

Emerald Spectrum Advisory

January Newsletter

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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We are excited to announce the return of Brian M. Johnson, CFP® as an Associate Advisor to Emerald Spectrum Advisory.

He originally began his financial services career at Emerald Spectrum in 2011 leaving in 2014 to gain further experience and specialization working with young professionals and physicians. He enhances our multi-generational focus, working with emerging professionals and families as they build strong financial foundations with his specific expertise in navigating life transitions for these young professionals.

In addition to being a CFP®, Brian is a board member of the local chapter of the Financial Planning Association (FPA) and is a Registered Representative and Investment Adviser Representative of Commonwealth Financial Network®. He will be a strong addition to the team, so please join me in welcoming him back!

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Demographic Dilemma: Is America's Aging Population Slowing Down the Economy?



It's no secret that the demographic profile of the United States is growing older at a rapid pace. While the U.S. population is projected to grow just 8% between 2015 and 2025, the number of older Americans ages 70 to 84 will skyrocket 50%.¹

With roughly 75 million members, baby boomers (born between 1946 and 1964) make up the largest generation in U.S. history. As a group, boomers have longer life expectancies and had fewer children than previous generations.²

Now, after dominating the workforce for nearly 40 years, boomers are retiring at a rate of around 1.2 million a year, about three times more than a decade ago.³

Though the economy has continued to improve since the Great Recession, gross domestic product (GDP) growth has been weak compared with past recoveries. A number of economists believe that demographic changes may be the primary reason.⁴

Spending shifts

The lower birth rates in recent decades generally mean that fewer young people are joining the workforce, so the consumer spending that fuels economic expansion and job creation could take a hit. When young people earn enough money to strike out on their own, marry, and start families, it typically spurs additional spending — on places to live, furniture and appliances, vehicles, and other products and services that are needed to set up a new household.

On the other hand, when people retire, they typically reduce their spending and focus more on preserving their savings. Moreover, retirees' spending habits are often different from when they were working. As a group, retirees tend to avoid taking on debt, have more equity built up in their homes, and may be able to downsize or move to places with lower living costs. More spending is devoted to covering health-care costs as people age.

If a larger, older population is spending less and the younger population is too small to drive up consumer spending, weaker overall demand for products and services could restrain GDP growth and inflation over the long term. Less borrowing by consumers and businesses could also put downward pressure on interest rates.

A new normal?

The onslaught of retiring baby boomers has long been expected to threaten the viability of Social Security and Medicare, mainly because both are funded by payroll taxes on current

workers. But this may not be the only challenge.

A 2016 working paper by Federal Reserve economists concluded that declining fertility and labor force participation rates, along with increases in life expectancies, accounted for a 1.25 percentage point decline in the natural rate of real interest and real GDP growth since 1980. Furthermore, the same demographic trends are expected to remain a structural impediment to economic growth for years to come.⁵

Put simply, a nation's potential GDP is a product of the number of workers times the productivity (output) per worker, and the U.S. workforce is shrinking in relation to the total population.

The labor force participation rate — the percentage of the civilian labor force age 16 and older who are working or actively looking for work — peaked at 67.3% in early 2000, not coincidentally the last time GDP grew by more than 4%. The participation rate has dropped steadily since then; in August 2017, it was 62.9%. This reflects lower birth rates, increased college enrollment, some men in their prime working years dropping out of the labor force, and large numbers of retiring baby boomers.⁶

Many economists acknowledge that U.S. population trends are a force to be reckoned with, but the potential impact is still up for debate. Some argue that labor shortages could drive up wages and spending relatively soon, followed by higher growth, inflation, and interest rates — until automated technologies start replacing larger numbers of costly human workers.⁷

Even if demographic forces continue to restrain growth, it might not spell doom for workforce productivity and the economy. Another baby boom would likely be a catalyst for consumer spending. Family-friendly policies such as paid maternity leave and day-care assistance could provide incentives for women with children to remain in the workforce. It's also possible that a larger percentage of healthy older workers may delay retirement — a trend that is already developing — and continue to add their experience and expertise to the economy.⁸

1, 3) The Conference Board, February 24, 2017

2) *The Wall Street Journal*, January 16, 2017

4-5) Federal Reserve, 2016

6, 8) *The Financial Times*, October 25, 2016

7) U.S. Bureau of Labor Statistics, 2016-2017, Bureau of Economic Analysis 2017

Key Retirement and Tax Numbers for 2018



**The Tax Cuts and Jobs Act made significant changes to the estate and gift tax, the personal exemption, the standard deduction, and the alternative minimum tax, which are included here.*

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 \$11,200,000, up from \$5,490,000 in 2017.

Personal exemption

There is no personal exemption amount for 2018; it was \$4,050 in 2017. For 2018, there is no phaseout of personal exemptions or overall limit on itemized deductions once AGI exceeds certain thresholds.

Note: For 2017, personal exemptions were phased out and itemized deductions were limited once AGI exceeded \$261,500 (single), \$287,650 (HOH), \$313,800 (MFJ), or \$156,900 (MFS).

Standard deduction

	2017	2018
Single	\$6,350	\$12,000
HOH	\$9,350	\$18,000
MFJ	\$12,700	\$24,000
MFS	\$6,350	\$12,000

Note: The additional standard deduction amount for the blind or aged (age 65 or older) in 2018 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	\$70,300
MFJ	\$84,500	\$109,400
MFS	\$42,250	\$54,700
Exemption phaseout threshold		
Single/HOH	\$120,700	\$500,000
MFJ	\$160,900	\$1,000,000
MFS	\$80,450	\$500,000
26% rate on AMTI* up to this amount, 28% rate on AMTI above this amount		
MFS	\$93,900	\$95,750
All others	\$187,800	\$191,500

*Alternative minimum taxable income

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How can I protect myself from digital deception?

Imagine that you receive an email with an urgent message asking you to verify your banking information by clicking on a link. Or maybe you get an enticing text message claiming that you've won a free vacation to the destination of your choice — all you have to do is click on the link you were sent. In both scenarios, clicking on the link causes you to play right into the hands of a cybercriminal seeking your sensitive information. Just like that, you're at risk for identity theft because you were tricked by a social engineering scam.

Social engineering attacks are a form of digital deception in which cybercriminals psychologically manipulate victims into divulging sensitive information. Cybercriminals "engineer" believable scenarios designed to evoke an emotional response (curiosity, fear, empathy, or excitement) from their targets. As a result, people often react without thinking first due to curiosity or concern over the message that was sent. Since social engineering attacks appear in many forms and appeal to a variety of emotions, they can be especially difficult to identify.

Take steps to protect yourself from a social engineering scam. If you receive a message conveying a sense of urgency, slow down and read it carefully before reacting. Don't click on suspicious or unfamiliar links in emails, text messages, and instant messaging services. Hover your cursor over a link before clicking on it to see if it will bring you to a real URL. Don't forget to check the spelling of URLs — any mistakes indicate a scam website. Also be sure to look for the secure lock symbol and the letters *https*: in the address bar of your Internet browser. These are signs that you're navigating to a legitimate website.

Never download email attachments unless you can verify that the sender is legitimate. Similarly, don't send money to charities or organizations that request help unless you can follow up directly with the charitable group.

Be wary of unsolicited messages. If you get an email or a text that asks you for financial information or passwords, do not reply — delete it. Remember that social engineering scams can also be used over the phone. Use healthy skepticism when you receive calls that demand money or request sensitive information. Always be vigilant and think before acting.



What can I do to crack down on robocalls?

You may not mind if a legitimate robocall provides a helpful announcement from your child's school or an appointment reminder from a doctor's office. But sadly, criminals often use robocalls to collect consumers' personal information and/or conduct various scams. Newer "spoofing" technology displays fake numbers to make it look as though calls are local, rather than coming from overseas, which could trick more people into answering the phone.

Robocalls have been illegal since 2009 (unless the telemarketer has the consumer's prior consent). In mid-2017, federal agencies announced they are ramping up enforcement by fining violators and encouraging blocking technologies. What should you do if you want to help put an end to this nuisance?

1. Don't answer calls when you don't recognize the phone number. If you pick up an unwanted robocall, just hang up. Don't answer "yes" or "no" questions, provide personal information, or press a number to

"opt out." Responding to the call in any way verifies that it has reached a real number and could prompt additional calls.

2. Look into robocall blocking solutions that may be offered by your phone service provider. If they're available, you may need to follow specific instructions to "opt in." Otherwise, consider a mobile app or cloud-based service designed to block robocalls; some of them are free or cost just a few dollars.
3. Consider registering your phone number on the National Do Not Call Registry. While taking this step can help mitigate the amount of robocalls you receive, it's only a partial solution to the problem. The Federal Trade Commission advises consumers whose numbers are on the registry but still receive unwanted calls to report robocall violations at [complaints.donotcall.gov](https://www.ftc.gov/complaints-donotcall.gov). The phone numbers provided by consumers will be released each day to companies that are working on call-blocking technologies, which largely depend on "blacklists" with numbers associated with multiple complaints.