STEWARDSHIP
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What Happened and What's Ahead

2018 has been a tough year for investors, as nearly every asset class globally has suffered price declines or generated meager single-digit gains. After the tax cuts in the US in December of last year, many expected 2018 to be the start of a renewed upswing in economic activity, but hopes were quickly dashed by an uptick in volatility brought on by fears of trade wars, rising interest rates, and a slowing global economy. As of this publication, US markets are generally flat or slightly positive for the year, with little to show for the strongest economy since 2014. Financial markets have been in turmoil throughout the year, with extreme volatility events occurring on multiple instances that shook investor confidence and raised questions of where we go from here. This late-cycle behavior is not uncommon for a bull market that will go down as the one of the lengthiest in history.

Much of the blame for this year has been attributed to rising interest rates, primarily driven by the Federal Reserve's ongoing interest rate hike campaign and balance sheet unwind, which has drawn liquidity from the global financial system. In an attempt to reverse nearly a decade of unprecedented stimulus and to be prepared for the next downturn, the Fed has been determined to avoid allowing financial bubbles like the dotcom era meltdown and '08 financial crisis to wreck the economy, while also preventing a buildup of inflation while keeping employment strong. Balancing this multitude of objectives has been no simple task, and given their influence on global financial markets, any missteps could threaten the growth outlook. With their rescue of the financial system in 2008 and subsequent amassing of nearly $4.5 trillion of debt, their every move now is more important than ever. The spillover of interest rate policy to other asset classes cannot be understated, as the strength of the dollar, borrowing costs, corporate balance sheet health, emerging market debt, inflation, and the attractiveness of cash are all largely driven by the Fed's decisions.

Looking into 2019, we believe a continuation of 2018's concerns are likely. The global financial system is in transition from a period of "everybody wins" driven by excessive liquidity from central banks to a new regime of fundamentals-driven winners and losers. Making money as an investor has been a simple task for most of the past decade, but those days are likely now over. Adding to concerns, the global rise of populism and trade barriers are creating dislocations in global supply chains, uncer-

THINGS TO THINK ABOUT...

A budget isn't about restrictions. Having a plan allows you the freedom to make purchases without guilt or regret.

It's not your salary that makes you rich, it's your spending habits.

Money speaks one language: "If you save me today, I'll save you tomorrow."

tainty, and geopolitical issues that are weighing on risk assets. In preparation for this new reality, we are encouraging our clients to be more focused on flexibility in the face of a rapidly-evolving world, and relying on active, tactical decision making to find opportunities and keep risks to a minimum. Maintaining perspective will also be important, as investors must keep in mind the unprecedented amount of wealth created in the past decade, and the likelihood that will not continue at the same pace indefinitely.

While it is saddening to say goodbye to the easy-money days of yesteryear, the future outlook remains bright with spectacular potential ahead for the patient investor. In the past decade alone, the world has seen major disruptions in traditional business models, marvelous new technologies, and growth stories few would have ever imagined. Our conviction is that this trend will continue, with amazing advances in health care, robotics, energy, big data, and other technologies continuing to revolutionize the world we live in, while generating tremendous

economic growth and profits. For the savvy investor, finding the next driver of growth at a reasonable price and investments that provide an attractive risk/reward profile will pay off handsomely over time. Most importantly, staying calm and collected while others may panic from price action in markets can make all the difference in the long run.

For ongoing updates to our outlook and portfolios, please read Stewardship Financial Advisor's **The Pulse** at www.stewardshipfinancialadv.com/pulse or follow our Facebook page! At our new and improved website you can find a treasure trove of valuable information and tools, and sign up for our mailing list!

How Are Trusts Taxed?

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Trusts can be very useful vehicles to control assets during life and after death. During life, they can be especially helpful to control assets during periods of disability. After death, a trust can provide asset protection, remarriage protection, asset management, and many other benefits which might not be available otherwise.

Generally, trusts are income taxed in two different ways, as "grantor" trusts or "nongrantor" trusts. A grantor trust is one that is taxed to the grantor (or other substantial owner) pursuant to the rules of Section 671 and following sections of the Internal Revenue Code. For example, if you can revoke the trust, it's a grantor trust pursuant to those rules. A grantor trust, such as revocable trust, is taxed directly to the grantor and the grantor reports the income of the trust on his or her own Form 1040. So, you can just give the grantor's social security number to the bank or other payer of income and the income will be taxed to the grantor, just as if the grantor owned it outright. Even if the trust is irrevocable and the grantor isn't even a beneficiary, it may still be a grantor trust. For example, if the grantor retains the power to substitute assets, the trust would be a grantor trust and taxed to the grantor. If the trust is a grantor trust, the income is taxed to the grantor even if the income and other distributions actually go to someone else.

A nongrantor trust, by comparison, is taxed as its own separate taxpaying entity. The trustee of the trust has the trust file its own tax return, Form 1041. On that return goes all the trust's items of income and expense. The nongrantor trust has its own taxpayer identification number which it gives to payers of income. If the trust makes distributions during the tax year to beneficiaries, those distributions may carry out taxable income of the trust. In that case, the trust issues a Form K-1 to the beneficiary listing the taxable portion of the distribution. Then, the beneficiary includes the taxable portion of the distribution in their own income. The trust then takes a distribution deduction on its return. If the trust has income for which it didn't have an offsetting distribution deduction, the trust itself is taxed on the income. Nongrantor trusts have a very steep income tax bracket structure. In other words, while an individual taxpayer reaches the top federal tax bracket on income over $500,000 (single filer), or $600,000 (married joint return), a nongrantor trust reaches the same top rate bracket on amounts over just $12,500.

Let's look at an example. The Mary Smith Trust has income of $50,000 each year and distributes $20,000 to beneficiaries each year. If the trust is a grantor trust, the $50,000 of income gets taxed to Mary (the grantor) each year. When preparing her Form 1040, Mary adds the $50,000 income the Mary Smith Trust received for the year to the income she received individually. It doesn't matter whether the trust's income is actually distributed to Mary or even distributed to someone else, it's still taxed to Mary, as the grantor.

Mary then dies. The trust continues for Mary's children, John and Susan, as a nongrantor trust. John and Susan each receive $10,000 in income from the trust. They each receive a K-1 from the Mary Smith Trust reflecting the $10,000 distribution to each of them. Each of them must report this on their own Form 1040. The trustee of the Mary Smith Trust will file a Form 1041 for the trust and will report $50,000 of income and $20,000 of distribution deductions.

To Roth or Not to Roth: Navigating the Path to Retirement

If you're reading this, there's a good chance that you would like to retire someday. Maybe that day is a couple of decades away or maybe that day is right around the corner. Regardless of your current age or life-standing, it's safe to say that planning for retirement is important to most individuals. But what does planning for retirement look like? Where do you start if you haven't already started saving? And where do you save? A good place to start may be with an Individual Retirement Account (IRA). You may have heard the term before, so today we are going to demystify and dissect the Traditional IRA and it's counterpart, the Roth IRA.

To Roth or not to Roth?

To begin answering this question, there are a couple of things to note about an IRA. First and foremost, these are individual accounts. They can be started without an employer and they can be opened online within minutes. Furthermore, anything that you contribute to your IRA, is yours to keep, meaning that this account is 100% vested. As a student in college, a young professional in an independent practice, or even as an executive at a firm, the IRA might be the retirement supplement you're looking for. Below is a comparison between the Traditional IRA and the Roth IRA to help you navigate the path of retirement.

	Traditional IRA	Roth IRA
Annual Contribution Limit	$5,500 (2018)	$5,500 (2018)
Tax Benefits	Tax-deferred growth and tax-deductible contributions	Tax-free growth and tax-free qualified withdrawals
Required Minimum Distributions	Begin at age 70 ½	Begin after death (RMDs to not apply during your lifetime)
Contributions	Cease after age 70 ½	Can continue contributing after age 70 ½
Early Withdrawal Penalties	Withdrawals before age 59 ½ might incur a 10% penalty	Withdrawals before age 59 ½ might incur a 10% penalty and ordinary income taxes
Income Caveats	Income affects how much you can deduct	Income affects how much you can contribute