

# Market Update, Third Quarter 2019

By Tim Hilterman, CFP®, CAP®  
and Chris Nadler, CFP®, CTFA®

Markets oscillated in the third quarter with the S&P 500 up 1.44% in July, down 1.58% in August, and up 1.87% in September. The trade war with China dominated headlines, impacting the markets and whipping investors back and forth. Other influences: the Federal Reserve began dropping interest rates in July for the first time in more than a decade, and the notorious yield curve inverted in August. For the quarter, the S&P 500 was up 1.70%, the MSCI World Ex-US was down 0.93%, the Barclays U.S. Aggregate Bond was up 2.27%, and the Russell 2000 was down 2.40%.



## Anyone Tired of the Trade War?

The trade war with China influenced the markets significantly in the third quarter. In July, a perception that trade tensions were easing helped the S&P 500 rise by 1.44%, even after a 15.4% YTD return through the first half of the year. August was a different story: the U.S. labeled China as a currency manipulator with the International Monetary Fund and proposed new tariffs. September swung back again. In a gesture of goodwill, President Trump delayed increasing tariffs in mid-September, and announced that China will “be buying large amounts of U.S. agriculture.” However, the trade war is not likely to be resolved soon. Be prepared: varying headlines will continue to impact the market.

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## The Yield Curve Inverts as the Fed Drops Interest Rates

The yield curve inverted in August for the first time in more than a decade, causing speculation about the state of the global economy. This led to volatility because some believe that a recession is now a greater possibility. Despite this, U.S. economic data continues to show strength. Unemployment is at historical lows, inflation is low, and U.S. consumer spending remains strong.

Through the end of the year, here are the major things we’ll be keeping an eye on:

- **Continued monetary easing from global banks.** The Fed has now joined a growing list of major countries that are actively stimulating their economy through lower interest rates and fiscal stimulus. The Fed has dropped rates 0.25% twice this year and it’s possible they may drop rates again by the end of the year. Other banks include PBOC (People’s Bank of China), ECB (European Central Bank), and BOJ (Bank of Japan).
- **Ongoing trade talks.** The next round of trade discussion between the U.S. and China is scheduled for October. Markets will continue to react to the perceived progress of the talks.
- **Global economics.** The two points prior will both impact the global economy. Will global data start to stabilize and U.S. growth accelerate? Or will growth continue to show weakness despite the efforts of global central banks?

Although we are all subject to news headlines and the uncertainty of the future, we are committed to a disciplined process that seeks to maximize opportunities while reducing risk in your portfolio over market cycles. In the midst of all the noise and market fluctuation, it’s important to remain focused on your objectives, both short- and long-term. We are here to guide you through the ups and downs.

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# 3 Things Young Professionals Should Know About Tax Planning

By Beau Carpenter, CPA

Young professionals are in a unique position: navigating new seasons of life. Many are finishing up advanced degrees and establishing their careers, starting a family, and setting themselves up for financial stability in the future. While you go through these transitions, you can take advantage of some tax-planning opportunities.

## 1. Tax Deductions and Credits for Students and Recent Grads

- Student loan interest deduction – If you have taken out loans to pay the cost of attending an eligible higher-educational institution for yourself, your spouse, or your dependents, you may be able to deduct the interest you pay. The maximum amount a taxpayer can deduct is \$2,500.
- American Opportunity Tax Credit (AOTC) and Lifetime Learning Credits – Each credit is based on the amount of qualified tuition and related expenses paid for an eligible student at an eligible educational institution.
  - The AOTC is a per-student credit that may be claimed for each eligible student. The maximum credit is \$2,500 per student.
  - The Lifetime Learning Credit is a per-taxpayer (per-return) credit, rather than a per-student credit. A \$2,000 maximum credit per year can be claimed under this provision.

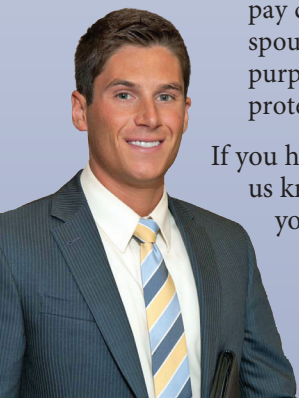
## 2. Get Tax Savings from Saving for Your Future

- Traditional IRA – Contributions to traditional IRAs can be deductible, subject to limitations. For 2019, the annual contribution limit is \$6,000. Distributions from a Traditional IRA are taxable.
- Roth IRA – Though there is no deduction for contributions made to a Roth IRA, qualified distributions are nontaxable.
- Health Savings Account (HSA) – An HSA is a tax-exempt account established exclusively for the purpose of paying unreimbursed, qualified medical expenses. Contributions to an HSA are tax deductible.

## 3. Child and Dependent Care Credit

- A nonrefundable credit is available to taxpayers who pay childcare expenses to allow the taxpayer (and spouse) to work. Expenses qualify if their primary purpose is to assure the child's well-being and protection.

If you have questions about any of these tips, please let us know. We are more than happy to sit down with you and guide you through your unique situation.



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# Tax Planning Tips for Business Owners

By Teri Yoder, CPA

Everyone dreads being told by their accountant that they owe more taxes. We can help you minimize your business tax bill with these strategies.

## Don't Leave Out Any Deductions.

Helping clients gather and organize their tax deductions is what we're here for. By utilizing financial tracking software such as QuickBooks Online, MileIQ, and Receipt Bank, we can help you keep accurate financials in real time. We have assisted many of our clients making the switch to a mobile platform, ensuring that they no longer need that old shoebox full of receipts. Having up-to-date financial information allows us to give you the best tax planning advice so there are no surprises when your return is filed.

## Maximize the QBI Deduction.

Maximizing your Qualified Business Income (QBI) deduction is especially important to help lower your tax liability. The Tax Cuts and Job Act of 2018 created the QBI deduction for small business owners which allows them to deduct approximately 20% of qualified business income. By understanding your unique situation, we can offer personalized advice so that you can maximize the QBI deduction for your business.

## Fund Retirement Accounts.

Funding retirement accounts is not a new tax-saving strategy, but many business owners don't realize this benefit is twofold. It allows you to make tax-deductible contributions, plus offering them to employees makes your company more attractive to potential (and current) employees. Setting up and maintaining retirement accounts may seem like a big undertaking, but we can help with this too. We administer many types of retirement accounts to serve a range of businesses.

By utilizing our comprehensive approach to your business tax needs, we can help you minimize your tax liability. If you would like any further information on using these tax-saving tips for your business, let's talk.





# 5 Tax-Saving Strategies as You Approach Retirement

By Neil Hinkle, CPA, Principal

As you approach retirement, many of you will be in the highest tax brackets of your life. It is an important time to create a plan that ensures you are paying as little tax as possible in the coming years. Here are five tax-saving strategies to consider.

- 1. Fully Fund Your Retirement Accounts.** Contributing as much as possible to your retirement accounts now will ensure that you are getting the tax benefit while you are in a higher tax bracket than you will likely be in retirement. This is especially true for any tax-deferred accounts such as Traditional IRAs and employer 401(k) plans. In many cases, you will also get the benefit of any matching contributions from your employer-sponsored plan.
- 2. Contribute to a Health Savings Account.** If you have a High Deductible Health Plan (HDHP), you can contribute up to \$7,000 to a Health Savings Account (HSA) for 2019. This is completely tax-free money that can be used for medical expenses, which are an often-overlooked expense in retirement.
- 3. Plan to be Charitable.** If you are inclined to be charitable, there are two strategies that could help you, based on your unique situation. It may make sense for you to be charitable now and receive the tax benefit while you are in a higher tax bracket. Or, you may be better off reserving larger gifts and distributing them in retirement through a Qualified Charitable Distribution (QCD) from your IRA. A QCD is sent directly to the charity, counts toward meeting your Required Minimum Distribution, and is completely free of tax. We can help you create a plan that is best for you from a tax perspective.
- 4. Conversion of Traditional IRAs.** Traditional IRAs are tax-deferred when you contribute into the account, but taxed when you withdraw money in retirement. Roth IRA contributions are made with after-tax dollars, but withdrawals are tax-free in retirement. Also, Roth IRAs do not have the RMD requirements that come with Traditional IRAs. So it could benefit you to convert your Traditional IRA into Roth IRAs. This would protect you from being required to pull money from them in retirement, which can push you into higher tax brackets.



- 5. Sell Investments Strategically.** Many people feel safer taking less risk in retirement, so you may want to dispose of more aggressive investments and choose more conservative options instead. Spreading these disposals over the years prior to your retirement can help you save tax by managing your total taxable income and by offsetting gains with losses in the same year. Your plan should keep your life savings within the risk tolerance that you are comfortable with.

There are many more factors to consider as you approach retirement. If you would like to discuss your situation with our combined tax and investment team, please give us a call or visit [whitcomb.com/retire](http://whitcomb.com/retire) for more information.

## MARKET UPDATE as of September 30, 2019

DOW JONES INDUSTRIAL AVERAGE (Total Return)				
3RD QTR   1.83%	2019 YTD   17.51%	5 YR AVG   12.28%	10 YR AVG   13.56%	
S&P 500 COMPOSITE (Total Return)				
3RD QTR   1.70%	2019 YTD   20.55%	5 YR AVG   10.84%	10 YR AVG   13.24%	
RUSSELL 2000 (Total Return)				
3RD QTR   -2.40%	2019 YTD   14.18%	5 YR AVG   8.19%	10 YR AVG   11.19%	
MSCI WORLD EX-U.S. (Total Return)				
3RD QTR   -0.93%	2019 YTD   13.57%	5 YR AVG   3.06%	10 YR AVG   4.78%	
BARCLAYS US AGGREGATE BOND (Total Return)				
3RD QTR   2.27%	2019 YTD   8.52%	5 YR AVG   3.38%	10 YR AVG   3.75%	

## Disclosure Statement

Please contact Whitcomb & Hess, Inc. if there are any changes in your financial situation or investment objectives, or if you wish to impose, add, or modify any reasonable restrictions to the management of your account. Also, as required by the United States Securities and Exchange Commission, a copy of our Form ADV2A and Form ADV2B: Firm Brochure, which provides information about the qualifications and business practices of Whitcomb & Hess, is available upon request. To request a copy, contact one of our customer service specialists at [info@whitcomb.com](mailto:info@whitcomb.com).

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# INFORM

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## Core Value Spotlight: We Exist to Serve Others

Pictured here is nearly half of the Whitcomb & Hess team (and some spouses!) ready to lend a hand at the United Way of Ashland County's annual Kay Conrad Day of Caring 2018. This year will be the 25th anniversary of this event. W&H has participated in Day of Caring for over a decade and we're excited to do it again on October 17, 2019!

**Back Row:** Jim, Beau, Chris, Tiana, Jordan (Tiana's husband), Scott

**Middle Row:** Aaron, Margaret Ann (Jim's wife), Neil, Erika, Allison, Jerod

**Front Row:** Aubrey (Aaron's wife), Chantal, Jordan, Courtney (Scott's wife), Tracy, Christina

Are your financial worries keeping you awake at night?



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