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FIDUCIARY PULSE

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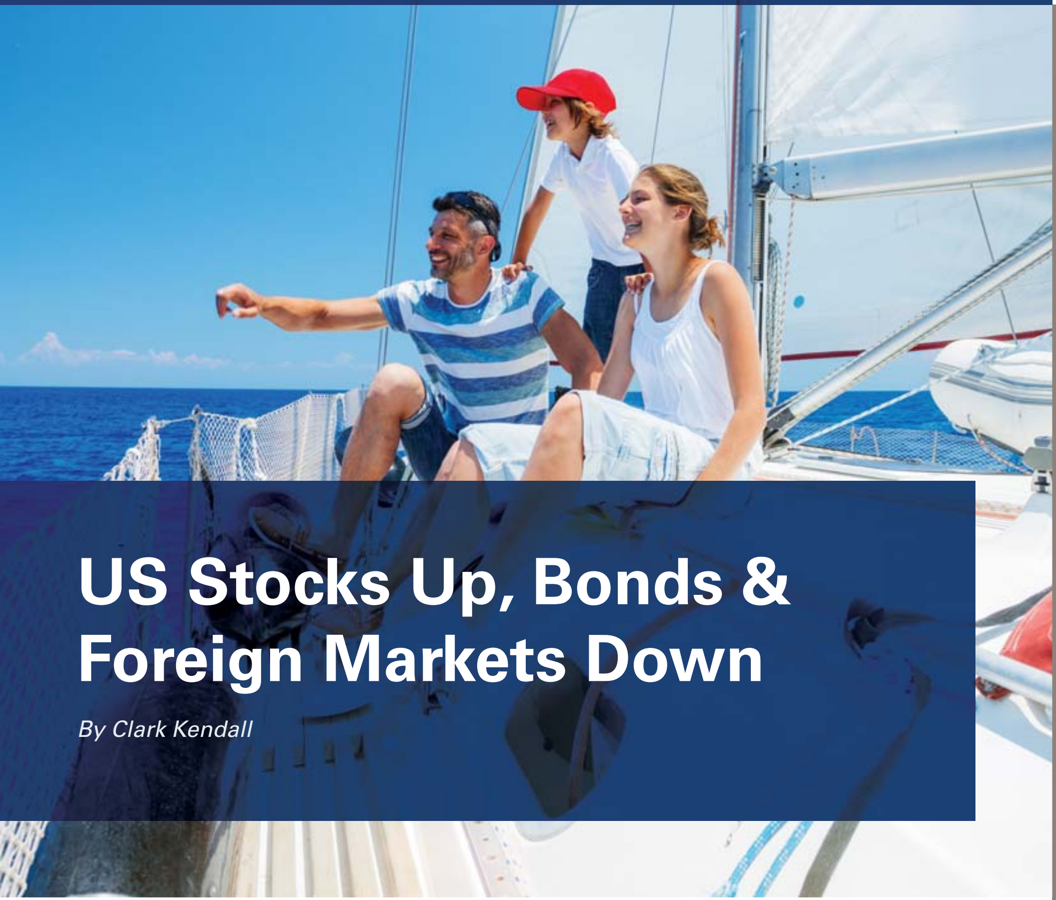

US Stocks Up, Bonds & Foreign Markets Down

By Clark Kendall

THE QUARTER IN BRIEF

The third quarter of 2018 was a great quarter for stocks. The Dow Industrials, Nasdaq Composite, and S&P 500 all rose more than 7% in three months as bullish investors maintained their confidence in the face of some momentous news developments. Consistently strong economic indicators and impressive corporate profits helped motivate the summer rally. While the prospect of a global trade war did not ruffle Wall Street, investors in other regions shouldered more worry about the imposition of tariffs. Meanwhile, the Federal Reserve continued raising interest rates, the housing market cooled, and wage growth improved.

DOMESTIC ECONOMIC HEALTH

The trade war with China that began in the second quarter intensified in the third, even while both nations attempted to resume negotiations. On July 6, China and the U.S. each imposed import taxes on $34 billion worth of each other's products. August 23 saw both parties expand the tariffs to cover $50 billion in goods. On September 24, the U.S. placed a 10% tariff on $200 billion more of Chinese imports, slated to rise

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to 25% in 2019. China retaliated with further tariffs on its end, assessing levies on $60 billion more of American-made products reaching its borders.

There was also a crucial trade deal at the end of the quarter. On September 30, the U.S., Canada, and Mexico agreed to a trilateral update for the North American Free Trade Agreement (NAFTA). The tentative accord must now be approved by the governments of all three nations. It stipulates that cars in the NAFTA region must be built with 75% or more of their parts manufactured in the three nations, or face tariffs; additionally, 40-45% of cars being built in the region will have to be made by workers paid at least $16 an hour. The agreement would also institute new trade secrets and intellectual property standards and environmental regulations intended to thwart unlawful animal, fish, and timber importation and permit easier access to Canada's dairy market.

Federal Reserve officials decided on another quarter-point interest rate hike. The September 26 decision took the federal funds rate to a target range of 2.00-2.25%. Notably, the latest Federal Open Market Committee statement removed the word "accommodative," symbolically shutting the door on the easy money era. In the press conference after that news release, though, Fed chairman Jerome Powell referred to the new funds rate level as "accommodative." This was the central bank's third rate move of 2018, and one more is widely expected in December. The FOMC now projects 3.1% growth for the economy in 2019, as opposed to the prior forecast of 2.8%.

Consumers were keenly optimistic this summer. The Conference Board's monthly consumer confidence index shows excellent readings of 127.9, 134.7, and 138.4 for July, August, and September, respectively. Those numbers include revisions to the July and August readings. In September, the University of Michigan's consumer sentiment index settled at 100.1, only the third time in the last 14 years it has topped 100.

The Institute for Supply Management's factory sector and service sector purchasing manager indices signaled that businesses were in good shape as well. ISM's service sector index went from 55.7 in July to 58.5 for August, and its manufacturing PMI went from 58.1 in July to 61.3 a month later.

The July and August employment reports from the Department of Labor were fair to good. July saw employers add a mediocre 147,000 net new jobs, but that improved to 201,000 in August. More importantly, the annual rise in worker wages improved to 2.9% in August from 2.7% in July, approaching the level economists have long wanted to see in this recovery.

Annualized inflation lessened in the third quarter. The Consumer Price Index displayed a yearly increase of 2.9% in July, then 2.7% in August; yearly core consumer inflation went from 2.4% to 2.2%.

GLOBAL ECONOMIC HEALTH

Apart from the NAFTA update and the U.S.-China tariff battle, there was plenty of other news drawing the attention of investors here and abroad.

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As the quarter ended, just six months remained until the Brexit, and the question was whether the United Kingdom's separation from the European Union would be hard or soft. A hard Brexit would leave a free trade agreement in place, much like Canada has with the E.U., whereby the U.K. could recast its trade and immigration policies and create its own commerce regulations. Prime Minister Teresa May has pushed for her "Chequers" proposal, which would allow seamless trade between the U.K. and E.U. while allowing freedom of movement to and from the E.U. for the U.K. population and autonomy over its services.

E.U. leaders and the U.K.'s Labour party, however, oppose this "soft" Brexit concept. Italy put a scare into E.U. leadership when its populist coalition government moved to run a 2.4% annual deficit through 2021, a

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risky move given that its debt equals 130% of its GDP. Italian leaders aimed to lower taxes, provide a basic income, and lower the qualification age for retirement pensions.

Were tariffs already impacting China's economy? Perhaps. The nation's official factory PMI slipped to 50.8 in September, a 7-month low; the private Caixin/Markit manufacturing PMI hit 50.0, showing a sector on the verge of contraction. Export orders contracted for the fourth month in a row. While India's economy was growing 8.2% through the first half of 2018, its rupee had lost about 13% against the dollar by the time the quarter ended.

WORLD MARKETS

The MSCI World Index had a fine third quarter, improving 4.53%. France's CAC 40 also went into the plus column with a gain of 3.31%; India's Sensex advanced 2.27%, and the Australian All Ordinaries added 0.57%. Hong Kong's Hang Seng slumped 4.03% for the quarter. MSCI's Emerging Markets index fell 2.02%, and the United Kingdom's FTSE 100 lost 1.66%. Canada's premier benchmark, the TSX Composite, settled 1.26% lower for the quarter, and the Shanghai Composite declined 0.92%. The German DAX index retreated just 0.48%.

COMMODITIES MARKETS

Palladium and oats finished first and second in commodity performance across the past three months, logging respective gains of 15.73% and 11.47%. RBOB gasoline advanced 6.97%; WTI crude, 5.38%; wheat, 1.90%; natural gas, 1.38%; the U.S. Dollar Index 0.09%. WTI crude settled at $73.56 on the NYMEX at the end of the quarter.

Corn retreated 2.66%; platinum, 4.27%; soybeans, 4.30%; gold, 5.19%; copper, 6.30%; cotton, 8.59%; silver, 8.95%; sugar, 13.31%; coffee, 14.05%; cocoa, 16.89%. Lumber was the worst performer during the three months ending in September, dropping 31.91%. Gold closed the quarter at $1,196.20 on the COMEX, silver at $14.69.

REAL ESTATE

Existing home sales make up the vast majority of residential real estate transactions, and according to the National Association of Realtors, they declined 0.7% in July and went flat in August. One signal that seller expectations seemed to be moderating: the sudden difference in annual price appreciation for the 20-city S&P CoreLogic Case-Shiller home price index. The July edition (the latest available) showed prices rising 5.9% year-over-year, down from 6.4% in June.

On June 28, Freddie Mac's Primary Mortgage Market Survey calculated a 4.55% average interest rate on a 30-year home loan. The mean rate on the 30-year FRM in the September 27 edition of the PMMS: 4.72%. Average interest rates for 15-year FRMs and 5/1-year ARMs were respectively 4.04% and 3.87% back on June 28; they stood at 4.16% and 3.97% on September 27.

LOOKING BACK, LOOKING FORWARD

The third quarter definitely flipped the usual Wall Street yearly script, in which bulls take the summer off between spring and fall rallies. No such behavior in 2018: the three major indices rose as much in the third quarter as some analysts felt they would all year. The Dow Jones Industrial Average led the way in the third quarter while the small-cap Russell 2000 advanced 3.26%. The accepted volatility index for Wall Street, the CBOE VIX, slipped 24.67%. The Dow ended the quarter at 26,458.31; the S&P 500, at 2,913.98; the Nasdaq, at 8,046.35.

The third quarter was not only remarkably rewarding for investors, but also remarkably tranquil: during the quarter's last 70 trading sessions, the S&P 500 did not make a single 1% move. That kind of calm may be rare in the fourth quarter, which quickly presents investors with both the fall earnings season and a midterm election. Economic indicators are still solid, for the most part; the latest GDP reading is impressive, and wages are keeping pace with inflation.

Wall Street is nothing if not unpredictable, of course, and some legendary market falls have happened early in fourth quarters – but currently, there is much to be optimistic about, and that optimism may persist through the end of the year.

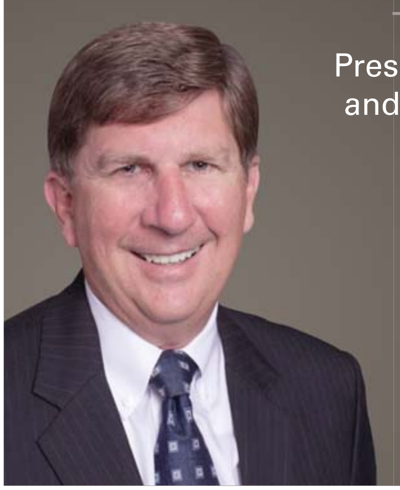
% CHANGE	YTD	Q3 CHG	1-YR CHG	10-YR AVG
DJIA	7.04	9.01	18.22	15.53
NASDAQ	16.56	7.14	24.68	30.56
S&P 500	8.99	7.20	16.09	16.34
REAL YIELD (%)	9/28 RATE	1 YR AGO	5 YRS AGO	10 YRS AGO
10 YR TIPS	0.91	0.44	0.46	2.03

Sources: wsj.com, bigcharts.com, treasury.gov - 9/28/18

Indices are unmanaged, do not incur fees or expenses, and cannot be invested into directly. These returns do not include dividends. 10-year TIPS real yield = projected return at maturity given expected inflation.

Clark A. Kendall

President and CEO



Charitable Gifting Under the New Tax Law

By Carol Petrov

The holiday season is fast approaching and as the new tax law is nearing its one year anniversary, it is important to understand how charitable gifting is affected by the new law.

Changes to the Standard Deduction

According to Kiplinger, with the higher standard deduction and a $10,000 cap on the state, local, sales and property tax deductions, the percentage of taxpayers itemizing deductions will decrease from 30% to 10% in the 2018 tax year. [1] In order to continue to take advantage of itemizing deductions, taxpayers may want to implement a financial planning strategy called "charitable bunching." Taking advantage of this charitable strategy occurs when instead of donating $10,000 to charity in a given year, for example, you give $20,000 which would take you well above the new $12,000 standard deduction for single filers and $24,000 for married couples filing jointly and skip donations in the following tax year.

Donor Advised Funds

Another way to utilize charitable bunching is to contribute to a donor-advised fund. A donor-advised fund is a type of account you set up to receive stock or mutual fund donations and then convert them into cash to be donated to charities. It allows you receive an immediate tax deduction on a lump sum stock contribution and then take your time deciding how to spend that money by issuing checks to your favorite charities, similar to an on-line bill paying account. Any money not donated stays in the account which is invested in an index portfolio and can grow tax-free. We have some clients who enjoy making the donation decisions together from year to year and the fund can live on from generation to generation. Here again, you would make a large donation one year and skip the next while filing under the standard deduction.

As a Kendall Capital client, simply tell us how much you would like to donate, and we will select securities which have grown thereby saving you from paying capital

gain tax

Once deposited into the donor advised fund, you then direct checks be sent to your desired charities. You can also request monthly checks be sent to the same charity or your church. If you are not interested in on-line access, we are happy to direct gifts at your request. Donations (or grants) must be at least $50, and accounts can be opened with a minimum $5000 stock or mutual fund contribution. As an added bonus, instead of keeping track of dozens of receipts, you get a list of all of your donations and a report of the total tax-deductible amount for the year to make prepaying your tax return much easier.

The advantage is twofold: donations to a donor-advised fund can be timed for when the security's value is high, but gifts can be

given when the charities need it most.

Our clients love the ease of using these accounts instead of making cash donations and find it makes them even more charitably inclined. Many churches or small non-profits have a standard brokerage account and are charged hundreds of dollars to sell a stock. They are better off receiving a cash donation from a Donor Advised Fund.

Our closing piece of advice is this: changes to tax laws are no reason to shy away from giving to charities.

By giving smartly, you will save considerable taxes while enjoying the feeling of helping others and maximizing benefits all around.

1 https://www.kiplinger.com/article/taxes/T055-C032-S000-strategies-for-giving-to-charity-under-new-tax-law.html

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Carol Petrov

Vice President and Senior Relationship Manager

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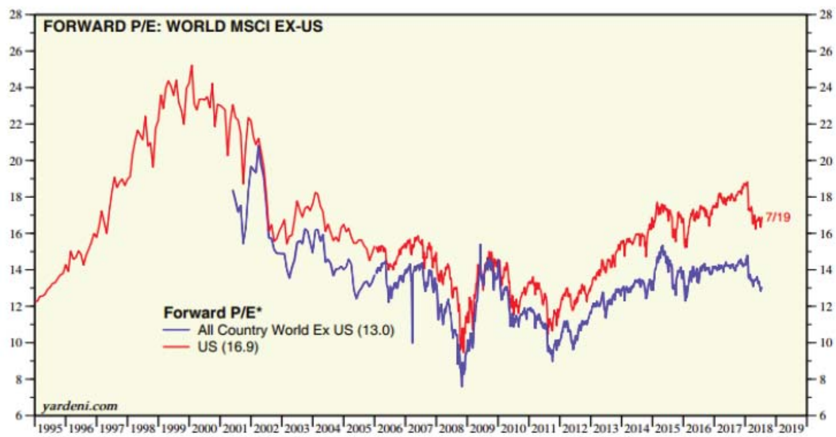
Foreign Markets: Believe in Mean Reversion

By Brian Mattox

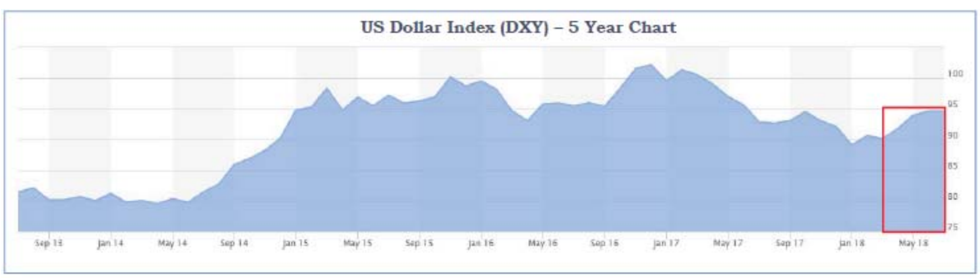
Domestic markets have continued their rally this year while foreign markets have diverted. Why is this happening, and is it a sign to sell investments in foreign markets? I have two reasons to stay the course with your allocation in the foreign markets.

First, the dollar has been very strong this year as compared to other major currencies according to the graph below. For example, as the dollar gets stronger, the euro becomes weaker making Italian and Greek wines cheaper than California wines. Now is a great time to travel to Europe and drink wine. It is an even better time to buy that European winery you have always dreamed of owning.



* Price divided by 12-month forward consensus expected operating earnings per share. Monthly through December 2005, weekly thereafter.
Source: Thomson Reuters I/B/E/S.

Second, over the past 5 years, there has been a huge divergence between the investment performance of the US S&P 500 and the foreign markets return, yet since 1970 the world markets have moved more in correlation with the S&P 500 than in the past 5 years. In my mind, this creates opportunity. The financial valuation of the foreign markets is much more attractive than the US market as shown in the chart above.



Graph data as of July 24, 2018

I also like to remind individuals of the investment performance of the major indices for the first 10 years of the century. The much loved S&P 500 was down 9% for those first 10 years, while the recently unloved emerging markets and REITs did very well with returns ranging from 161.95% to 175.59%. I believe in mean reversion.

When applying this reasoning to our clients' portfolios, we are thinking and managing your money for the long term while maintaining liquidity for short term cash needs. For the past 18 months, our domestic strategies: GARP, Income & Growth, and Fund of Mutual Funds have performed much better than our International 60/40 portfolio, but long term, I am glad having client's assets allocated to this strategy.

It has proven very beneficial for our clients over the long run to own securities and assets that are not highly correlated with the US domestic markets because there are times when the US dollar declines and clients are happy to have Italian and Greek wines in their cellars and foreign securities in their portfolios. If there is one takeaway from this article, I like to reference Warren Buffett's famous saying, "Be fearful when others are greedy, and be greedy when others are fearful".

Brian Mattox

Senior Portfolio Manager

Heads Up on Paycheck Tax Withholding

By Jason Tkach

We still have a few pay cycles left this year, and it's a good idea to review your federal and state tax withholding elections on your paystub. When Congress passed the Tax Cuts and Jobs Act (TCJA) late in 2017, it was widely promoted that taxpayers will see a bigger paycheck because the IRS adjusted the withholding tables, so your payroll department could withhold less for federal taxes. However, this very simplistic approach does not take into account taxpayers who are accustomed to itemizing their deductions.

If you're used to itemizing and have set your federal (and state) withholdings to "break even" when you file your return, there's a good chance you'll be under-withholding this year. Many taxpayers also don't realize that if they file using the new standard deductions for their federal return, they may also have to file standard on their state return but this varies by state.

The Tax Policy Center estimates that of the 44% of married filers who itemized in previous years, only 16% will itemize under the TCJA.

That's because the law dramatically increases the standard deductions to simplify tax filing for most people. However, the law limits what one can deduct for combined state, local and property tax or sales tax where no income tax is collected to $10,000. Thankfully, one can still deduct mortgage interest!

So, what does this mean for you? If you're an "itemizer" see if your deductions, over and above the S.A.L.T. deduction, exceed the new standard deductions ($24,000 for married, $18,000 for head of household, $12,000 for single filers). If they do, then understand that you will have more taxable income this year and thus are likely not withholding enough to pay your taxes.

You should also understand that if you have children, depending on their ages, you may have more or less of a tax impact.

In Maryland, the comptroller's office has estimated that while 71% of taxpayers would pay less in federal taxes, about 23% would see their state and local taxes increase without changes to the state's tax laws. Fortunately, they did increase the exemptions slightly to $4500 for married and $2250 for single filers.

Here's an example, let's say in 2017 as a married couple you had $21,000 of itemized deductions on both your federal and state tax returns. In 2018, you would take the $24,000 federal standard deduction. This means you must take the standard deduction on your Maryland return as well, which last year was just $4,000. You just lost $17,000 in deductions on your Maryland return, which at a combined state and local tax rate of 7.95% rate is $1,351.50!

Two major issues arise – you may find out suddenly that you owe more state taxes than in the past. Also, you may not be withholding enough for federal taxes. In both cases, you will be hit with an under-payment penalty and interest when you file your return. We encourage you to take a few minutes to check out the IRS and Maryland tax withholding calculators and have a copy of your paystubs and last year's tax return when you do.

The federal calculator is at www.IRS.gov and just type "withholding calculator" in the search bar. For Maryland residents, go to www.taxes.marylandtaxes.gov and click on the "tax calculators" link, then click on Employer Withholding Calculator. If you want to increase withholdings, contact your payroll administrator.State lawmakers had to move fast in their legislative session

earlier this year.

Perhaps we'll see changes like decoupling the method of filing in the future, but then again the current TJCA is only in effect through tax year 2025. In the meantime, Maryland has joined New York, New Jersey and Connecticut in a law suit claiming that limiting state and local tax deductions is unconstitutional as it's a form of double taxation and interferes with the states' ability to make their own taxing and spending decisions. Limiting the deduction of property taxes however may be here to stay as it levels the field between renters and owners. Only time will tell but for now, we'd like to help you avoid some unwelcome surprises when your file your tax returns next year.

Jason Tkach

Portfolio Manager

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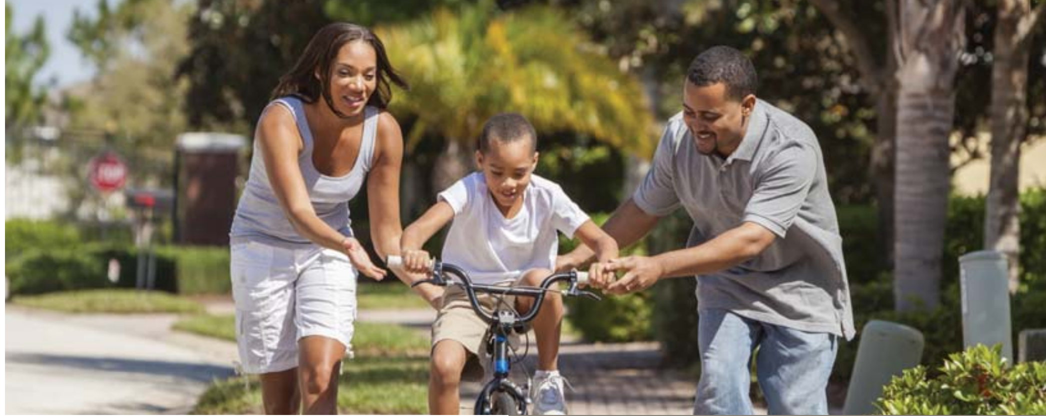
Is Now the Right Time to Go Roth?



By Madolynn Stemmer

Will federal income tax rates ever be lower than they are right now?

Given the outlook for Social Security and Medicare, it is hard to imagine them falling much further. Higher federal income tax rates could occur just when you're getting ready to retire, as the tax cuts set by the Tax Cuts and Jobs Act are only in place for tax years 2018-2025.

If you find yourself in a lower marginal tax bracket now, this may be an ideal time to convert a traditional IRA.   A Roth IRA conversion is a taxable event when you pay the tax on traditional IRA amounts in order to put them in a Roth IRA instead. You can convert all or a portion of an IRA and once in the Roth those assets are not subject to RMDs.

What would you rather have – years of tax-free IRA withdrawals, or years of IRA withdrawals that might be taxed more than they would be today? The jump in your taxable income for the year of the conversion may be a headache – but like many headaches, it promises to be short-lived. Consider the many perks that could come from transforming a traditional IRA balance into a Roth IRA balance (and remember that any taxpayer can make a Roth conversion, even a taxpayer whose high earned income rules out the chance of contributing to a Roth IRA).

Generally, you can take tax-free withdrawals from a Roth IRA once the Roth IRA has been in existence for five years and you are age 59½ or older. If you end up retiring before you being collecting Social Security benefits at full retirement age, tax-free and penalty-free Roth IRA would be very helpful for budgeting those years.

You can also contribute to a Roth IRA all your life, provided you earn income and your income level is not so high as to bar these inflows. In contrast, a traditional IRA does not permit contributions after age 70½ and requires annual withdrawals once you reach that age.

Lastly, a Roth IRA is the most desirable account to inherit in terms of estate planning. Roth IRA assets transfer to your heirs tax free and remain tax free when they spend it down.

A Roth IRA conversion need not be "all or nothing."

Some traditional IRA owners elect to convert just part of their traditional IRA to a Roth, while others choose to convert the entire balance over multiple years. The laws are very flexible as to the amount and timing of these conversions. It's best to work closely with your tax advisor from year to year to maximize your brackets. If you're over 65, be careful not to trigger IRMAA (income-related monthly adjustment amount) the additional Medicare premium if you wouldn't be in that income bracket anyway.

Be aware of the Pro-Rata Rule. The pro-rata rule is a formula used to calculate the taxable portion of your conversion when you have non-deductible contributions in an IRA. The pro-rata rule also includes balances in all of your IRAs including SEPs and SIMPLE IRAs. Not to worry though, if you have numerous IRA accounts, there are ways to consolidate them or rollover to other types of accounts in order to avoid this issue. We're here to help strategize with you.

Remember, however, that you can no longer undo a Roth conversion. The Tax Cuts & Jobs Act did away with Roth "recharacterizations" – that is, turning a Roth IRA back to a traditional one. So now, what's done is done, there are no do-overs.

Talk to Kendall Capital and your tax advisor as you weigh your decision. This really does look like a prime time for many to consider Roth conversions and on the surface, it may seem like the tax hit outweighs the potential long-run advantages. It's important to study the various financial implications before making the move and a financial plan projecting future RMDs and tax rates can help you decide.

> **It really does look like a prime time to consider Roth conversions.**
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Madolynn Stemmer

Client Service Associate

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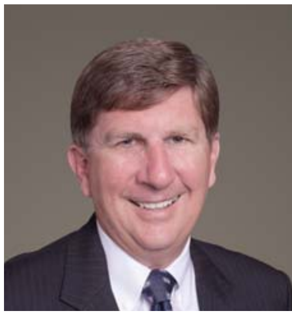
THE KENDALL CAPITAL TEAM

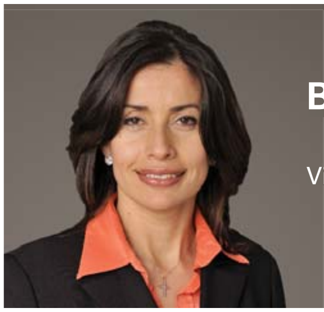


Clark A. Kendall

President and CEO

Carol Petrov

Vice President and Senior Relationship Manager



Paola S. Bruening

Vice President and Chief Compliance Officer

Brian Mattox

Senior Portfolio Manager

Jason Tkach

Portfolio Manager

Madolynn Stemmer

Client Service Associate

Zemin Zhu

Investment Analyst

Diane Kendall

Marketing Associate

KENDALL CAPITAL
Serving Middle Class Millionaires®

600 Jefferson Plaza
Suite 410
Rockville, MD 20852

Phone 301.838.9110
Fax 301.838.9113
Toll Free 877.260.7935

info@kendallcapital.com
www.kendallcapital.com