POLARIS ADVISORS, LLC.

THE Retirement Report

Retirement Transition Planning

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Investing For The Long Run Amid Volatility

With stocks surging one moment and plunging the next, it's good to remember that, from 1926 through 2016, a portfolio diversified across stocks, bonds and cash averaged a 9.6% annual return, with a better risk-reward ratio than any one of the four investments with large liquid markets.

Ninety-one years goes back to when stock returns were first recorded on Wall Street, but most people don't invest for 91 years. The bar chart shows returns of the four investments versus the diversified four-asset portfolio over more realistic holding periods.

you were to experience the 91-year results. While holding the diversified portfolio for five years beat the 91-year return of 9.6% in 56% of the 12-month rolling periods over the 91 years, holding the four-asset portfolio for 35 years beat the 91-year results in 88% of the 12-month rolling periods. Diversification neither assures a profit nor guarantees against loss in a declining market and past performance is not a guarantee of future results, but these results show that the longer you invest, the more likely you are to experience the 91-year return and risk statistics.

91-Years, 1926-2016

1926-2016	US Large Stock	US Small Stock	US Bonds	US Cash	4-Asset Portfolio Rebalanced Annually
Annualized Return	10.04%	11.31%	5.32%	3.45%	9.64%
Standard Deviation of Returns	19.9%	31.5%	5.7%	3.2%	16.6%

* Diversified portfolio rebalanced annually.

Source: Dr. Craig Israelsen, low-expense portfolio design consultant.

Over 35 years, large-company stocks beat their long-term average return over 91 years in a whopping 88% of the 35-year rolling periods! In contrast, over all of the 10-year rolling periods between 1926 and 2017, large-company stocks beat their 91-year return in only 46% of the 12-month rolling period.

In addition, the longer you stayed in the diversified portfolio, the more likely

Recently, volatility surged after investors were spooked by rising inflation and lending rates, and growing concern over the long-term U.S. debt. Statistically, the chance of a bear market decline of 20% or more increases as the eight-and-a-half-year bull market grows older, and the new tax law increased the chance of a

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Short Term Market Volatility: Just Part Of Long Term Returns

After the vigorous Bull Market of 2017, volatility returned in 2018. Normal, but still unsettling.

What should we DO about it? Wrong question! A better question is: what have we ALREADY DONE about it? We have received very few concerned phone calls and emails since these gyrations began. That speaks volumes about the strength of our clients. Still, financial worry is not pleasant and, as this seesaw continues, folks could become uncomfortable. So, we thought we'd spend some time elaborating on how our portfolios are designed to work.

The main point of this newsletter's lead article is that over long periods of time, investment returns have averaged a range of 7 to 9% (depending on asset allocation). Our portfolios are designed to harvest returns like this with the least possible risk. One way to do that is to diversify over many different securities. But another, equally important method is to diversify over many different time periods, because some years are good (2017), some years are bad (2015), and unfortunately some years are really bad (2008).

Since we can't foretell the future, we can't arrange to only participate in the good years. If we're going to invest, we have to take them all: the good, the bad and the ugly. The study in the article goes back 91 years! That's a lot of time diversification! Similarly, if we built our portfolios over 40 years of work and use them over 30 years of retirement, that's potentially 480 monthly buy points and 360 monthly sell points.

A good perspective to have as the short-term booms and busts come and go!

Stay Well,

Ric and Trang

Bitcoin, Chasing Your Tail, And Investing

Thinking about Bitcoin? Could be a good time to hop on, right? Wrong! Usually, by the time the average investor jumps on a gaudy, freewheeling bandwagon, it's too late. The price spike has already occurred. If the investment is a fad, a sickening plummet may well await you.

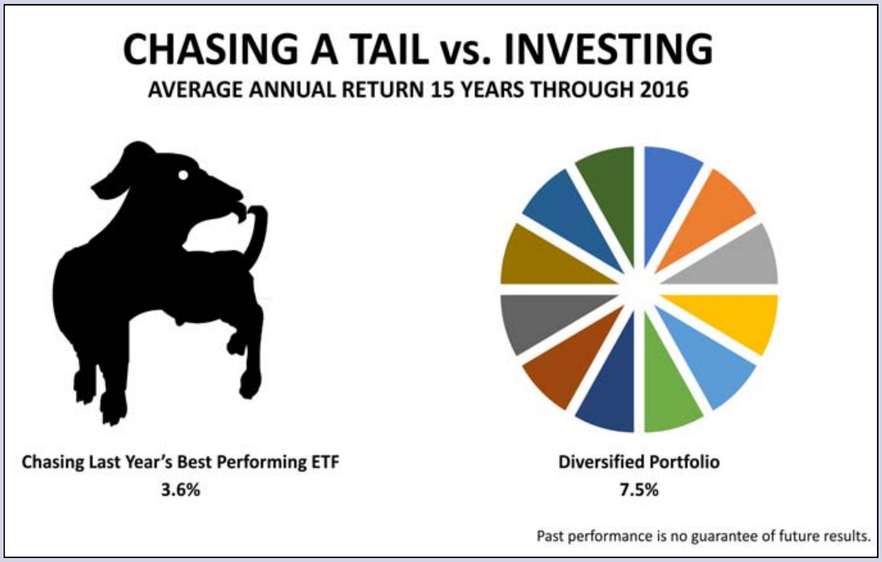
Bitcoin blasted to a record high at rocket speed, hitting $19,783 on December 17, 2017, before plunging 25% in the next 10 days. The crypto-currency may yet be destined for greatness over the long-term, but its supersonic ascent and subsequent nosedive look much like other notorious investment fads.

In 1637, Dutch investors lost their bloomers on tulip bulbs. During tulip-mania, prices for bulbs reportedly rose from November 1636 to February 1637 by 2000%, according to academic research published on Wikipedia.

These objects of desire were flowers. It made no sense. The crash of the bulbs shattered lives and has ever since served as a beacon in financial history, warning investors of the risk in chasing performance.

Investing in Bitcoin makes little sense considering that it is one of many crypto-currencies being mined on the Internet. The value of a crypto currency is set by supply and demand and supply is set by a software program that's not tied to a sovereign state. Transactions are easily hidden from tax authorities. Ultimately, crypto-currencies compete with sovereign nations, which is why some governments are starting to move to regulate them. In the time this was written, not only had the price of Bitcoin plunged 25%, but South Korea became the first nation to ban all anonymous crypto currencies and regulate the rest.

Bitcoin's ascent was easy to spot as a mania, but the modern-day danger inherent in chasing hot performing investments is often far less apparent. For example, say you bought the No. 1 performing Exchange Traded Fund annually for 15 years through 2016. Sound like it could be a strategy for success? Think again, according to Dr. Craig Israeslen, Ph.D., who teaches portfolio design techniques to financial professionals. Your average annual return was 3.6% — less than half the annual return of a broadly diversified portfolio invested across 12 different types of assets equally and rebalanced systematically every year over the same 15-year period through 2016.



Human nature makes people susceptible to investment manias, shiny bright objects like Bitcoin, and chasing last-year's winners. It's why people will always need investment professionals to stay focused on economic fundamentals, quantitative analysis, controlling fear and greed. ●

Four Tax Strategies In Retirement

If you're like most people, you've invested in a crazy quilt of assets ranging from stocks and bonds to real estate to precious metals. Amid this dizzying variety, the prevailing tax rules can provide further complications, especially after you've retired.

One overarching rule is that you must begin taking "required minimum distributions" from retirement plans such as 401(k)s and traditional IRAs after age 70½. Because these distributions are generally taxed at ordinary income rates, you could be facing a higher tax bill at just the wrong time.

But there are ways to ease the pain. Consider these four strategies for reducing the tax bite in years when you have to take RMDs.

1. Harvest capital gains. When you sell securities and other capital assets, your profits are taxed under special rules for capital gains. The maximum tax rate on long-term gains (on sales of assets you've held longer than a year) is 15%, or 20% if you're in the top tax bracket for ordinary income.

That lower rate is a benefit in itself. But another aspect of the law could help even more. Capital gains—including short-term gains, which are taxed as ordinary income —are offset by capital losses, and if you've taken any losses earlier in the year, you might take profits now on short-term holdings, knowing they'll be absorbed by the losses. It's usually better to use losses to offset short-term rather than long-term gains because of the higher tax rate for short-term gains.

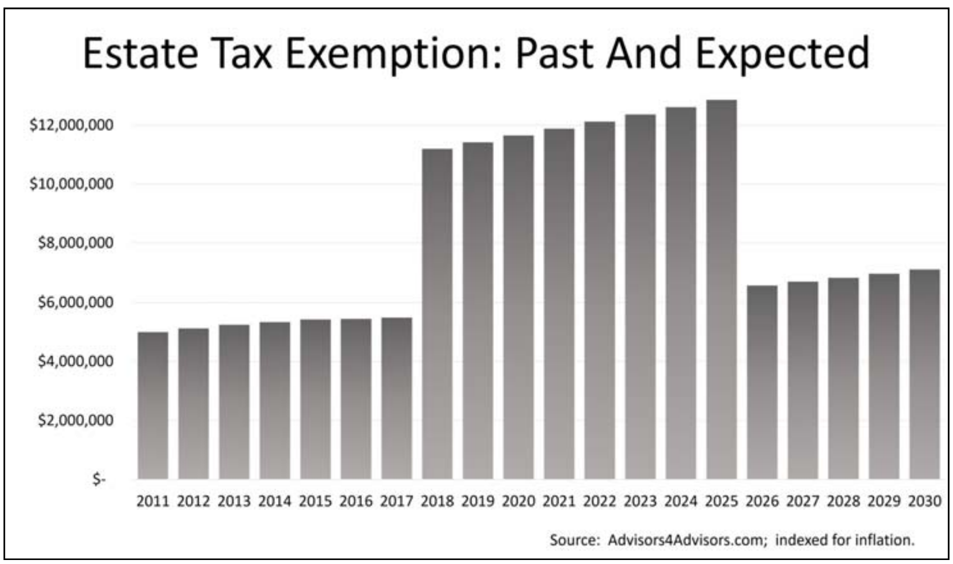
2. Harvest capital losses. With a capital loss, you can offset capital gains plus up to $3,000 of ordinary income. If that still doesn't use all of your losses, you can carry over the excess to the following year. Typically, investors look to harvest

2018 Estate Tax Changes And What May Be Ahead

The tax code overhaul brought a lot of changes, but for the estate tax, the most far-reaching result was what didn't happen. Chiefly, you didn't lose the capital gains break on inherited assets when they are sold.

For tax purposes, the value of an asset, when sold, rises to its current market-value even though it was originally purchased at a lower price. The result is a lighter tax when an heir sells off stocks or other holdings that were part of the bequest.

For a narrow slice of the population, one weighty thing did happen with tax reform: Very wealthy households received a better deal on how much of their estate is taxable. Their fondest wish did not come true, to be sure, and the new tax law did not kill what is derisively called "the death tax." However, Uncle Sam's claim on inherited mega-money has been shrunk by the new law. Starting in 2018, the exemption for estate tax nearly doubles. The amount that can be passed along to heirs tax-free rises in 2018 to $11.2 million from $5.5 million for individuals, and to $22.4 million, from $11 million, for couples.



Above the new thresholds, the Internal Revenue Service expects to collect 40%. However, an important and favorable new wrinkle increases the exclusion annually by the rate of inflation.

The good news — and bad — is that through the end of 2025 is a great time to die, but Congress could modify the just-enacted rules as soon as 2019, particularly with recent changes in the political climate. Left unchanged, this new part of the tax code is set to expire in 2026.

The number of estates that will pay any tax, according to the Tax Policy Center, is expected to drop from 5,300 in 2017 to 1,700 in 2018.

For heirs, the most important developments are what the House and Senate left alone. Those relate to capital gains and how surviving spouses can structure their own estates, a concept called portability:

Capital gains. The technical term for this untouched provision is a "step-up in basis." Let's say your father dies and you inherit Apple stock that he bought at $8 per share in 1983, a little after it went public. Today, Apple stock changes hands for around $172. That kind of appreciation usually means a whopping capital gains bill, should you unload the shares to fund, say, buying a new home. In other words, a 15% tax bite on the price escalation of $164 for each of the shares. Thanks to the step-up, the IRS values your Apple shares at $172, rather than the earlier $8 per share.

Portability. This is a helpful tax benefit for married couples, which Congress also let stand as is. It permits a surviving spouse to receive the unused part of the estate-tax exemption of the dead spouse. Example: Dick and Jane have an estate worth millions. Dick dies and leaves $3 million of it to his children. Remember that the exemption for one person is $11.2 million. Under the law, Jane can use the leftover $8.2 million for her estate planning. That's a big deal to her beneficiaries.

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losses at year-end when they've already realized capital gains in prior months.

3. Smooth out income. Although you often can't control when taxable income comes in, you may be able to time some items to your tax benefit. When possible, consider taking just enough income—some of which may come from selling investments—to "fill up" income to the top of your current tax bracket, trying to stay below the thresholds of a higher bracket.

4. Rely on tax deferral. Tax-deferral strategies may help you to reduce your income, and your taxes, for a year or more. For example, if you sell real estate on the installment basis, only part of your gain will be realized in the year of the sale. Or you might simply wait until after the first of the year to sell securities at a gain. ●

What Are The 3 R's Of Roth IRAs?

It's not reading, 'riting, and 'rithmatic, but when it comes to Roth IRAs, it pays to know the three R's: Roth conversions, recharacterizations, and reconversions. Understanding the rules for all of these could save you thousands of tax dollars.

Unlike with traditional IRAs, for which some of your contributions could be tax-deductible, money that goes into to a Roth IRA never is. However, after five years, the money coming out of a Roth is tax free. To qualify for that benefit, withdrawals must be made after age 59½, because of death or disability, or to buy a first home (up to a lifetime limit of $10,000).

But you just can't change a traditional IRA into a Roth IRA, or vice versa, by waving a magic wand. Here's a quick primer on Roth conversions, recharacterizations, and reconversions.

1. Roth IRA conversions. If you move funds from a traditional IRA into a Roth IRA, you'll be taxed on the amount you transfer in the year of the conversion. Essentially, the transfer is treated as a taxable distribution. For instance, if you convert $100,000 from a traditional IRA to a Roth, that's considered $100,000 of ordinary income that will be taxed at rates reaching as high as 39.6%.

To ease the pain of the conversion, you might do it in stages. That not only spreads out the tax hit but also may reduce it by keeping you in lower tax brackets.

2. Recharacterizations. Suppose that after a conversion the value of the assets in your account drops dramatically. Because you were taxed on the assets' value when it was higher, you might want to "undo" the conversion. If you meet the deadline, you can do this through a recharacterization.

When a recharacterization is completed, it's as if the conversion never occurred. The deadline is the due date for your tax return for the year of the conversion plus any allowable extension. For example, for a conversion you made in 2017, you have until October 15, 2018—April 15 plus a six-month extension—to recharacterize the Roth.

3. Reconversions. Finally, what happens if you change your mind again and want to go back to a Roth? It can be done through a reconversion.

However, the rules for reconversions are a little trickier. The earliest date you can reconvert is one of the following, whichever comes later:

- The beginning of the tax year following the tax year of the conversion;
- The end of the 30-day period beginning on the day of the recharacterization.

Beyond that date, moving money to a Roth from a traditional IRA is treated like a first-time conversion.. ●

Investing For The Long Run

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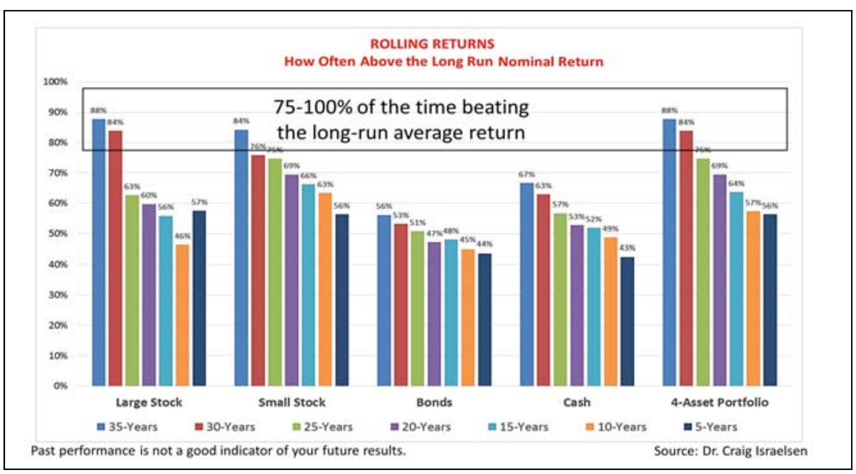
Federal Reserve interest-rate policy mistake quashing growth for allowing inflation to surge. Fed mistakes caused every recession in post-World War II history.

However, earnings drive stocks and earnings expectations have recently surged. When the tax law was signed on December 22, 2017, the average company in the S&P 500 was expected to earn $131 a share in 2018, but that was revised to $152 and could be boosted again. S&P 500 operating earnings per share as of February 7, 2017 were $132.40 for 2017, $155.26 in 2018, and $170.93 in 2019, according to data from Yardeni Research, Inc. and Thomson Reuters I/B/E/S. According to independent economist Fritz Meyer, 2018 and 2019 estimates were revised up in December 2017 from, respectively, $146.19 and $160.69.



With real wages continuing to grow, consumers are spending and consumers account for 69% of economic growth. So, despite the recent correction, the bull market and economic expansion could strengthen and last many months longer. ●

US Large Cap represented by S&P 500 Total Return Index; US Small Cap represented by S&P Small Cap600 Total Return Index; US Bonds represented by Barclays US Aggregate Bond Index TR USD; Cash represented by USTREAS Stat UST-Bill 90 Day TR.