

THE OFM Wealth LETTER

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Thought Bubbles



I'm experiencing my 41st year of being asked the question "What's the market going to do this year?" I've never given a forecast (for good reason), yet the question keeps coming. For some, it's a conversation ice breaker with a financial guy. Others add "I realize you don't really know, Sam, but you must have some insight, or an inkling, or maybe just a sense of something."

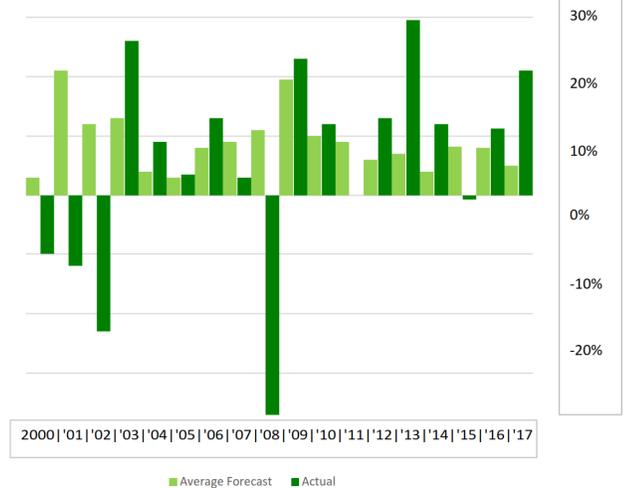
"I don't know" are the three most underused words in investing (1). In that same article, Morgan Housel wrote, "Read past stock market predictions and you will take current predictions less seriously." To his point, take a look at this forecast chart.

Seldom was the average forecast and actual return close. Please note that there has not been a negative forecast! Makes one think.

"I don't know", however, doesn't impress. Perhaps, "we don't predict, we prepare" works better. In fact, we do prepare by regularly re-balancing to each client's target blend. In doing so, we sell higher --- that's a plan not a forecast.

(1) Morgan Housel, Wall Street Journal 6 December 8, 2014.

How stock strategists have fared



Source: Wall Street Journal 6 January 5, 2015 (Birinyi Associates tracks the average forecast of 18 Wall Street strategists); & Morningstar



The 2017 tax law raised the federal death tax exempt amount to \$11.2M (\$22.4M for couples). As a result, very few estates will be subject to the death or estate tax. (Note: the Illinois inheritance tax exemption is \$4M).

Since living trusts have historically included estate tax savings language, on the surface, it may appear as though the value of these trusts is diminished. Consider this, however. In my career I have seen the exemption move from \$600,000 to \$1M to zero to \$3.5M to over \$5M, now to \$11.2M. It hasn't always gone up, and it could be reduced in the future.

If tax avoidance could be a future objective, the inclusion of trust tax savings language, and future revisions of that language, is appropriate. In addition to tax savings, living trusts continue to provide other benefits:

- Trust distribution plans state who is to get what, when, and under what conditions. Distributions to children, grandchildren, charities, etc. are expressed.
- Trustees and successor trustees are named and their roles and powers are explained.
- If one cannot act on his/her own behalf, trustees step in to assure that trust provisions are met.

In short, the non-tax savings reasons and benefits remain. Reviews and/or the creation of wills and powers of attorney for property and healthcare should accompany trust planning.



We witnessed a surge in sustainable investing interest in 2017. A number of our clients inquired about investing not only for profit but for various purposes as well. A Barron's cover story (October 9, 2017) traced the recent interest in sustainable investing from socially conscious strategies to a much broader platform of priorities.

Sustainable investing includes an interest in one or more themes under the broad categories of environmental, social, and governance (ESG) principles. In response to this interest, deep global research, ESG screening of public companies, sustainability ratings, and investment product solutions have been developed.

The research, ratings, and product analysis continue to be refined at investment firms throughout the country. With the latest research now available, OFM Wealth is refining its ESG portfolios as well. Future newsletters and blogs will treat ESG investing in more detail.

- Sam

Investor Behavior Corner - Mental Accounting

Have you ever told yourself that money you have set aside in one bank account is only for a certain use? Or have you ever decided to spend an unexpected windfall differently than you would your monthly paycheck? If so, you are not alone. This is a common behavior called "mental accounting." Our mental accounting tendencies can help us manage our finances, but sometimes they do not produce optimal results. To illustrate this behavior, allow me to draw two alternate scenarios:

Scenario 1

Imagine you are on your way to the local theatre to see a movie for which you pre-purchased your \$10 ticket. You have almost arrived at the theatre when you realize that you have lost this pre-purchased ticket. Would you buy another ticket at the theatre for \$10 or would you accept the loss and not see the movie?

Scenario 2

Now imagine you are on your way to the same theatre and this time you have not bought a ticket in advance. When you get in line and pull out your wallet you realize that you're missing the \$10 you had designated for purchasing the ticket. Do you borrow \$10 from a friend and buy a ticket or accept the loss and not see the movie?

If in scenario 1, after losing your ticket you purchase another one you are in the minority. Richard Thaler, a behavioral economist at the University of Chicago, found only 46% percent of people would buy another ticket after losing the original. On the other hand, if you said you would purchase another ticket after losing \$10, you were in the majority. 88% of people would do the same. (1) This study, as well as others about irrational economic behaviors, were so influential in 2017 that Richard Thaler was awarded the Nobel Prize in Economics.



These mental accounts are impactful. When taxpayers receive a tax refund, it is placed in the "found money" account, assigned less value and spent freely. Money from wages ("earned money") is spent in a more calculated, budgeted manner. This behavior may not be rational. If money for taxes was withheld throughout the year, that money would be treated as "earned money", not "found money", and spent more cautiously.

- Will

(1) <https://www.wired.com/2011/02/the-curse-of-mental-accounting/>

Corporate Geography Quiz

Maybe international investing is not so foreign after all!

In our globalized world, what really is an "international" stock? Traditionally, for U.S. investors, an international stock has been defined as a company whose headquarters is located outside of the United States. However, many companies based here at home have significant business operations outside of the U.S. The same holds true for many companies based in other countries – the U.S. market represents a large portion of their business.

Here is a list of companies whose products may be very familiar to you. Can you match the company with the location of its headquarters?

- Cris



a) USA	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
b) Netherlands	<input type="checkbox"/>
c) Switzerland	<input type="checkbox"/>
d) Japan	<input type="checkbox"/> <input type="checkbox"/>
e) Germany	<input type="checkbox"/> <input type="checkbox"/>
f) Belgium	<input type="checkbox"/>

Answers on bottom of page

Quick Takes : Fourth Quarter 2017

Buffet: Sage Advice – In the depths of the financial crisis (October 2008), Warren Buffet encouraged investors to "be fearful when others are greedy and greedy when others are fearful". He then wrote his "Buy America, I am" op-ed in the New York Times. On March 9, 2009, less than 5 months later, the stock market bottomed and began a nearly 9-year recovery period. Is it now time to be fearful? We continue to follow this mantra as we rebalance client portfolios back to their agreed upon goals. *Source: AMG Funds – October 9, 2017*

Some Key Points about the Tax Cuts and Jobs Act of 2017

- Under the new tax law, 529 plans can be used tax-free to pay up to \$10,000 per year, per beneficiary, for elementary and secondary public, private and religious school tuition.
- \$10,000 combined cap on state and local income tax & property tax deductions
- Mortgage interest deduction limited to \$750,000 of principal – this only applies to new mortgages after December 15, 2017.
- Changes made to individual tax law "sunset" after the year 2025



U.S. Exports to China – We often notice that many of the items we buy in the USA are made in China, but the following statistic shows that it is not just a one-way street anymore. U.S. exports of goods and services to China have increased tenfold since 1999, rising from \$17 billion to \$170 billion in 2016. To this point, last year 175,000 Cadillacs were sold in China, while only 156,000 were sold in the USA. *Source: AMG Funds – November 20, 2017 and Wall Street Journal – January 6, 2018*

- Jeff

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