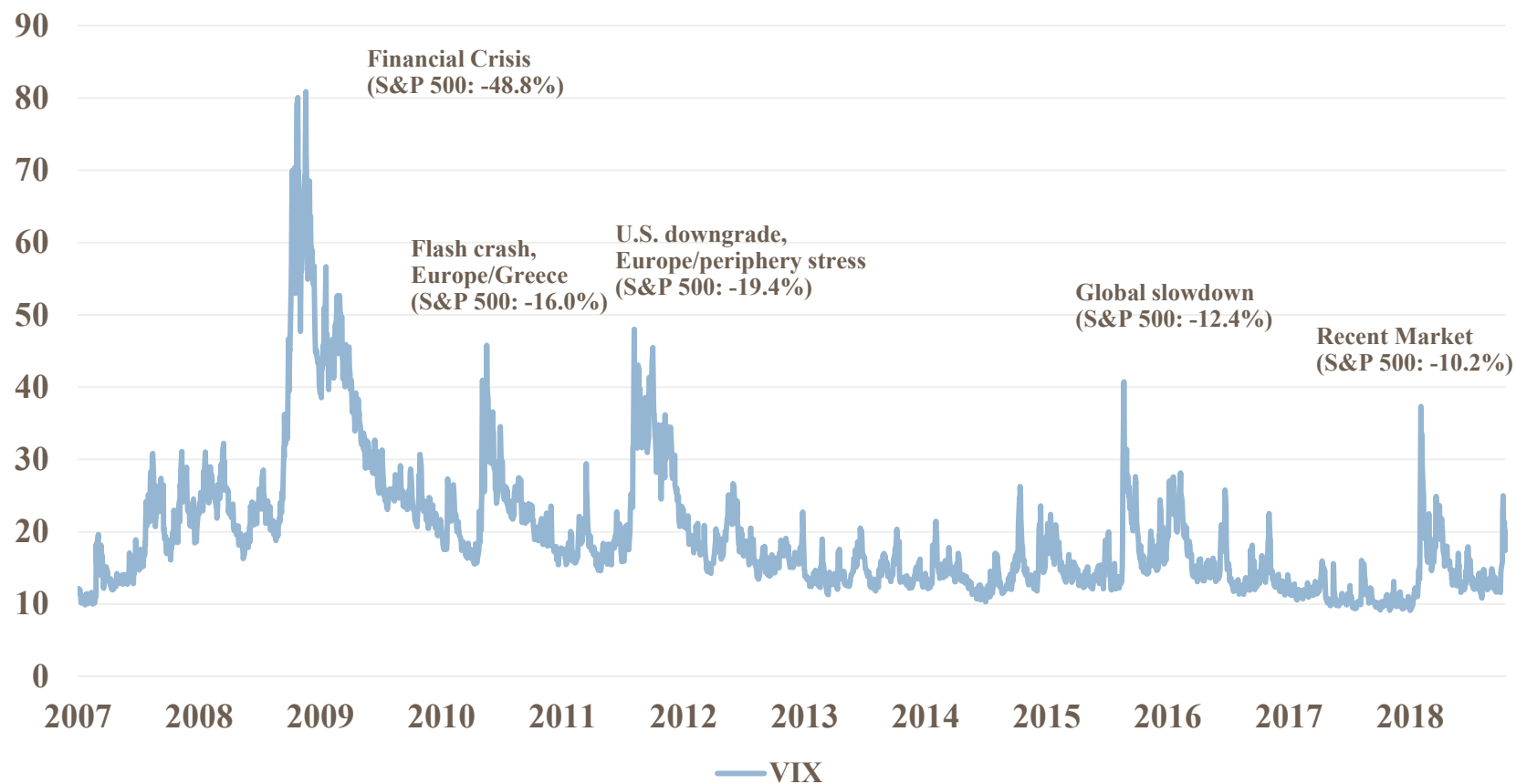
October Market Summary

Approximate Market Performance Through October 24, 2018

	Month to Date	YTD	12 Month
US Fixed Income Barclays Aggregate	-0.6%	-2.1%	-1.6%
US Large Cap S&P 500	-8.8%	0.9%	5.4%
US Mid Cap Russell Midcap	-10.5%	-3.8%	0.1%
US Small Cap Russell 2000	-13.4%	-3.4%	-0.9%
International Equities MSCI ACWI ex US	-8.8%	-11.7%	-8.6%

Increase in Volatility - Update

CBOE Market Volatility Index (VIX) Level

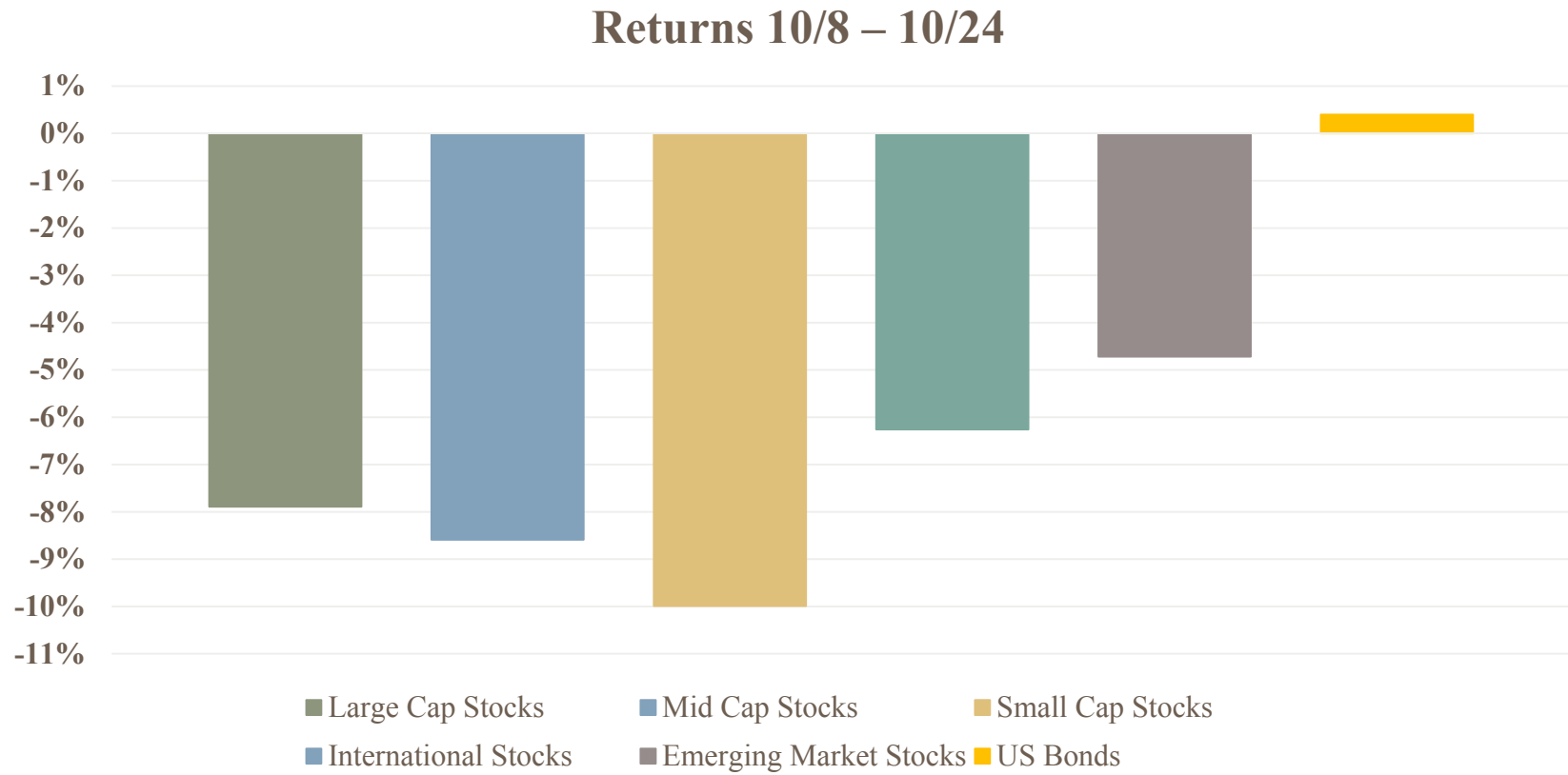


Source: CBOE, J.P. Morgan Asset Management; as of 10/18/18

Explanation for October Decline

- **Treasury yields spiked after September rate hike and the Federal Reserve indicated commitment to further rate hikes**
- **Fear that economic strength would cause inflation to move higher and put further pressure on the Federal Reserve to raise rates**
- **Fear over the uncertain effects of tariffs on global growth**
- **Brexit and other Eurozone uncertainty**
- **End of synchronized global growth**
- **Strong U.S. dollar**
- **Earnings reports not as strong as expected**

How Have Bonds Done During Decline?



Past performance is no guarantee of future success.

Returns in US dollars.

SilverOak's Outlook

SilverOak's Outlook

- **U.S. Economy**
 - Growth will moderate in 2019
 - Earnings are likely to moderate, but still strong
- **International Economy**
 - Moderate global growth into 2019, though likely at a lower level than over the past year or two

SilverOak's Outlook

■ Equities

- Although valuations are high, as noted in the Market Dashboard, and an end to this cycle is imminent, we don't expect it to occur within the next few quarters
 - This does not mean a 10% pullback is not to occur as these are relatively common
 - Also, nobody can accurately and consistently predict the markets!

**Maintain a diversified approach
consistent with your risk profile**

SilverOak's Outlook

■ Bonds

- Returns will likely still be negatively impacted by rising rates through the rest of 2018
 - However, continued stock volatility could mitigate the impact of rising rates
- Bond returns in 2019 will likely be close to the underlying bond yield

Giftng:
'Tis the Season

Gifts Recipients

- **Charity**
- **Individuals (i.e. kids!)**

Gifts to Charities

- **Choice of assets to utilize**
 - Cash
 - Stock
 - Low basis stock is best
 - Do not gift stock that has either a loss or has a short-term gain!
 - IRA RMD (required minimum distribution)
 - Also referred to as a QCD (qualified charitable distribution)
 - Must by 70½
 - Maximum annual exclusion is \$100,000
 - Can't be to a Charitable Gift Fund/Donor Advised Fund

Gifts to Charities

- **Complete gift prior to year-end**
 - Checks written outright must be postmarked by year-end
 - Checks written from IRAs (i.e. QCDs) must be cashed by year-end
- **Gift must be to a qualified charity**
 - Includes charitable gift funds/donor advised funds (With exception of QCDs)

Gifts to Charities

■ Documentation required

– Less than \$250

- Contemporaneous written acknowledgement from qualified organization required

- Name of organization

- Date and location of charitable contribution

- Description of any property contributed

– \$250 or more (up to \$500)

- All items listed above

- In addition, receipt must include language indicating, “no goods or services were provided in exchange for the gift”

Gifts to Charities

- **Documentation required (continued)**
 - If noncash contribution of more than \$500 (up to \$5,000)
 - All items listed prior
 - In addition, Form 8283 required (Section A only)
 - If noncash contribution of more than \$5,000 (up to \$500,000)
 - All items listed above, with exception of Form 8283 (Section A)
 - In addition, Form 8283 required (Section B only*)
 - Requires a qualified appraisal and declaration by appraiser

*Appraisals are not needed for publicly trade securities

Gifts to Charities

- **Documentation required (continued)**
 - If noncash contribution of more than \$500,000
 - All items listed prior
 - In addition, you must attach the qualified appraisal to your return

- **Must combine similar items donated when determining which set of documentation requirements apply!**

Gifts to Charities

- **Special rules for certain types of properties such as automobiles and boats**
 - If you claim a value of more than \$500, you can deduct the smaller of:
 - Gross proceeds from the sale of the vehicle by the organization, or
 - Vehicle's fair market value on date of contribution, unless your basis is lower
 - Must also attach Form 1098-C to your return

Gifts to Charities

■ Miscellaneous items

- Clothing and household items must generally be in good condition or better
- You must have all receipts from the charitable organizations prior to filing your tax returns
- The Tax Cuts and Jobs Act repealed the ability to deduct up to 80% of donations required to purchase season tickets (i.e. “seating rights”)

Gifts to Charities

■ Tax deduction limitations

- First, you must itemize your deductions
- Second, you must know what type of charity you contributed to:
 - 60% limit of AGI (adjusted gross income)
 - Applies to all public charities, private operating foundations and certain private foundations
 - 30% limit of AGI
 - Applies to private foundations, fraternal societies, etc.
 - Also applies to capital gain property to 60% organizations
 - 20% limit of AGI
 - Applies to capital gain property to 30% organizations or capital gain property for the use of qualified organizations

Gifts to Charities

- **Remember, under The Tax Cuts and Jobs Act, you may want to consider “bunching” your charitable contributions**
 - See the SilverOak Webinar from January 2018
 - “Bunching” charitable contributions likely to involve a Charitable Gift Fund/Donor Advised Fund

Donor Advised Funds

- **What is a donor advised fund?**
 - A charitable giving vehicle
 - Works much like having a separate account devoted to charitable giving
- **How do they work?**
 - Contributions of cash and/or stock are made into the fund/account
 - A charitable tax deduction is available upon making the contribution
 - Donor retains rights to make grants out of fund/account at anytime in the future
 - Amounts retained in the fund/account can be invested in order to grow over time

Donor Advised Funds

- **Are there costs associated with donor advised funds?**
 - Yes, depending upon where you setup the fund
 - Schwab and Fidelity both charge an administrative fee of 0.60% on the first \$500k (reduces as assets get larger)
- **Why would you utilize a donor advised fund?**
 - To establish a “legacy fund”, much like a foundation
 - To diversify concentrated holdings with low basis
 - To simplify administration of charitable tax records
 - To enable “bunching” of contributions for tax purposes

Gifts to Individuals

- **Annual gift tax exclusion limit**
 - Currently \$15,000 per recipient per year
 - Annual gifts not exceeding the annual exclusion do not count against your lifetime exemption
- **Exclusion for education and health care costs**
 - Expenses paid directly to educational institutions or health care providers for the benefit of another person are not considered gifts
- **Lifetime gift exemption**
 - Federal = \$11,180,000 per donor
 - Single exemption amount is shared between gift taxes and estate taxes

Gifts to Individuals

- **Choice of assets to utilize**
 - Cash
 - Stock
 - Whether you utilize low basis or high basis stock is dependent upon circumstances and objectives
 - Do not gift stock that has a loss
 - Carryover basis and acquisition date
 - Remember the kiddie tax!

Gifts to Individuals

■ Kiddie Tax

– Applies to “dependent” children who must file a separate tax return

- Dependent child:

- Under age 18 at end of year

- Age 18 at end of year

- Did not have “earned” income equal to more than half their support

- Age 19 – 23 at end of year

- Did not have “earned” income equal to more than half their support

- Were full-time student

Gifts to Individuals

■ Kiddie Tax (continued)

– Separate tax return required if:

- Earned income exceeds the \$12,000 standard deduction
- Unearned income (interest, dividends and capital gains) exceeds \$1,050
- Gross income exceeds the larger of:
 - \$1,050 or
 - Earned income (up to \$12,000) plus \$350

Gifts to Individuals

■ Kiddie Tax (continued)

– Tax rates on unearned income

- Interest and short-term capital gains

- \$0 plus 10% on income over \$0 but not over \$2,550

- \$255 plus 24% on income over \$2,550 but not over \$9,150

- \$1,839 plus 35% on income over \$9,150 but not over \$12,500

- \$3,011.50 plus 37% on income over \$12,500

- Long-term capital gains and qualified dividends

- 0% for capital gains income up to \$2,600

- 15% for capital gains income over \$2,600 and up to \$12,700

- 20% for capital gains income over \$12,700

Gifts to Individuals

- **Forgiveness of a loan is considered a gift**

- **Other items to consider when making a loan**
 - Document the loan using a promissory note
 - At a minimum, must use the IRS AFR (Applicable Federal Rates) for the month of origination
 - Short-term = up to 3 years
 - Mid-term = Over 3 years, but less than 9 years
 - Long-term = 9 years +
 - Loans for homes need to show the home as collateral and the note needs to be recorded properly with the county in order for the borrower to take the interest as a tax deduction

Other Gifting Strategies

- **Gifting to grandchildren**
 - Consider 529 Plans
 - Allow a special front loading of up to 5-years worth of annual gift exclusions
 - Prior to distributions being made, may want to convert ownership to parents
 - Irrevocable trusts
- **Trusts**
 - Charitable
 - Charitable Remainder Trusts
 - Charitable Lead Trusts
 - Non-Charitable
 - Grantor Retained Annuity Trusts

*SilverOak Updates,
Year-end Reminders and
Other Noteworthy Items*

SilverOak Updates

- **New SilverOak Team members!**
 - Tax Director – Jason Worden
 - Associate Para Planner
- **IQSStm (Investment Quality Scoring Systemtm)**
 - Replacing one of our international positions due to management change
 - Three previously closed IQSStm positions now available to SilverOak clients
- **Updated SilverOak website still in process**

Year-end Reminders

- Keep good tax records for 2018
- Ensure that you complete a year-end tax projection
- Take RMDs for the year (required minimum distributions)
- Ensure proper riders in place for jewelry, electronics, etc.
- Watch for year-end capital gains distributions
 - FYI – Year-end distributions look to be consistent with last year (or even possibly higher)
- Consider tax loss harvesting
- For gifting, current annual gift tax exclusion is \$15,000
- Consider using low-basis stock for charitable donations
- Review beneficiary designations
- Review personal property and casualty insurance coverage

Other Noteworthy Items

- **2019 401(k) contribution limits increased**
 - \$19,000 under age 50
 - \$25,000 age 50 and over with catch-up
- **2019 HSA contribution limits increased**
 - \$7,000 family
 - \$3,500 single
- **2019 IRA and Roth IRA contribution limits increase by \$500**
 - \$6,000 under age 50
 - \$7,000 age 50 and over with catch-up

Other Noteworthy Items

- **Social Security updates**
 - COLA increase of 2.8%
 - Maximum taxable earnings increasing by \$4,500
 - From \$128,400 in 2018 to \$132,900 in 2019
 - Increases maximum tax from \$7,961 in 2018 to \$8,240 in 2019
 - Maximum monthly benefit at FRA increases by \$73
 - From \$2,788 in 2018 to \$2,861 in 2019

Other Noteworthy Items

■ Medicare updates

- Standard monthly premium for Part B increasing
 - From \$134 in 2018 to \$135.50 in 2019
- “High earner” premium (based on 2017 MAGI)

<u>Individual</u>	<u>Joint</u>	<u>Premium</u>
\$85,001-\$107,000	\$170,001-\$214,000	\$189.60
\$107,001-\$133,500	\$214,001-\$267,000	\$270.90
\$133,501-\$160,000	\$267,001-\$320,000	\$352.20
\$160,001-\$499,999	\$320,001-\$749,999	\$433.40
\$500,000+	\$750,000+	\$460.50

- Annual enrollment is October 15th – December 7th

*Additional
Questions
and/or Topics?*

End of Quarterly Webinar

Please contact your SilverOak Advisor
to discuss any questions and/or concerns.

If you are not currently working with SilverOak, feel free
to contact us at 952-896-5701 to learn more about our services.

www.silveroakwealth.com