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Eddy Company Newsletter

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How Much Risk Can You Take?

Many market shocks are short-lived once investors conclude the event is unlikely to cause lasting economic damage. Still, major market downturns such as the 2000 dot-com bust and the 2008-09 credit crisis are powerful reminders that we cannot control or predict exactly how, where, or when precarious situations will arise.

Market risk refers to the possibility that an investment will lose value because of a broad decline in the financial markets, which can be the result of economic or sociopolitical factors. Investors who are willing to accept more investment risk may benefit from higher returns in the good times, but they also get hit harder during the bad times. A more conservative portfolio generally means there are fewer highs, but also fewer lows.

Your portfolio's risk profile should reflect your ability to endure periods of market volatility, both financially and emotionally. Here are some questions that may help you evaluate your personal relationship with risk.

How much risk can you afford?

Your capacity for risk generally depends on your current financial position (income, assets, and expenses) as well as your age, health, future earning potential, and time horizon. Your time horizon is the length of time before you expect to tap your investment assets for specific financial goals. The more time you have to keep the money invested, the more likely it is that you can ride out the volatility associated with riskier investments. An aggressive risk profile may be appropriate if you're investing for a retirement that is many years away. However, investing for a teenager's upcoming college education may call for a conservative approach.

How much risk may be needed to meet your goals?

If you know how much money you have to invest and can estimate how much you will need in the future, then it's possible to calculate a "required return" (and a corresponding level of risk) for your investments. Older retirees who have sufficient income and assets to cover expenses for the rest of their lives may not need to expose their savings to risk. On the other hand, some risk-averse individuals may need to invest more aggressively to accumulate enough money for retirement and offset another risk: that inflation could erode the purchasing power of their assets over the long term.

How much risk are you comfortable taking?

Some people seem to be born risk-takers, whereas others are cautious by nature, but an investor's true psychological risk tolerance can be difficult to assess. Some people who describe their personality a certain way on a questionnaire may act differently when they are tested by real events.

Moreover, an investor's attitude toward risk can change over time, with experience and age. New investors may be more fearful of potential losses. Investors who have experienced the cyclical and ever-changing nature of the economy and investment performance may be more comfortable with short-term market swings.

Brace yourself

Market declines are an inevitable part of investing, but abandoning a sound investment strategy in the heat of the moment could be detrimental to your portfolio's long-term performance. One thing you can do to strengthen your mindset is to anticipate scenarios in which the value of your investments were to fall by 20% to 40%. If you become overly anxious about the possibility of such a loss, it might be helpful to reduce the level of risk in your portfolio. Otherwise, having a plan in place could help you manage your emotions when turbulent times arrive.

All investing involves risk, including the possible loss of principal, and there is no guarantee that any investment strategy will be successful.

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Key Retirement and Tax Numbers for 2018

Proposed tax reform legislation may make changes to the estate and gift tax, the personal exemption, the standard deduction, and the alternative minimum tax.

Every year, the Internal Revenue Service announces cost-of-living adjustments that affect contribution limits for retirement plans, thresholds for deductions and credits, and standard deduction and personal exemption amounts. Here are a few of the key adjustments for 2018.

Employer retirement plans

- Employees who participate in 401(k), 403(b), and most 457 plans can defer up to $18,500 in compensation in 2018 (up from $18,000 in 2017); employees age 50 and older can defer up to an additional $6,000 in 2018 (the same as in 2017).
- Employees participating in a SIMPLE retirement plan can defer up to $12,500 in 2018 (the same as in 2017), and employees age 50 and older can defer up to an additional $3,000 in 2018 (the same as in 2017).

IRAs

The limit on annual contributions to an IRA remains unchanged at $5,500 in 2018, with individuals age 50 and older able to contribute an additional $1,000. For individuals who are covered by a workplace retirement plan, the deduction for contributions to a traditional IRA is phased out for the following modified adjusted gross income (AGI) ranges:

	2017	2018
Single/head of household (HOH)	$62,000 - $72,000	$63,000 - $73,000
Married filing jointly (MFJ)	$99,000 - $119,000	$101,000 - $121,000
Married filing separately (MFS)	$0 - $10,000	$0 - $10,000

Note: *The 2018 phaseout range is $189,000 - $199,000 (up from $186,000 - $196,000 in 2017) when the individual making the IRA contribution is not covered by a workplace retirement plan but is filing jointly with a spouse who is covered.*

The modified AGI phaseout ranges for individuals to make contributions to a Roth IRA are:

	2017	2018
Single/HOH	$118,000 - $133,000	$120,000 - $135,000
MFJ	$186,000 - $196,000	$189,000 - $199,000
MFS	$0 - $10,000	$0 - $10,000

Estate and gift tax

- The annual gift tax exclusion for 2018 is $15,000, up from $14,000 in 2017.
- The gift and estate tax basic exclusion amount for 2018 is $5,600,000, up from $5,490,000 in 2017.

Personal exemption

The personal exemption amount for 2018 is $4,150, up from $4,050 in 2017. For 2018, personal exemptions begin to phase out once AGI exceeds $266,700 (single), $293,350 (HOH), $320,000 (MFJ), or $160,000 (MFS).

Note: *These same AGI thresholds apply in determining if itemized deductions may be limited. The corresponding 2017 threshold amounts were $261,500 (single), $287,650 (HOH), $313,800 (MFJ), or $156,900 (MFS).*

Standard deduction

These amounts have been adjusted as follows:

	2017	2018
Single	$6,350	$6,500
HOH	$9,350	$9,550
MFJ	$12,700	$13,000
MFS	$6,350	$6,500

Note: *The 2018 additional standard deduction amount (age 65 or older, or blind) is $1,600 (up from $1,550 in 2017) for single/HOH or $1,300 (up from $1,250 in 2017) for all other filing statuses. Special rules apply if you can be claimed as a dependent by another taxpayer.*

Alternative minimum tax (AMT)

	2017	2018
Maximum AMT exemption amount		
Single/HOH	$54,300	$55,400
MFJ	$84,500	$86,200
MFS	$42,250	$43,100
Exemption phaseout threshold		
Single/HOH	$120,700	$123,100
MFJ	$160,900	$164,100
MFS	$80,450	$82,050
26% on AMTI* up to this amount, 28% on AMTI above this amount		
MFS	$93,900	$95,750
All others	$187,800	$191,500
*Alternative minimum taxable income		

It's Time for Baby Boomer RMDs!

In 2016, the first wave of baby boomers turned 70½, and many more reach that milestone in 2017 and 2018. What's so special about 70½? That's the age when you must begin taking required minimum distributions (RMDs) from tax-deferred retirement accounts, including traditional IRAs, SIMPLE IRAs, SEP IRAs, SARSEPs, and 401(k), 403(b), and 457(b) plans.

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If you're still employed (and not a 5% owner), you may be able to delay minimum distributions from your current employer's plan until after you retire, but you still must take RMDs from other tax-deferred accounts (except Roth IRAs). The RMD is the smallest amount you must withdraw each year, but you can always take more than the minimum amount.

Failure to take the appropriate RMD can trigger a 50% penalty on the amount that should have been withdrawn — one of the most severe penalties in the U.S. tax code.

Distribution deadlines

Even though you must take an RMD for the tax year in which you turn 70½, you have a one-time opportunity to wait until April 1 (not April 15) of the following year to take your first distribution. For example:

- If your 70th birthday was in May 2017, you turned 70½ in November and must take an RMD for 2017 no later than April 1, 2018.
- You must take your 2018 distribution by December 31, 2018, your 2019 distribution by December 31, 2019, and so on.

IRS tables

Annual RMDs are based on the account balances of all your traditional IRAs and employer plans as of December 31 of the previous year, your current age, and your life expectancy as defined in IRS tables.

Most people use the Uniform Lifetime Table (Table III). If your spouse is more than 10 years younger than you and the sole beneficiary of your IRA, you must use the Joint Life and Last Survivor Expectancy Table (Table II). Table I is for account beneficiaries, who have different RMD requirements than original account owners. To calculate your RMD, divide the value of each retirement account balance as of December 31 of the previous year by the distribution period in the IRS table.

Aggregating accounts

If you own multiple IRAs (traditional, SEP, or SIMPLE), you must calculate your RMD separately for each IRA, but you can actually withdraw the required amount from any of your accounts. For example, if you own two traditional IRAs and the RMDs are $5,000 and $10,000, respectively, you can withdraw that $15,000 from either (or both) of your accounts.

Similar rules apply if you participate in multiple 403(b) plans. You must calculate your RMD separately for each 403(b) account, but you can take the resulting amount (in whole or in part) from any of your 403(b) accounts. But RMDs from 401(k) and 457(b) accounts cannot be aggregated. They must be calculated for each individual plan and taken only from that plan.

Also keep in mind that RMDs for one type of account can never be taken from a different type of account. So, for example, a 401(k) required distribution cannot be taken from an IRA. In addition, RMDs from different account owners may never be aggregated, so one spouse's RMD cannot be taken from the other spouse's account, even if they file a joint tax return. Similarly, RMDs from an inherited retirement account may never be taken from accounts you personally own.

Birthday Guide: This chart provides sample RMD deadlines for older baby boomers.

Month & year of birth	Year you turn 70½	First RMD due	Second RMD due
Jan. 1946 to June 1946	2016	April 1, 2017	Dec. 31, 2017
July 1946 to June 1947	2017	April 1, 2018	Dec. 31, 2018
July 1947 to June 1948	2018	April 1, 2019	Dec. 31, 2019
July 1948 to June 1949	2019	April 1, 2020	Dec. 31, 2020
July 1949 to June 1950	2020	April 1, 2021	Dec. 31, 2021

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I still have money left in my FSA that I have to use by December 31st. How should I spend it?

Health flexible spending accounts (FSAs) are a great way for individuals to pay qualified medical and dental expenses using pre-tax dollars. While IRS rules do allow employers to offer either a carryover or grace period option for money left over in flexible spending accounts, many employer FSA plans still have provisions that don't allow for funds contributed to an FSA to carry over from one plan year to the next. In other words, if you don't use it, you lose it. If you find that you still have money left over in your FSA as the end of the year approaches, there are a number of ways to spend down your account balance.

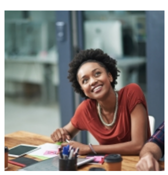
FSA funds can be used to pay for a variety of out-of-pocket health-care expenses, such as deductibles and copayments. You can also use your FSA funds to pay for uncovered dental and vision care expenses. So now might be a good time to schedule any medical and dental appointments that you may have been putting off, stock up on contact lenses, or even replace an old pair of eyeglasses.

FSA funds can also be used to pay for both prescription drugs and many over-the-counter products, including:

- Athletic braces and supports
- Bandages
- First-aid kits
- Blood-pressure monitors
- Shoe insoles and inserts

Keep in mind that certain over-the-counter medicines (e.g., pain relievers and allergy medication) require a doctor's prescription in order for you to obtain reimbursement from your FSA.

If you continue to participate in your employer's FSA, remember to choose your contribution amount carefully so that you don't risk losing any contributions going forward. Many FSA plan administrators offer user-friendly websites that allow you to inquire about eligible expenses and keep track of your FSA purchases and account balances throughout the plan year.



What financial resolutions should I consider making as I look ahead to 2018?

A new year is right around the corner, bringing with it a fresh start for you and your finances. What will you do this year to help improve your financial situation?

Evaluate your savings goals. The beginning of the year is a great time to examine your overall financial plan. Maybe you want to buy a new vehicle this year or save money toward a Caribbean cruise next year. Perhaps you want to focus less on material items and more on long-term goals, such as your retirement savings. Regardless of what you are setting money aside for, make sure you come up with a realistic savings plan that will help you achieve your goals and avoid the risk of significant loss.

Pay down debt. Whether you owe money on your credit cards or have student loan payments to make, the start of a new year is a good time to develop a strategy to reduce your overall level of debt. Reducing your debt can help create opportunities to contribute toward other goals throughout the year. But unless you can definitely afford it, don't plan to pay off all your debts in one fell swoop. Set a smaller goal that you'll be more likely to achieve over the course of the year.

Automate as much as you can. Your plan to pay down debt can be accomplished more easily if you automate your bill paying, saving, and investing. Most banks, credit card issuers, retirement plan providers, and investment companies offer services that make payments automatic — allowing you to worry less about payment dates. The best part is that it might only take a few taps on your smartphone to make these processes automatic.

Think about organizing your financial documents. If your overall financial situation is already in good shape for the new year, consider taking time now to clear out and organize your financial records. Do you have important documents, such as your tax returns or passport, in a safe place? Are you holding on to records that you no longer need? Organizing your financial records now can save you time and frustration later if you need to locate a particular document.