GLOBAL
WEALTH ADVISORS LLC
Registered Investment Advisor

INSIGHTS

Michael J. Krencicki, MSF, CFP ® | Winter 2018 | James M. Knaus, MSM, CFP ®

The Tax Cuts & Jobs Act

The reconciled bill was passed by both the House and Senate and was signed by the President on December 22nd. The new tax law is scheduled to take effect in 2018 and the following is a brief summary of the highlights for both individuals and corporations.

INDIVIDUALS

- Lower tax rates, but still seven brackets
- Overall income tax reduction
- Substantial increase (almost double) in the Standard Deduction
  - $12,000 for Single
  - $24,000 for Married filing Joint
- Personal Exemptions Eliminated
- Tax Credit increased from $1,000 to $2,000 per child under 17
- Itemized Deduction for State and Local Taxes (SALT) is limited to $10,000
- Mortgage Interest Deductible on new mortgages, limited to $750,000 loan amount
- Home Equity Loans and Lines of Credit: Interest no longer deductible
- Medical Expense Deduction continues, with lower threshold of 7.5% for 2017 thru 2018
- Miscellaneous Itemized Deductions subject to 2% floor: Eliminated
- Student Loan Interest is still deductible, as an adjustment to income
- Moving Expense Deduction is repealed, as is the Exclusion for Reimbursement, except for certain Armed Forces moves
- Section 529 Plans continue, and will allow for up to $10,000 per individual per year as a tax-free distribution for qualifying expenses prior to college
- Repeal of the overall limitation on itemized deductions
- Alimony is non-deductible for agreements after December 31, 2018
- Roth IRA Conversions can no longer be re-characterized
- Exemption Amounts increased for Alternative Minimum Tax
- 20% Deduction for pass-through income from sole proprietorships, partnerships, limited liability companies and S Corporations (Service Business phase-out: $157,500 Single/$315,000 Joint)
- For months after December 31, 2018, individual responsibility payments under the Affordable Care Act are eliminated
- Estate, Gift and Generation Skipping Transfer Taxes:
  - Doubling of the Exclusion to c. $11 Million
  - Retention of Step-Up in Basis rules at death
  - Estate and GST Tax Repealed in 2025. Gift tax rate is then 35%

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A Personal Note From Global Wealth Advisors

2017 has drawn to a close and stock markets around the world have posted stellar returns. Here at home, continued economic growth, strong corporate earnings and the most significant changes to US tax law since the Tax Reform Act of 1986 have helped drive our stock markets to new highs. We have also seen speculation into digital currencies, (cryptocurrencies), and watched Bitcoin's price soar thousands of dollars.

In addition, the Federal Open Market Committee met in mid-December and voted to raise the Federal Funds Rate another .25%. The rate now stands at 1.25% to 1.50% and influences the interest rates charged on things like credit cards and consumer loans to name a few. The committee also said it expects to raise this key interest rate three more times in 2018 in anticipation of continued economic growth. The increase was no surprise and had no real effect on US stock prices.

It is anticipated that tax reform, continued economic expansion and strong corporate earnings will continue to help increase US stock market returns for 2018. If nothing else, 2017 was a healthy reminder that when it comes to equity investments, it's important to stay focused on long-term goals and objectives and ignore the short-term volatility and guesstimates of so-called experts. You will be glad you did!

Jim Knaus *Mike Krencicki*

The ABCs of Behavioral Biases (A – F)

Welcome back to our series "The ABCs of Behavioral Biases." Today, we'll get started by introducing you to four self-inflicted biases that knock a number of investors off-course: anchoring, blind spot, confirmation and familiarity bias.

1. ANCHORING BIAS

What is it? Anchoring bias occurs when you fix on or "anchor" your decisions to a reference point, whether or not it's a valid one.

When is it helpful? An anchor point can be helpful when it is relevant and contributes to good decision-making. For example, if you've set a 10 pm curfew for your son or daughter and it's now 9:55 pm, your offspring would be wise to panic a bit, and step up the homeward pace.

When is it harmful? In investing, people often anchor on the price they paid when deciding whether to sell or hold a security: *"I paid $11/share for this stock and now it's only worth $9/share. I'll hold off selling it until I've broken even."* This is an example of anchoring bias in disguise. Evidence-based investing informs us, the best time to sell a holding is when it's no longer serving your ideal total portfolio, as prescribed by your investment plans. What you paid is irrelevant to that decision, so anchoring on that arbitrary point creates a dangerous distraction.

2. BLIND SPOT BIAS

What is it? Blind spot bias occurs when you can objectively assess others' behavioral biases, but you cannot recognize your own.

When is it helpful? Blind spot bias helps you avoid over-analyzing your every imperfection, so you can get on with your one life to live. It helps you tell yourself, "I can do this," even when others may have their doubts.

When is it harmful? It's hard enough to root out all your deep-seated biases once you're aware of them, let alone the ones you remain blind to. In "Thinking, Fast and Slow," Nobel laureate Daniel Kahneman states: ***"We are often confident even when we are wrong,*** and an objective observer is more likely to detect our errors than we are." This is where second opinions from an independent advisor can come in especially handy.

3. CONFIRMATION BIAS

What is it? We humans love to be right and hate to be wrong. This manifests as confirmation bias, which tricks us into being extra sympathetic to information that supports our beliefs and especially suspicious of or even entirely blind to conflicting evidence.

When is it helpful? When it's working in our favor, confirmation bias helps us build on past insights to more readily resolve new, similar challenges. Imagine if you otherwise had to approach each new piece of information with no opinion, mulling over every new idea from scratch. While you'd be a most open-minded person, you'd also be a most indecisive one.

When is it harmful? Once we believe something – such as an investment is a good/bad idea, or a market is about to tank or soar – we want to keep believing it. To remain convinced, we'll tune out news that contradicts our beliefs and tune into that which favors them. We'll discount facts that would change our mind, find false affirmation in random coincidences, and justify fallacies and mistaken assumptions that we would otherwise recognize as inappropriate. And we'll do all this without even knowing it's happening. Even stock analysts may be influenced by this bias.

4. FAMILIARITY BIAS

What is it? Familiarity bias is another mental shortcut we use to more quickly trust or more slowly reject something that is familiar to us.

When is it helpful? Do you cheer for your home-town team? Speak more openly with friends than strangers? Favor a job applicant who, all else being equal, has been recommended by one of your best employees? Congratulations, you're making good use of familiarity bias.

When is it harmful? Considerable evidence tells us that a broad, globally diversified approach best enables us to capture expected market returns while managing the risks involved. Yet studies like this one have shown investors often instead overweight their allocations to familiar vs. foreign investments. We instinctively assume familiar holdings are safer or better, even though we can't *all* be correct at once.

Stay tuned for the next group of biases to be covered in the Spring 2018 newsletter! ●

Cryptocurrency: What's It All About?

Crytpocurrency is essentially a kind of digital money or currency. Thanks to electronic security or encryption, it exists in a presumably secure and ***limited*** supply. Pair the words "encryption" and "**currency,**" and you've got a new kind of digital asset.

Cryptocurrency was introduced in 2009 by a fellow named Satoshi Nakamoto. He is credited with designing and implementing **bitcoin** as the first and most familiar cryptocurrency. Ethereum is currently its second-closest competitor, with plenty of others vying for space as well with more than 1,300 as of early December 2017.

Unlike paper dollars or your pocket change, cryptocurrency exists strictly as compnakuter code. You can't touch it or feel it and you can't flip it heads or tails. But increasingly, holders are receiving, saving and spending their cryptocurrency in ways that emulate the things you can do with "regular" money.

HOW DOES CRYPTOCURRENCY DIFFER FROM "REGULAR" MONEY?

In comparing cryptocurrency to regulated fiat currency there are a few observations of note. First, since neither fiat nor cryptocurrency are still directly connected to the value of an underlying commodity like gold or silver, both must have another way to maintain their spending power in the face of inflation.

For legal tender, most countries' central banks keep their currency's spending power relatively stable. For cryptocurrency, there is no central bank, or any other centralized repository or regulator. Its stability is essentially backed by the strength of its underlying ledger, or blockchain, where balances and transactions are verified and then publicly reported.

The notion of limited supply factors in as well. Obviously, if everyone had an endless supply of money, it would cease to have any value to anyone. That's why central banks such as the U.S. Federal Reserve, the Bank of Canada, and the Bank of England are in charge of stabilizing the value of their nation's legal tender, regularly seeking to limit supply without strangling demand.

While cryptocurrency fans offer explanations for how its supply and demand will be managed, it's not yet known how effective the processes will be in sustaining this delicate balance, especially when exuberance or panic driven runs might outpace otherwise orderly procedures.

WHY WOULD ANYONE WANT TO USE CRYPTOCURRENCY INSTEAD OF LEGAL TENDER?

For anyone who may not be a big fan of government oversight, the processes are essentially driven "by and for the people" as direct peer-to-peer exchanges with no central authorities in charge. At least in theory, this is supposed to allow the currency to flow more freely, with less regulation, restriction, taxation, fee extraction, limitations and similar machinations. Moreover, cryptocurrency transactions are anonymous.

If the world was filled with only good, honest people, cryptocurrency and its related technologies could represent a better, more "boundary-less" system for more freely doing business with one another, with fewer of the hassles associated with international commerce. Unfortunately, in real life, this sort of unchecked exchange can also be used for all sorts of mischief like dodging taxes, laundering money or funding terrorism, to name a few.

In short, cryptocurrency, blockchain technology, and/or their next-generations could evolve into universal tools with far wider application. Indeed, such explorations already are under way. In December 2017, Vanguard announced collaborative efforts to harness blockchain technology for improved index data sharing.

That said, many equally promising prospects have ended up discarded in the dustbin of interesting ideas that might have been. Time will tell which of the many possibilities that might happen actually do.

EVEN IF I DON'T PLAN TO USE CRYPTOCURRENCY, SHOULD I HOLD SOME AS AN INVESTMENT?

If you do jump in at this time, ***know you are more likely speculating than investing,*** with current pricing resembling a fast-forming bubble destined for collapse.

Bubble or not, there are at least two compelling reasons you may want to sit this one out for now. First, there are a lot of risks inherent to the cryptocurrency craze. Second, cryptocurrency simply doesn't fit into our principles of evidence-based investing, at least not yet.

Let's take a look at the risks.

Regulatory Risks – First, there's the very real possibility that governments may decide to pile mountains of regulatory road blocks in front of this currently free-wheeling freight train. Some countries have already banned cryptocurrency. Others may require extra reporting or onerous taxes. These and other regulations could severely impact the liquidity and value of your coinage.

Security Risks – There's also the ever-present threat of being pickpocketed by cyber thieves. It's already happened several times, with millions of dollars of value swiped into thin air. Granted, the same thing can happen to your legal tender, but there is typically far more government protection and insurance coverage in place for your regulated accounts.

Technological Risks – As we touched on above, a system that was working pretty well in its development days has been facing some serious scaling challenges. As demand races ahead of supply, the human, technical and electric capital required to keep everything humming along is under stress. Then again, every investment carries some risk. If there were no risk, there'd be no expected return.

That's why we also need to address what evidence-based investing looks like. It begins with how investors versus speculators evaluate the markets.

What's a bitcoin worth? A dollar? $100? $100,000? The answer to that has been one of the most volatile bouncing balls the market has seen since tulip mania in the 1600s.

In his article "Bitcoin & Its Risks," financial author Larry Swedroe summarizes how market valuations occur. "With stocks," he says, "we can look at valuation metrics, like earnings yield. With bonds, we can use the current yield-to-maturity. We have historical evidence to make the appropriate estimates."

You can't do any of these things with cryptocurrency. Swedroe explains: "There simply is no tangible relationship between any economic or financial parameters and bitcoin prices." Instead, there are several ways buying cryptocurrency differs from investing:

- Evidence-based investing calls for estimating an asset's expected return, based on these kinds of informed fundamentals.
- Evidence-based investing also calls for us to factor in how different asset classes interact with one another. This helps us fit each piece into a unified portfolio that we can manage according to individual goals and risk tolerances.
- Evidence-based investing calls for a long-term, buy, hold and rebalance strategy.

Cryptocurrency simply doesn't yet synch well with these parameters. It does have a price but it can't be effectively valued for planning purposes, especially during these extreme price swings. Is that investing or speculating? ●

The Tax Cuts & Jobs Act

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CORPORATIONS

- Corporate Income Tax is 21% on taxable income
- Corporate Alternative Minimum Tax is repealed
- More generous expensing rules
- Companies will pay a one-time, low tax rate on their existing overseas profits -- 15.5% on cash assets and 8% on non-cash assets
- Other fairly esoteric changes ●