

ALBITZ/MILOE & ASSOCIATES, INC.

REGISTERED INVESTMENT ADVISER

FINANCIAL NEWSLETTER

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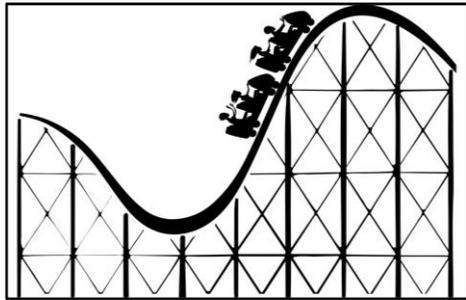
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FALL 2018

THE CRYSTAL BALL

We have been on a mini-roller coaster ride in the stock market for most of 2018. After a ridiculously strong January, the stock market corrected 11%, muddled about for six months and then in late September, surpassed the high



levels we saw during the first month of the year. Then the “scary” month of October started with a quick selloff due in part to

a relatively quick interest rate spike. Although the rise in rates can be attributed to a growing economy, the stock market initially reacts negatively in part due to the fact that with rates now providing a decent return, there is competition to owning stocks. We have two months left in the year, what’s next?

First, we must recognize that this year with all its craziness is a bit abnormal for everyone and especially for investors. With all the “stuff” happening in the world, how can the markets hit all-time highs? Despite the political intrigue, which by itself is mind-boggling, the market looks at how the economy is actually doing not what propaganda is spouted on the daily talk shows. We have said it many times: Mixing political views with investment planning makes for a bad recipe. Watch the economy instead of the Washington headlines.

That said, there is little doubt that the mid-term elections will impact the stock market’s direction (at least in the short term). It is anticipated that the Democrats will take back the House of Representatives. We believe that this potential is priced into the market already. What isn’t priced in is the Senate going to the Democrats. While many people might applaud that outcome, the market won’t like it and we would expect to see a swift reaction. [Conversely, if the GOP holds the House, we would

expect that could be rocket fuel for stock prices.] In the coming weeks, we will hear the prognosticators telling us who will win and why they will win. We will hear about the different scenarios and how these developments will affect us. These people are frequently wrong, but never in doubt. We just want to remind everyone that no one is clairvoyant and it is wise to wait and see what actually happens before making decisions on investment plans.

Right now the economy is continuing to improve (witness the aforementioned rise in interest rates), the job market is resilient, real estate values are still high (but falling), and as stated, the stock market recently touched an all-time high. Certainly, there are some clouds on the horizon: the impact of the tax cuts will wane, the strong dollar could reduce profits of the big multinational corporations, and concerns about tariffs are still on the front burner. There will always be something that causes worry.

Over the years, we have learned that when the “doom and gloomers” are shouting the loudest that is the time to be least worried. It is time to worry when there is universal glee and an expectation that nothing can go wrong. Actually, right now we are in the middle; the worriers and the Pollyannas are pretty equal in number. To us that means follow the trend, which right now, is up. Keep in mind that the market looks ahead. It can go much higher than you think but when it comes down, it can go down much faster than you want to contemplate; witness the first two weeks in October. The last few years have been good to investors. Keep it in mind that things can change.

Quote

“Destiny is not a matter of chance; it is a matter of choice. It is not a thing to be waited for; it is a thing to be achieved.”

William Jennings Bryan

THE SIGNIFICANCE OF THE 2018 MIDTERM ELECTIONS

Any way you slice it, the U.S. midterm elections will allow voters to considerably affect the makeup of Congress halfway through President Trump's four-year term. The results could reshape the American political landscape ahead of the next general election two years from now.

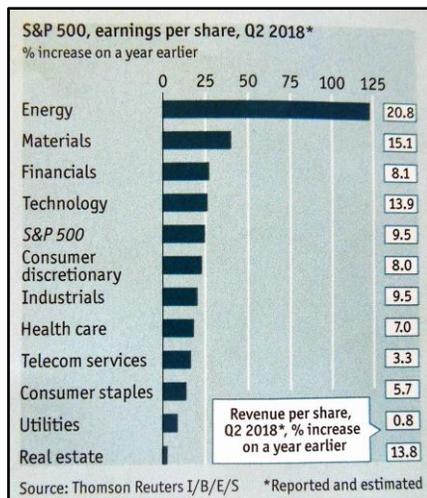
How do the midterms work? The midterm elections are national elections, sometimes called "off-year" elections. The Founding Fathers of the United States set up a political system of checks and balances involving frequent, rolling American elections in even-numbered years. This year, the 435-seat House of Representatives will all be in contention as members serve a two-year term. The 100 members of the Senate work differently. As senators serve six-year terms, only one-third of Senate seats will be up for grabs. This year, enough seats in both the House and Senate are at stake to change the majority.

Why is it important? As the old adage goes, "The party that controls the chamber controls the agenda." Consider this year's backdrop of Russia investigations, legislative battles over immigration, gun laws, tax reform, deregulation, and health care. If the Republicans maintain control, we can likely expect continued efforts in such areas, reinvigorated efforts to dismantle the Affordable Care Act, and another push at constructing Trump's border wall. A Democratic takeover might lead to an abrupt slowdown of Republican policy, re-examination of immigration reform, particularly as it pertains to the Deferred Action for Childhood Arrivals (DACA) policy, and more investigations into President Trump.

We've seen that turnout for the midterm elections is usually lower than in a general election (less than 40%). In comparison, only 55% voted in the last presidential election. There is a lot at stake this year so don't be surprised if the voter turnout is much better than anticipated. We think it will be.

MARKET DRIVERS

The stock market moves on actual earnings and on future anticipated profits. Take a look at market sectors and how they have performed in the 2nd quarter of 2018 as compared to last year. We are getting close to \$4/gallon gasoline so there is no surprise that energy is on top.



QCDS – GENEROSITY WITH TAX SAVINGS

Whether you are a donor, or part of a charity, change has arrived. Giving to charities is something many consider out of the goodness of their hearts. For qualified gifts, the IRS sweetens the deal by allowing those who itemize deductions to claim a deduction related to gifts given. While nothing has changed regarding what you can give, or to the ability to itemize, recent tax law changes may eliminate the ability to deduct those gifts. Why? It is due to the increase in the standard deduction.

As of 2017, the standard deduction for singles was \$6,350 and \$12,700 for married couples filing jointly (MFJ). For 2018, the standard deduction has nearly doubled to \$12,000 for singles and \$24,000 for MFJ. Those who are "aged" or blind will see an additional \$1,300 (or \$1,600 additional if aged/blind and unmarried). Note that the IRS considers you "aged" if you are 65 or older!

With the significant increase in the standard deduction, many taxpayers will no longer itemize deductions. For those in this group, the deduction for charitable giving would no longer apply.

Charities are keenly aware of this change and they will remind us all of the importance of giving from the heart vs. giving for a tax deduction. For 2018, gifts will have been made by year-end, but taxpayers who donated just for tax benefits may rethink this strategy in 2019 if their standard deduction exceeds what they formerly itemized.

While not new, the Qualified Charitable Distribution (QCD) can be a valuable solution that provides benefits to both the taxpayer and the charity. First, note that QCDs are only available to those age 70 ½ and older, can be used with IRAs (not on qualified plans like a 401(k) or a 403(b)), and are targeted for those who do not need the income from their Required Minimum Distributions (RMDs). The annual maximum QCD is \$100K per person.

With the QCD, the taxpayer can direct their RMD to be paid to the qualified charity of their choice. For the taxpayer, this is a non-taxable distribution. While they do not receive a deduction for the gift, they also do not pay taxes, and that can provide a lot of value (especially in higher tax brackets). Since this has nothing to do with itemizing deductions, the tax changes above won't restrict the ability to make a QCD. This is a good deal all around.

HOW TO REDUCE ONE FORM OF RISK

The wildfire season in California now seems to be a year-round event. While everyone isn't directly affected by this type of disaster, those who are susceptible to this risk might want to follow this suggestion. Before you purchase or renew a homeowner's insurance policy, meet with your insurance broker/agent and tell him/her: "I want enough insurance that if my home burns down in a wildfire, I have enough coverage to rebuild my home. Please tell me the amount of coverage I should have and get me a quote for that amount of coverage." They are the experts and understand the "ins and outs" of the business. Listen to their advice. Make notes on your conversation and purchase the amount of insurance that is recommended. Repeat this exercise every time that you renew your homeowner's insurance. Remember that old saying...an ounce of prevention is worth a pound of cure.

MEDICARE CARD SCAMS – BEWARE!

With the myriad of data breaches in the past several years, protecting your identity and confidential personal information has never been more important. While there are numerous things you can do to stay protected, some have remained beyond your control. One of these was due to your Social Security Number being listed on your Medicare card. Fortunately, Medicare has realized the risks this poses and will issue new cards to all Medicare recipients by April 2019.

To get your updated Medicare card, please note that no action is required on your part. The Centers for Medicare & Medicaid Services (CMS) will provide the new cards free of charge to both Medicare and Medicaid recipients. However, with change, often comes scams, and these have already begun. If you receive a call with a request to pay to receive your new card, this is a scam. Scammers are reported to be requesting from under \$10 to several hundred dollars to provide the new card. Don't fall for this!

To get your new card, just continue using your existing card until a new one arrives in the mail. If you haven't received your new card by April 2019, then you could contact Medicare directly. Likewise, be sure to continually review your Medicare billing statements to check for any unauthorized charges, as this could be another sign of fraud. If you see something that appears incorrect, contact the CMS directly at 800-633-4227.

AN IMPORTANT REMINDER – PLEASE READ

We have begun a project to remind our clients to review and update beneficiary designations. We know that things change and with the passing of time, there are births, deaths, marriages, and divorces within families. **It is up to you to make sure that your beneficiary designations are what you want.** Now is a good time for a review. If you have not elected a per stirpes designation (see below) as part of your beneficiary selection and think it would make sense to do so, contact us to discuss. When naming beneficiaries to your accounts, realize that there are advantages and disadvantages based on your specific family circumstances and what your wishes are. These will determine what the best approach is for you to take when naming beneficiaries.

Per stirpes is a Latin-based term that is often used in estate planning documents such as wills and trusts along with account specific beneficiary designations. It translates loosely to "by branch", and when elected, denotes that each direct branch of your family is to receive an equal share of your estate or account.

For example, if a person has three children listed as the primary beneficiaries of an account, each is to inherit $\frac{1}{3}$ of the account at the death of the account owner. Without a per stirpes election, should one of the person's three children predecease them, the surviving two children would become equal $\frac{1}{2}$ beneficiaries leaving the deceased child's heirs, the grandchildren, with nothing. With a per stirpes election, the grandchildren would still receive the deceased child's $\frac{1}{3}$ share as that share is passed down by branch rather than distributed amongst the other beneficiaries. Remember that per stirpes only applies by direct branch, so the spouse of a child without children would not receive anything in the example above, even with a per stirpes election. In this case, a special designation would need to be made.

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PERSONAL NOTES

Frank M - A true marathon man...good luck in the upcoming race.

Steve and Linda S. - Baseball and business; it's always great to talk with you.

Dan and Irene B. - Hockey season is here...let's all enjoy it!

Floyd and Margaret. - It has been a long, beneficial ride... and we treasure that.

A STORY WITH A SIMPLE MORAL

A little girl was holding two apples, one in each hand. Her Dad came in and asked his little daughter with a smile, "Could you give Daddy one of your apples?"

The girl looked up at her Dad for a few seconds, and then she suddenly took a quick bite of one apple, and then took another bite from the other. The Dad felt the smile on his face freeze. He tried not to show his disappointment.

Then the little girl handed one of her bitten apples to him, and said, "Daddy, you take this one, it's the sweeter one."

Simple Moral: No matter who we are, how experienced we are, and how knowledgeable we think we are, it is best to delay judgment. Give others the opportunity to explain themselves. Perceptions can become realities. And sometimes the perception is just plain wrong.

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HAPPENINGS IN AND OUT OF THE OFFICE

Ana O. has joined our firm in an administrative position. She is experienced, friendly, and competent. Next time you call, introduce yourself!

Clete and his wife Chrissy welcomed a new addition to their family, a healthy and happy little girl. The grandparents are proud and excited.

Clete and Vance played on the Gardena Rebels and their team won the Nisei Athletic Union 66th State AA Baseball Tournament. Clete was one of the MVPs of the tourney.



The Miloe family convened with relatives from around the country in Big Sky, MT for a family reunion in July. Chris and Barbara just returned from a fabulous trip to Croatia.

During the summer, Phil and Vance teamed up to win a Bocce Ball tournament in Manhattan Beach. [See photos on our A/M website.]

There are a lot of good things happening here. Let us know how things are going with you and your family.

Phil's Opinions and Judgments...



On Iconic Singers and Musicians...

Hearing Frank Sinatra singing "Summer Wind" is the essence of cool as is Dexter Gordon's rendition of Jobim's "Meditation." In addition, seeing the late Aretha Franklin stepping in for an ill Pavarotti at the 1998 Grammy's and singing Nessun Dorma was under the circumstances one of the greatest performances ever.

On Debt...

I've never been a big fan of debt. When leverage rises, excesses can build and risk can increase. Remember the old adage...the seeds of destruction are sowed during good times. No need to leverage up just because the skies are blue today.

On Respect...

Try to list five people you know and respect. You may find that it may not be so easy. Respect is like trust, it isn't handed out for free, and it has to be earned with deeds not with words.

On Jeff Bezos (CEO of Amazon)...

I'd be surprised if you can name someone who has a heartier laugh. Sure, I suppose it is easy to laugh when you are the wealthiest man in the world.

On 2018 Baseball Season...

Did you know that this past year, there were more strikeouts than hits for the first time in major league history? If this keeps up expect to see changes like the lowering of the pitcher's mound, rule changes on defensive shifts, the seams of the baseball being altered, and blasphemy to some: designated hitters in the National League.

Until next time,


Phil Chris Paul Clete Sylvia Vance

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