MERITAS ADVISORS

FINANCIAL **Insights**

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Believe at your *own risk*

We're about to enter that exciting time of year when all sorts of market predictions are made by people who are mostly claiming that they knew the future and have accurately predicted it over a great track record. If you're smart, you'll turn off the TV or move on to the next article.

The truth is that none of us can accurately predict the movements of the markets. If we could, then we would always make trades ahead of market moves, and it wouldn't take long before that amazing prognosticator with the working crystal ball would have amassed billions off of his or her stock market trades. Have you read about anybody doing that lately?

Most of these people are employed at think tanks or sell their predictions to credulous investors. Would they need that salary check or your hard-earned subscription dollars if they had the ability to make billions just by checking the 'ol crystal ball a couple of times a day?

A recent article by frequent blogger Barry Ritholtz offers some rather amazing data on people in the prediction business. You may know that the cryptocurrency known as "bitcoin" is now worth about $3,500—way WAY down from the start of the year. So how well did the people in the prediction business foresee that downturn?

Not well. In his article, Ritholtz noted that Pantera Capital predicted that Bitcoin would be selling for $20,000 by the end of this year. Tom Lee of Fundstrat was more bullish, forecasting that bitcoin would breach $25,000 by now. Prognostications by Anthony Pompliano, of Morgan Creek Digital Partners, were still more bullish, predicting bitcoins worth $50,000 by the end of this year. John Pfeffer, who describes himself online as "an entrepreneur and investor," anticipated $75,000 bitcoins by now, and Kay Van-Petersen, Global Macro-Strategist at Saxo Bank, one-upped everybody with his prediction that bitcoins would be worth $100,000 by December 31 of this year.

Ritholtz offers other examples, like radio personality Peter Schiff telling listeners since 2010 that the price of gold has been heading toward $5,000 an ounce. (It's right around $1,200 currently.). Jim Rickards, former general counsel at Long-Term Capital Management, is more ambitious, telling his followers that he has a $10,000 price target for an ounce of gold.

If you happen to follow former Reagan White House Budget Director David Stockman, you have been told that stocks are going to crash in 2012, 2013, 2014, 2015, 2016, 2017, 2018 and 2019. Someday he's going to be right, and will no doubt be touting his amazing prediction abilities.

When you read about a prediction, instead of reaching for the phone to call your financial advisor, try writing the prediction down on a calendar or reminder program like the app followupthen.com, and come back to it a year later. Chances are you'll be less impressed then than you might be now.

- Bob Veres

Source:

https://ritholtz.com/2018/12/fun-with-forecasting-2018-edition/

The market at a glance
November

U.S. Large Cap
(S&P 500)
2,760.16 (1.79%) ▲

U.S. Mid/Small
(Russell 2000)
1,533.27 (1.45%) ▲

International Large
(NYSE International 100)
5,222.07 (0.20%) ▲

U.S. Treasuries
(U.S. 10-year Treasury yield rate)
3.01 (-4.44%) ▼

The market in action

- Shares of local search and review company Yelp dropped 32 percent in early November, marking the company's worst day of trading since first going public in 2012. The company missed revenue projections after it added zero net new advertising customers during the third quarter.

- Papa John's shares fell 14 percent after reports that Trian Fund Management decided not to pursue an acquisition of the pizza chain. In the third quarter, the company posted its worst quarterly sales figures since 1998, dropping nearly 10 percent compared to the third quarter of 2017.

- The Department of Justice distributed an additional $695 million back to investors who lost money in the largest known Ponzi scheme to date led by Bernard "Bernie" Madoff that was discovered in 2008. The distribution was the third in a series of payments that will eventually total over $4 billion.

- Chemical and pharmaceutical manufacturer Bayer lost nearly $20 billion in market value after being ordered to pay $289 million in negligent damages regarding the cancer risks of the company's lawn care product Roundup. By 2021, the company is expected to cut 12,000 jobs worldwide to help reduce costs.

Close out your 2018

Year-end financial checklist

With the end of the year just around the corner, now is great time to look back at what has happened over the past 12 months and ensure everything is in order for the new year. Here are some important items to review before moving into 2019.

Retirement accounts

- [ ] **If you are retired, make sure you have taken all required minimum distributions (RMDs).**
RMDs may be one of the most important items to review when going over your finances at the end of the year. Standard IRAs require these distributions be taken annually after the year you turn 70 ½; standard 401(k)s require them annually after you retire or turn 70 ½ (whichever is earlier). Failure to take an RMD will trigger a 50 percent excise tax on the value of the RMD.

- [ ] **Maximize contributions to an IRA and employer retirement plan for the year.**
Both IRAs and 401(k)s have annual contribution limits. If you find you have excess savings and have not reached your annual limit, it may be a good idea to make additional contributions. Similarly, you may also consider making greater monthly contributions to your accounts next year, spreading out the cost of contribution. The deadline for IRA contributions for 2018 is April 15 of 2019; 401(k) deadlines may be restricted to the calendar year, depending on your employer.

- [ ] **Consider converting a traditional IRA to a Roth IRA.**
Did you have a good tax year? Now may be an opportune time to convert a portion (or all) of your traditional IRA to a Roth IRA and pay your taxes at a lower rate. It is important to understand, however, that Roth accounts have contribution limits placed on them, so keeping a traditional IRA may still be beneficial. Before making any changes, consider seeking the help of a professional accountant who can help you with this conversion and calculate your new tax liability.

Investments

- [ ] **Consider "locking-in" losses on investments to help diminish taxes on capital gains.**
If your losses exceed your gains for this year, you can use the losses to reduce up to $3,000 of taxable income (or $1,500 for those married filing separately). If your total losses surpass $3,000, you can roll over excess losses to offset gains in another year. If you have losses from a previous year, remember to calculate how they affect either gains or losses from this year.

- [ ] **Check to make sure you did not make (or plan on making) any "wash sales."**
A wash sale is the sale of an asset followed by a repurchase of a similar asset within 30 days. The IRS does not allow capital losses on wash sales. If you have already made a wash sale, do not plan on the capital losses being available for tax use this year.

- [ ] **Check to see when you last rebalanced your portfolio.**
Although you do not need to update your investments every year, many people go far too long without making necessary adjustments as they age.

Income tax

- [ ] **Review your tax withholdings.**
Did you have a major life change (employment change, marriage/divorce, a new child) that may impact your income tax? Check to make sure your tax withholdings have been properly adjusted. Having low withholdings can lead to tax penalties while having too high of withholdings prevents you from accessing your money until your tax return is filed.

- [ ] **Estimate your AGI.**
Determine your adjusted gross income either on your own or with the help of your tax preparer. Your AGI will help determine your tax bracket, which you'll need for investment and retirement planning.

Family funding

- [ ] **Check your flexible savings account (FSA).**
The government only permits a $500 annual rollover in an FSA; any excess funds disappear if unused by the end of the year. If you have extra money in your FSA, you may want to schedule necessary medical or dental procedures before the end of the year.

- [ ] **Check your health savings account (HSA).**
HSA funds do not disappear at the end of each year like with an FSA; however, many with few medical needs discover money accumulating in their HSAs faster than they are using it. Consider reducing your contributions to your HSA if your account has reached a comfortable amount and you know of better uses for your money.

- [ ] **Consider contributions to a 529 plan to fund your children's/grandchildren's education.**
529 plans allow you to contribute to a tax-free account that may be used to pay for qualifying secondary education expenses. *(Investors should consider investment objectives, risks, charges, and expenses associated with 529 plans before using them. Information about 529 plans is available in their issuers' official statements.)*

Giving

- [ ] **Donate to charity as a way to reduce taxes.**
You can lower taxable income by 50 percent with a gift to a public charity or by 30 percent with a gift to a private foundation. If your gift exceeds these limits, you can roll over the excess deduction for up to five years.

- [ ] **Reduce your estate through gifts.**
You are permitted to give up to $15,000 ($30,000 for married couples) a year per recipient as an untaxed gift. Gifts above this value will consume part of your lifetime gift/estate tax exemption amount ($5,600,000 in 2018). If a gift directly funds education tuition or pays for qualified medical expenses, it will go untaxed no matter what the value is.

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