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Montlake Financial News

The Tech Sector Could Be Dominating Your Portfolio



The biggest names in technology powered stock market gains and bouts of volatility in 2017, and the trend continued into 2018. The S&P Information Technology sector index posted a 13.19% total return from January

through July 2018, compared with 6.47% for the broader S&P 500 index.¹

Wall Street analysts and the business media often refer to well-known technology companies Facebook, Apple, Amazon, Netflix, and Google (now officially Alphabet) collectively with the acronym FAANG. Others use FAAMG, which substitutes Microsoft for Netflix. Apple, Microsoft, Amazon, and Facebook, respectively, are the four most valuable companies by market capitalization in the S&P 500 index; Alphabet is ranked eighth and ninth (based on two different share classes).²

These tech giants are household names because they already play a huge role in everyday life, but they are also bold innovators with lots of cash on hand. They aim to expand their influence further by developing new products (such as self-driving cars and virtual reality) and disrupting established industries.³

The problem with popularity

Many benchmark indexes are weighted by market capitalization (the value of a company's outstanding shares), which gives larger companies an outsized role in index performance. The same large-cap tech stocks dominate the index mutual funds and exchange-traded funds (ETFs) that track these indexes, and can also be found among the largest holdings of many actively managed funds.

Spreading investments among the 11 different sectors is a common way to diversify stock holdings. However, investors holding a mix of different funds for the sake of diversification

could be surprised by the heavy concentration of popular technology stocks if they eventually fall out of favor and prices fall.

Asset allocation and diversification are methods used to help manage risk; they do not guarantee a profit or protect against investment loss.

Mind your sector exposure

Over time, a core portfolio of diversified equity funds can become overweighted in a sector that has been outperforming the broader market. Some investors with large positions in technology stocks may not be aware of the concentration level in their portfolios. Others could be ignoring the risk, possibly because they are overly optimistic about the sector's future prospects.

Each business cycle is unique, which makes it difficult to predict which sectors stand to benefit in the months ahead. Although there's little you can do about the returns delivered by the financial markets, you *can* control the composition of your portfolio. For this reason, you may want to review the sector allocation and risk profile of your investment portfolio, if you have not done so lately.

All investments are subject to market fluctuation, risk, and loss of principal. Shares, when sold, may be worth more or less than their original cost. Investments seeking to achieve a higher return may involve greater risk. Sector funds tend to be more volatile than the market in general and may carry additional risks.

Mutual funds and ETFs are sold by prospectus. Please consider the investment objectives, risks, charges, and expenses carefully before investing. The prospectus, which contains this and other information about the investment company, can be obtained from your financial professional. Be sure to read the prospectus carefully before deciding whether to invest.

¹⁻² S&P Dow Jones Indices, 2018

³ *The Economist*, June 2, 2018

Infographic: Financial Lessons from Football



Review your game plan

You haven't saved enough for retirement...or for college. Your credit card debt is spiraling. You've been blindsided by unexpected expenses. When your finances hit a rough patch, call a time out and review your game plan. Rethink your strategy to account for changes in your personal life, the economy, or market conditions.



Focus on fundamentals

Big plays are important, but so is steady execution. Even seasoned players need to focus on game fundamentals. One important financial fundamental is your budget. Once you know exactly how much money is coming in and how much is going out, you can identify what plays to call to get your finances back in shape.



Make adjustments

Football teams make adjustments throughout the game. As you begin to make forward progress, keep the momentum going by regularly reviewing and fine-tuning your own game plan to balance competing priorities. Soon you'll be better prepared to tackle the challenges that stand between you and your financial goals.

**"It's not whether you get knocked down, it's whether you get up."
-Vince Lombardi**

Ten Year-End Tax Tips for 2018



Timing of itemized deductions and the increased standard deduction

The Tax Cuts and Jobs Act, signed into law in December 2017, substantially increased the standard deduction amounts and made significant changes to itemized deductions, generally starting in 2018. (After 2025, these provisions revert to pre-2018 law.) It may now be especially useful to bunch itemized deductions in certain years; for example, when they would exceed the standard deduction.

IRA and retirement plan contributions

For 2018, you can contribute up to \$18,500 to a 401(k) plan (\$24,500 if you're age 50 or older) and up to \$5,500 to a traditional or Roth IRA (\$6,500 if you're age 50 or older). The window to make 2018 contributions to an employer plan generally closes at the end of the year, while you typically have until the due date of your federal income tax return (not including extensions) to make 2018 IRA contributions.

Here are 10 things to consider as you weigh potential tax moves between now and the end of the year.

1. Set aside time to plan

Effective planning requires that you have a good understanding of your current tax situation, as well as a reasonable estimate of how your circumstances might change next year. There's a real opportunity for tax savings if you'll be paying taxes at a lower rate in one year than in the other. However, the window for most tax-saving moves closes on December 31, so don't procrastinate.

2. Defer income to next year

Consider opportunities to defer income to 2019, particularly if you think you may be in a lower tax bracket then. For example, you may be able to defer a year-end bonus or delay the collection of business debts, rents, and payments for services. Doing so may enable you to postpone payment of tax on the income until next year.

3. Accelerate deductions

You might also look for opportunities to accelerate deductions into the current tax year. If you itemize deductions, making payments for deductible expenses such as medical expenses, qualifying interest, and state taxes before the end of the year, instead of paying them in early 2019, could make a difference on your 2018 return.

4. Factor in the AMT

If you're subject to the alternative minimum tax (AMT), traditional year-end maneuvers such as deferring income and accelerating deductions can have a negative effect. Essentially a separate federal income tax system with its own rates and rules, the AMT effectively disallows a number of itemized deductions. For example, if you're subject to the AMT in 2018, prepaying 2019 state and local taxes probably won't help your 2018 tax situation, but could hurt your 2019 bottom line. Taking the time to determine whether you may be subject to the AMT before you make any year-end moves could help save you from making a costly mistake.

5. Bump up withholding to cover a tax shortfall

If it looks as though you're going to owe federal income tax for the year, especially if you think you may be subject to an estimated tax penalty, consider asking your employer (via Form W-4) to increase your withholding for the remainder of the year to cover the shortfall. The biggest

advantage in doing so is that withholding is considered as having been paid evenly through the year instead of when the dollars are actually taken from your paycheck. This strategy can also be used to make up for low or missing quarterly estimated tax payments. With all the recent tax changes, it may be especially important to review your withholding in 2018.

6. Maximize retirement savings

Deductible contributions to a traditional IRA and pre-tax contributions to an employer-sponsored retirement plan such as a 401(k) can reduce your 2018 taxable income. If you haven't already contributed up to the maximum amount allowed, consider doing so by year-end.

7. Take any required distributions

Once you reach age 70½, you generally must start taking required minimum distributions (RMDs) from traditional IRAs and employer-sponsored retirement plans (an exception may apply if you're still working for the employer sponsoring the plan). Take any distributions by the date required — the end of the year for most individuals. The penalty for failing to do so is substantial: 50% of any amount that you failed to distribute as required.

8. Weigh year-end investment moves

You shouldn't let tax considerations drive your investment decisions. However, it's worth considering the tax implications of any year-end investment moves that you make. For example, if you have realized net capital gains from selling securities at a profit, you might avoid being taxed on some or all of those gains by selling losing positions. Any losses over and above the amount of your gains can be used to offset up to \$3,000 of ordinary income (\$1,500 if your filing status is married filing separately) or carried forward to reduce your taxes in future years.

9. Beware the net investment income tax

Don't forget to account for the 3.8% net investment income tax. This additional tax may apply to some or all of your net investment income if your modified adjusted gross income (AGI) exceeds \$200,000 (\$250,000 if married filing jointly, \$125,000 if married filing separately, \$200,000 if head of household).

10. Get help if you need it

There's a lot to think about when it comes to tax planning. That's why it often makes sense to talk to a tax professional who is able to evaluate your situation and help you determine if any year-end moves make sense for you.

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What are the gift and estate tax rules after tax reform?

The Tax Cuts and Jobs Act, signed into law in December 2017, approximately doubled the federal gift and estate tax basic exclusion amount to

\$11.18 million in 2018 (adjusted for inflation in later years). After 2025, the exclusion is scheduled to revert to its pre-2018 level and be cut approximately in half. Otherwise, federal gift and estate taxes remain the same.

Gift tax. Gifts you make during your lifetime may be subject to federal gift tax. Not all gifts are subject to the tax, however. You can make annual tax-free gifts of up to \$15,000 per recipient. Married couples can effectively make annual tax-free gifts of up to \$30,000 per recipient. You can also make unlimited tax-free gifts for qualifying expenses paid directly to educational or medical service providers. And you can make deductible transfers to your spouse and to charity. There is a basic exclusion amount that protects a total of up to \$11.18 million (in 2018) from gift tax and estate tax. Transfers in excess of the basic exclusion amount are generally taxed at 40%.

Estate tax. Property you own at death is subject to federal estate tax. As with the gift tax, you can make deductible transfers to your spouse and to charity; there is a basic exclusion amount that protects up to \$11.18 million (in 2018) from tax, and a tax rate of 40% generally applies to transfers in excess of the basic exclusion amount.

Portability. The estate of a deceased spouse can elect to transfer any unused applicable exclusion amount to his or her surviving spouse (a concept referred to as portability). The surviving spouse can use the unused exclusion of the deceased spouse, along with the surviving spouse's own basic exclusion amount, for federal gift and estate tax purposes. For example, if a spouse died in 2011 and the estate elected to transfer \$5 million of the unused exclusion to the surviving spouse, the surviving spouse effectively has an applicable exclusion amount of \$16.18 million (\$5 million plus \$11.18 million) to shelter transfers from federal gift or estate tax in 2018.



How can I safely shop online this holiday season?

Shopping online is especially popular during the holiday season, when many people prefer to avoid the crowds and purchase gifts with a few clicks of a mouse. However, with this convenience comes the danger of having your personal and financial information stolen by computer hackers.

Before you click, you might consider the following tips for a safer online shopping experience.

Pay by credit instead of debit. Credit card payments can be withheld if there is a dispute, but debit cards are typically debited quickly. In addition, credit cards generally have better protection than debit cards against fraudulent charges.

Maintain strong passwords. When you order through an online account, you should create a strong password. A strong password should be at least eight characters long, using a combination of lower-case letters, upper-case letters, numbers, and symbols or a random phrase. Avoid dictionary words and personal information such as your name and address. Also create a separate and unique password

for each account or website you use, and try to change passwords frequently. To keep track of all your password information, consider using password management software, which generates strong, unique passwords that you control through a single master password.

Beware of scam websites. Typing one word into a search engine to reach a particular retailer's website may be easy, but it sometimes won't bring you to the site you are actually looking for. Scam websites may contain URLs that look like misspelled brand or store names to trick online shoppers. To help you determine whether an online retailer is reputable, research sites before you shop and read reviews from previous customers. Look for <https://> in the URL and not just <http://>, since the "s" indicates a secure connection.

Watch out for fake phishing and delivery emails. Beware of emails that contain links or ask for personal information. Legitimate shopping websites will never email you and randomly ask for your personal information. In addition, be aware of fake emails disguised as package delivery emails. Make sure that all delivery emails are from reputable delivery companies you recognize.