Third Quarter 2018 Newsletter
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NovaPoint CAPITAL LLC

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MARKET UPDATE

By JOSEPH SROKA, CFA, CMT

Concerns over global trade, rising interest rates, and higher energy prices made the first half of 2018 more volatile than last year. The S&P 500 Index started January with a +5.7% return, then reversed course in February, down 3.7%. The S&P 500 recovered in the second quarter and ended the first half of the year with a +2.7% return.

For the first half of the year, the S&P 500 was +2.7%. The NASDAQ and Russell 2000 performed better, +10.1% and +7.7%. International markets fared worse, both developed and emerging. Bonds have produced a negative total return YTD due to price erosion as rates rise.

We think trade concerns should get resolved over time. We think higher interest rates are here to stay. The Federal Reserve has raised the short-term interest rate target twice in 2018 and has signaled another two rate increases before year-end. While rates are going higher, they are going higher at a gradual and well anticipated pace which gives the economy time to adjust.

Higher interest rates don't spell doom for the U.S. economy. On the contrary, they are a result of the strength of the U.S. economy and provide a normalizing effect. Positive data points, to include GDP growth, job creation, and higher consumer confidence, are all evidence that the economy is performing well. Higher interest rates are designed to keep it from overheating as gradual increases in inflation accompany increases in economic growth.

Volatility should persist over the intermediate term. In addition to the headline risk we've seen regarding global trade, the U.S. is heading into what is likely going to be a highly politicized election cycle.

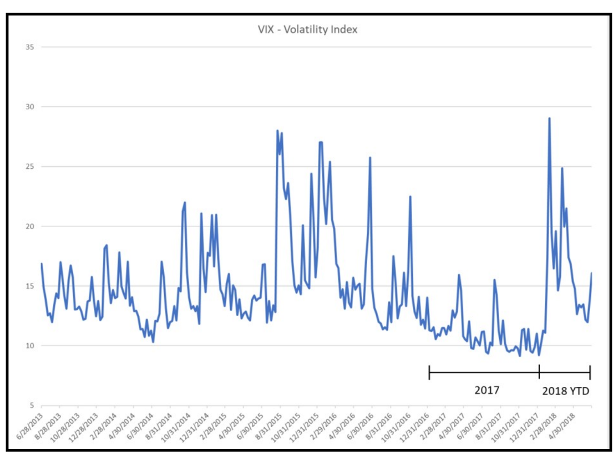
The Volatility Index (VIX) spiked to 37.3 in February versus 9.8 at the start of the year. While the increase in volatility may seem drastic, it is just returning to more normal levels. The end of 2017 saw extremely low levels of volatility with the VIX index falling to a single digit level. The VIX is currently at 16, closer to its 10-year average of around 19.5. Volatility spikes can be caused by economic, geopolitical or industry specific catalysts. (see chart below).

Our equity holdings are well diversified across sectors. We favor stocks with a demonstrated track-record of increasing dividends.

For clients with fixed income holdings, we are keeping bond duration shorter than normal to maintain better price stability as interest rates rise.

Index	2Q Return	YTD Return
S&P 500	3.4%	2.7%
Dow Jones Industrials	1.3%	-0.7%
NASDAQ 100	7.0%	10.1%
Russell 2000 (small caps)	7.8%	7.7%
Int'l Developed Markets	-1.0%	-2.5%
Int'l Emerging Markets	-7.4%	-6.1%
S&P US Aggregate Bond	-0.1%	-1.4%
US Treasury Bond	0.3%	-0.8%

Sources: S&P Global, Thomson Reuters



Work the Framework

Markets have been Volatile

The first half of 2018 has shown us the re-emergence of what is usually a commonality in financial markets: uncertainty. Sure, there was plenty of uncertainty during the financial crisis, and at a few select (albeit short-lived) instances since –like the European debt crisis in 2010 - but the stock markets have provided a relatively smooth, upward ride since 2009. While economic data is still healthy, there appears to be reasons for uncertainty: potentially decelerating earnings, increasing interest rates, and the always present geopolitical uncertainty. Volatility seems to have re-emerged as well with the VIX index moving to levels higher than at any point in 2017.

But what should you do?

Most importantly, you should evaluate and understand your risk exposures. For instance, recognize if you are taking illiquidity risk. In other words, know your short and medium-term spending requirements and ensure they are provided for with short term liquid assets, like cash. Next, consider your asset allocation for the appropriate exposure to equity risk, meaning the stock market, which is among the riskiest asset classes as measured by volatility. As professional private wealth advisers, we consider these (as well as tax cost, duration risk, credit risk, currency risk, and others) to ensure a portfolio and wealth strategy is properly allocated. Only when you understand your risk exposures can you take action to adjust them. Fully understanding, allocating, and mitigating risk allows you to trust the investment process.

Your strategy should also distribute risks across the different entities, or accounts, that compose your portfolio. For instance, a retirement account may have a longer time horizon than, and tax benefits over, an individual investment account, and thus may be a more adequate for more volatile and/or less tax efficient investments in context of the overall portfolio. These considerations apply to all kinds of entity and account types, such as trusts or family limited partnerships.

A complete private wealth strategy appropriately allocates risks across and within a portfolio. This framework allows you to control your risk exposures, so you can weather financial market volatility and apply a process-driven investment strategy to capitalize on those opportunities. Understand your risks and "work the framework" of your total wealth strategy.

Wealth Strategy Idea: Using Trusts in a Portfolio

A trust is a legal entity where property is held by one party for the benefit of another party. When properly planned and drafted by an attorney, a trust can provide asset protection or tax advantages within a portfolio. Depending on the purpose and potential advantages, they can be a useful tool in the framework of a wealth management plan.

One specific example of a specific type of trust is a Special Needs Trust (SNT). While there are varieties of SNTs and specifics can vary by legality and by state, a SNT is generally a trust that holds assets for the benefit of an individual with qualified special needs to supplement public assistance benefits. The assets held in a SNT, which can be funded from a number of sources such as gift, inheritance, or settlement, can have specific objectives and risk tolerances that differ from other entities in a total portfolio. Properly allocating to the parameters of the trust within the context of the whole portfolio can be valuable in accomplishing multiple objectives and optimizing family wealth.

Your wealth strategy should have a framework that optimizes the features of different account types in accordance with comprehensively evaluated objectives and risk profiles.

BUSINESS RETIREMENT PLANS

By ALAN J. CONNER, CPFA

Why You Should Have a Business Retirement Plan

A recent report from the Social Security Trustees indicates that, without any changes, both the Medicare and Social Security Trust funds will be fully depleted by 2034. To pay current benefits in 2018, Trust Fund assets will have to be used because Social Security taxes will be insufficient to pay current benefits. This means that without significant changes to the program, anyone who is age 54 or younger today should expect to fund more of their own retirement from savings as the Trust Fund will either be depleted, or benefits will be significantly reduced.

As a business owner, you can provide a plan for you and your employees to both reduce current taxes and increase retirement assets.

Tax Benefits

There are tax advantages to encourage you to establish a business retirement plan. In some cases, there are tax credits available that can offset most of (if not all) the costs of establishing a plan. In addition, there are plans that can allow business owners to significantly reduce their own tax bills through the creation of a defined benefit plan. When considering the current year tax breaks and the long-term tax advantaged savings options, the prospects for attaining the desired retirement savings goals are much less daunting.

As an employee, the ability to both manage your annual tax bill and save either tax-deferred or tax-free is a great benefit. Too many times, I have heard employees say they will only contribute enough to get the employer match. This may make sense if you are disciplined enough to save money after tax, however, you are leaving significant tax benefits on the table, as you may not be able to make tax advantaged IRA or Roth IRA contributions depending on your income levels.

Overall Business Benefits

In addition to the tax and savings benefits to both the employer and employees, businesses with retirement plans tend to have reduced employee turnover and a greater ability to recruit quality employees. When employees have the ability to choose between employers with and without benefits, those with benefits tend to fare better in the competition for highly qualified employees. Training new employees can be expensive and disruptive to a company. Reducing employee turnover and related recruiting and training costs can easily justify both offering a plan and enabling employer contributions.

What type of plan is best for your business?

Do you have employees or expect to in the future?
A business without employees should consider either the SEP-IRA or a Solo 401(k). Both allow the owner to maximize the annual contribution, and the Solo 401(k) can allow after tax contributions and in some cases a loan provision in the event financing is needed some time in the future.

Is it important that employees are able to contribute to a retirement plan?
Some employers want employees to contribute to a plan, rather than simply making employer contributions. From the employer side, this can aid in employee loyalty and retention, while from the employee perspective, enabling employees to contribute beyond the amount provided by their employer allows employees the ability to maximize their tax and savings benefits. A 401(k) with both Traditional and Roth provisions would be a choice, while a Simple IRA is also an option.

Is your priority higher contributions or ease of administration?
Administration of a retirement plan and it's costs are significant concerns for many employers. The easiest type of plan to administer would be a Simple IRA, but in order to enable/provide higher contributions, a 401(k) should be considered.

Would you like plan contributions to be deductible as a business expense?
Several plan types allow for contributions to be deductible business expenses. If there are no employees, SEP-IRA contributions meet this criterion. If a company has employees, a company can make Profit Sharing contributions as well as Defined Benefit contributions which also qualify as business expenses.

We can assist business clients with selection and implementation of a business retirement plan matched to their individual goals and circumstances. We focus on providing high quality, cost efficient plans that meet all fiduciary standards.

Please call us today of you would like to learn more about setting up a business retirement plan, or having us review and benchmark your existing plan.

Enjoy the Dividends of a Good Meal

Hot Bacon Caprese Salad

Total Time: 25 minutes
Serves 6 to 8

Ingredients

2 1/2 pounds heirloom tomatoes, cut into 1/2-inch slices

1 (16-oz.) package fresh mozzarella cheese, cut into 1/2-inch slices

1/2 cup fresh basil leaves

6 thick bacon slices, coarsely chopped

3 to 4 Tbsp. red wine vinegar

2 tablespoons olive oil

1/2 teaspoon kosher salt

1/2 teaspoon freshly ground black pepper

How to Make It

Step 1

Arrange tomatoes and cheese on a serving platter, placing basil leaves between slices. Sprinkle with desired amount of salt and pepper.

Step 2

Sauté chopped bacon in a large skillet over medium heat 6 to 8 minutes or until crisp. Remove from heat, reserving bacon and 2 Tbsp. drippings in skillet. Let stand 1 minute. Add vinegar and oil, stirring to loosen browned bits from bottom of skillet. Sprinkle with 1/2 tsp. kosher salt and 1/2 tsp.

Recipe courtesy of Southern Living

Do You Know Your Risk Number?

Individuals often classify their investment risk tolerance with adjectives such as "Conservative", "Moderate", or "Aggressive".

These can be highly subjective and may not correctly identify the amount of risk someone is actually comfortable taking.

One Moderate investor may feel uncomfortable if their portfolio fell 5% while another may not feel uncomfortable until their portfolio falls more than 10%.

While investors understand that the purpose of taking risk is to achieve investment returns, they may not have a realistic sense of how much risk is required to achieve a targeted level of return. In this case, they may not be taking enough risk and wondering why they are not able to achieve the returns they want.

We work with our clients to identify the risk they are comfortable taking and balance it with the investment objectives they are seeking to achieve.

Contact us about our complimentary risk analysis questionnaire.

NovaPoint Capital is an investment management and advisory firm. We manage investment portfolios for individuals, family offices, businesses and their retirement plans, nonprofit organizations, and institutions.

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