April 2018 Client-Letter

We are excited to announce that Ella Jettmar has joined us as a Client Services Associate in March. She will be the voice answering the telephone and helping you. She cannot input trades, answer financial questions or make distributions due to the regulations for firms like ours, but she will take a message for you if we are not available. We look forward to you all getting to know her in the coming months.

Goals

We provide financial planning (goal setting/attainment) and investment management to our clients and thought a discussion of goals might be helpful. A study of goals was allegedly conducted on a graduating class from Harvard in the 1950's which showed only 3% had written goals, and it wasn't long before they controlled over 90% of the class's wealth.

It may or may not be true, but goals are important because they give us clarity and purpose–something to accomplish. Goals should be quantifiable and measurable. Sometimes, goals require us to step outside of our comfort zone, but they have to be realistic and attainable.

We can benefit from setting goals for many parts of our life–career, family, personal, and health. If we set the goals too high initially, they will appear insurmountable. Our job as your advisor is to help you set, achieve and update your goals along your path.

As someone who advises you on financial matters, one of our objectives is to uncover your financial goals and how they match your life. The plan created allows you to walk the path to achievement. The goal is your destination but not the end of the journey. Once we have the destination in mind, we all need a roadmap that will get us there.

Specifics

During our meeting with clients, we often discuss goals for savings, specific purchases, college education for children or retirement. These goals require you to give up something today to achieve a specific result later, or a delayed gratification from your efforts.

As we often discuss with you, the basis of everything is how much cash comes to you and how much you spend. The budget is the basis for spending and provides a guideline that helps you understand your cash needs and uses.

We encourage you to take time and customize your budget to your personal situation on a spreadsheet or by using our Personal Financial Management Tool, eMoney. This tool allows you to create a budget and track your actual spending versus the budget using actual transactions. If you are married, it's important you work together as a couple to develop a blueprint, one you are both comfortable with. Should you want to use eMoney, please contact our office to discuss.

As you begin to track the inflows and outflows during the months, you will begin to understand the specifics of your budget. The use of debit and credit cards has resulted in a loss of our connection to our money. If you only had cash to spend each month, there would be a direct connection with your spending since it would be visible as you use your cash.

Your spending plan enables you to free up funds for savings that are needed to reach your financial goals. Once you can see your free cash flow, you can begin setting goals to achieve. An overriding goal for many is to have money left at the end of the month rather than have no money left at the end of the month. Most of us cannot control how much we make (most incomes are fixed for a year or so), but we can control how much we spend.

Once you have a good understanding of your cash flow, you can make decisions about delays or elimination of certain spending, allowing you to work toward specific goals. Many of our clients want to pay off student loans or credit card debt. The development of a debt repayment plan that starts with higher interest rate credit cards is a specific goal.

We see others who develop a goal for a rainy day (emergency) fund, down payment on a house, home repairs, education planning to get their children through college or technical school without debt, and the goal we all have of supporting ourselves after we stop working -- the retirement plan.

Bottom line

Saving for the future takes discipline, but it doesn't have to be a hard slog. As you progress toward your goals achievement you create your own sense of accomplishment and satisfaction. That said, don't forget to reward yourself along the way with a nice dinner or an inexpensive weekend trip once you accomplish a goal.

We are here to help you complete, monitor and make changes to your financial plan (goals). As you have heard us say over and over, the best time to start is today.

The Financial Markets

Last year, stocks marched higher with only minor pullbacks. When the year ended, the largest peak to trough decline for the S&P 500 Index was just under 3% (St. Louis Federal Reserve data on the S&P 500). It was a year that lacked turbulence and one that rewarded diversified investors.

Since the beginning of February, volatility has returned. It's a reminder that periods of relative tranquility don't last forever. In our opinion, it's something that the long-term investor should look past, although we recognize it creates uneasiness among some investors.

If we were facing serious economic problems, something that might be signaling a recession, it would be a cause for concern. Here are a few factors that will support stock prices.

- First and thanks in part to the tax cut from December of 2017, corporate profits are forecast to rise nearly 20% this year (Thomson Reuters).

- Weekly first-time claims for unemployment insurance recently touched a level not seen since the late 1960s (St. Louis Federal Reserve). It's a concrete sign that companies don't want to lose employees. If business conditions were deteriorating, the opposite would be true.

- The Conference Board's Leading Economic Index (designed to detect emerging trends in the economy), just hit a new high. I know we are facing some challenges (we always will), but the economic fundamentals are solid right now.

- Coupled with rates that remain at historically low levels, the fundamentals have cushioned the downside, in our view, and remain supportive of shares.

Causes of volatility

Our role as your advisor is not to offer up opinions on political issues. However, it is incumbent upon us to analyze and share thoughts on headlines that are influencing the markets. It's not a political statement. It is a commentary on events viewed through the narrow prism of the market.

In recent months two issues have surfaced that have stirred up volatility. President Trump announced he will impose steep tariffs on steel and aluminum imports, fueling concerns over protectionism and the potential impact on the economy. His stated goal was to open foreign markets to U.S. exports.

Investors viewed the corporate tax cut and the paring back of regulations favorably. Trade tensions, however, have created uncertainty. Free trade is a net benefit to the U.S. and global economy and is supported by economists worldwide, but "net benefit" means there are both winners and losers.

Losers–those whose jobs disappear amid a flood of cheaper imports. Winners–consumers who pay less for various goods, and those who work in export-oriented industries. In 2017, U.S. exports totaled $2.3 trillion (U.S. Bureau of Economic Analysis). Yes, that's trillion with a "T."

The free trade versus fair trade topic is highly debated. U.S. manufacturers are consumers of steel and aluminum, including farm and construction equipment, aerospace, and pipelines and drilling equipment in the energy industry. At the margin, it may modestly boost inflation and could force some U.S. manufacturers to put projects back on the shelf or move production offshore.

Additionally, U.S. tariffs may invite retaliation, pressuring exporters, jobs and profits in globally competitive sectors. It could also spark a trade war that hurts everyone.

As the month came to a close, Trump announced he is set to raise tariffs on Chinese imports. In return, China announced new barriers to some U.S. goods, though the response was measured. While the odds of a major trade war remain low, all this speculation of tariffs has injected uncertainty into market sentiment.

Meanwhile, troubles popping up in the tech sector have added to volatility. For example, Facebook is embroiled in a controversy over privacy and data sharing. More recently, Trump has set his sights on Amazon, expressing his displeasure in several tweets. Yes, they are only two stocks, but both have performed admirably, leading the tech sector higher. Combined, they have a market capitalization of $1.1 trillion (*WSJ* as/of 4.3.18).

Perspective

We provided an explanation for the recent volatility because we believe one is in order but, let us caution you not to get lost in the weeds. In past letters we have discussed why uncertainty is not good for the markets in the short term. Day traders care about minute-by-minute swings in stock prices. Long-term investors sidestep such concerns.

So, let's step back and gather some perspective by reviewing the data.

According to LPL Research—

- The average intra-year pullback (peak to trough) for the S&P 500 Index since 1980 has been 13.7%.
- Half of all years had a correction of at least 10%.
- Thirteen of the 19 years that experienced an official correction (10% or more) finished higher on the year.
- The average total return for the S&P 500 during a year with a correction was 7.2%.

These bullet points are an evidenced-based way of saying turbulence surfaces from time to time. Patient investors who don't react emotionally have historically been rewarded. We understand that some degree of risk is inevitable, but our recommendations are designed to minimize risk while keeping your long-term goals in mind.

Our advice is to pay attention to the economic and earnings reports for an indication of the longer-term direction of the stock markets. As long-term investors using strategies based on your risk level and your plan, the worrisome day-to-day movements should not be your focus.

We hope you've found this review to be educational and helpful. If you have any concerns or questions, let me say this one more time–please feel free to reach out to us, that's what we are here for. We are looking forward to seeing many of you in the coming months. As always, we are honored and humbled that you have given us the opportunity to serve as your financial advisors.

Sincerely

Quintin & Ginny
April 11, 2018

July 2018

Piedmont Wealth Management

Client Newsletter

To Our Clients

We hope you will enjoy reading our newsletter with articles and announcements about our activities in the community. You will continue to receive your financial reports in the manner you have selected, either in paper form through the mail or in your electronic vault at Morningstar.

Taxes in Retirement

"Our new Constitution is now established, and has an appearance that promises permanency; but in this world, nothing can be said to be certain, except death and taxes."

The above is a well-known quote that comes down to us from Benjamin Franklin, who uttered the phrase in 1789. Yes, Ben Franklin nailed it. We can't escape taxes.

If you have already retired, you are aware that taxes don't end when retirement begins. For those who are nearing retirement, it is important to recognize, plan for, and minimize the taxes that await. Planning for the outlay of taxes does not reduce the discomfort that goes with paying. However, preparation can reduce the tax owed and eliminate unexpected surprises when your return is filed.

Paying Your Taxes

In retirement, you need to plan to pay your taxes in a different way than during your working years. If you have always been employed, you are accustomed to having federal, state (if applicable), and payroll taxes withheld from each paycheck. Once you stop working, no one is withholding taxes on your behalf. If you are or once were self-employed, you are accustomed to making quarterly estimates.

If you receive social security benefits, you can elect to have taxes withheld from these payments each month. If you have a monthly pension payment or receive distributions from your retirement or IRA accounts, you should have taxes withheld to avoid a large payment when you file your tax return. Your objective is to avoid any penalty for late payment or interest due for not making timely payments.

Estimated tax payments may be required for other sources of income where no tax withholding is possible at the source of payment–for example, dividends, capital gains and rental income.

Once you have completed your prior year tax return, you should estimate how much tax you will pay in the coming year and review your payments each quarter for any major changes. For instance, a large capital gain that would significantly change your tax liability.

Social Security Taxability

If you file as an individual and your combined income (adjusted gross income + nontaxable interest + 50% of your Social Security benefits) is between \$25,000 and \$34,000, you may be required to pay income tax on up to 50% of your benefits. If the total is more than \$34,000, up to 85% of your benefits may be taxable.

If you file a joint return and you and your spouse have a combined income that is between \$32,000 and \$44,000, you may be required to pay income tax on up to 50% of your benefits. If combined income is more than \$44,000, up to 85% of your benefits may be taxable. (SSA.gov Benefits Planner: Income Taxes and Your Social Security Benefits).

Additionally, 13 states tax Social Security, including Colorado, Connecticut, Kansas, Minnesota, Missouri, Montana, Nebraska, New Mexico, North Dakota, Rhode Island, Utah, Vermont and West Virginia.

Required Minimum Distributions ("RMDs")

RMDs are minimum amounts that retirement plan account owners must withdraw annually, starting with the year they reach 70½ years of age or, if later, the year in which they retire.

If the retirement plan account is an IRA or the account owner is a 5% owner of the business sponsoring the retirement plan, RMDs must begin once the account holder is age 70½, regardless of whether he or she is retired (IRS: Retirement Plan and IRA Required Minimum Distributions FAQs).

Taxes in Retirement *(continued)*

RMD rules also apply to SEP and SIMPLE IRAs, 401(k), 403(b), 457(b), profit sharing plans, and other defined contribution plans.

The penalty for failure to take an RMD is significant and should be avoided.

If you expect to have a large RMD that could push you into a higher tax bracket, it may be beneficial to begin taking distributions prior to age 70½. You could convert some of your IRA into a Roth, which would shelter gains and future distributions from taxes. It is one strategy that can help minimize taxes in the long term since you pay a tax up front. You would need available funds outside of your qualified IRA to make tax payments; but once you accomplish the conversion, no distributions are required from a Roth IRA and all future earnings are tax free.

A Roth IRA is an excellent way to pass assets to future heirs while achieving tax-free growth in the value.

A great way to lower your taxable income is to use your IRA to make charitable contributions after you reach age 70½. The amount is not taxable to you, nor the charity.

The 2017 tax law implemented a higher standard deduction and eliminated or reduced some of the prior itemized deductions. Therefore, you must have more than $12,000 (single) or $24,000 (married) of itemized deductions, or otherwise lose the tax benefit of any charitable contributions since you would use the standard deduction.

The Hidden Cost of Selling Your Primary Residence

If you have lived in your primary residence for at least two of the last five years prior to selling, you can exempt up to $250,000 of the profit from taxes if you are single and up to $500,000 if you are married. If you are widowed, you may still qualify for the $500,000 exemption (IRS: Publication 523 (2017), Selling Your Home).

The sale may also trigger a 3.8% tax on investment income. It is a complex calculation that can ensnare filers with net investment income and modified adjusted gross income above $200,000 (single) or $250,000 (married). (IRS: Questions and Answers on the Net Investment Income Tax).

The decision to sell, however, should not be strictly governed by the tax code. It is important to understand the tax ramifications, and timing income streams may be beneficial if a sale will trigger a taxable event.

Summary

Income tax planning does not end at retirement. If anything, it becomes more involved. In addition to the few planning options mentioned above, others include using appreciated securities for charitable contributions (to avoid capital gain taxes), placing stocks in your investment accounts to take advantage of lower tax on dividends and long-term capital gains, and how you structure your retirement payments.

We will continue looking at these options, as well as any others that match your particular financial situation, to plan for timely payment of your taxes while minimizing your tax requirements.

Economic and Market Comments

The first half of 2018 has been quite the ride. We started the year with an outlook for higher economic growth and stronger corporate earnings. December 2017 tax reform added to the positive outlook for the US market, and the global economy looked set for another positive year.

The cross currents started in January with higher concerns about inflation with a faster growing economy and higher employment rate. The resulting correction saw the broad market indexes drop by at least 10% before recovering to their current levels.

Here is a short table reflecting market results.

Table 1: Key Index Returns as of June 29, 2018

	MTD%	YTD%	*3-YR %
Dow Jones Industrial Average	-0.6	-1.8	11.3
NASDAQ Composite	0.9	8.8	14.8
S&P 500 Index	0.5	1.7	9.7
Russell 2000 Index	0.6	7	9.6
MSCI World ex-USA**	-1.3	-4.5	2.1
MSCI Emerging Markets**	-4.6	-7.7	3.2
Bloomberg Barclays US Aggregate Bond TR	-0.1	-1.6	1.7

Source: Wall Street Journal, MSCI.com, MarketWatch, Morningstar

MTD returns: May 31, 2018-Jun 29, 2018

YTD returns: Dec 29, 2017-Jun 29, 2018

*Annualized

**in US dollars

Economic and Market Comments *(continued)*

Second quarter cross currents were all about the potential trade war between the U.S. and the rest of the world. The uncertainty with trade tariffs is how much will be done, the resulting impact on the economy, and the potential for higher global inflation with higher prices being paid for goods imported from other countries. If we place tariffs on imported goods, the price we pay as a consumer will be higher or corporate earnings will suffer if companies elect not to raise prices. Either of these options would not be good for the economy or the financial markets.

The fundamentals of the economy, both in the U.S. and globally, continue to be positive. The tech-heavy NASDAQ Composite and key measures of mid-sized and small companies touched new highs in June (MarketWatch data). These companies benefit from underlying momentum that can be traced to faster economic growth, rising corporate profits, and still-low historic interest rates.

Another factor that lends support to the market–S&P 500 companies repurchased a record $189.1 billion of their own shares in the first quarter, according to Howard Silverblatt, Senior Analyst for S&P Dow Jones Indices. He expects buybacks to remain strong through the rest of 2018.

Both the Dow Jones Industrials and the S&P 500 Index failed to recapture their January highs. These indexes are made up of the nation's largest companies, some of which derive a significant share of sales from overseas. The concern over a trade war has been a negative for large companies. Though not far from the January highs, a strong dollar may be putting modest pressure on these stocks.

We believe much of the uncertainty stems from escalating trade tensions between the U.S. and its major trading partners. Free trade/fair trade– it's a very complex issue that is being fought with simple soundbites. The President believes America has not been treated fairly, and he is using his authority to selectively levy tariffs against offending nations. It's a risky strategy that may eventually break down barriers or, it could escalate into a series of retaliatory measures that impede the U.S. and global economy.

A quick review of the economic data strongly suggests the noise from the trade headlines is not affecting the U.S. economy, and GDP growth in the second quarter appears poised to surpass 4%. One of the most positive data points from the July 6 jobs report was the increase in the labor participation rate. While the actual headline was an increase in the unemployment rate, the real headline should have been more people are coming back into the work force, which is positive for the economy.

The market, which is collectively made up of millions of large and small investors, hates heightened uncertainty. Currently, the potential for a trade war has injected volatility and uncertainty into the headline-grabbing major averages. Like many obstacles that will crop up, we believe this will eventually pass.

Data provider Thomson Reuters predicts earnings for the companies included in the S&P 500 grew 21% in the second quarter, will grow 23% in the third quarter and 20% in the fourth. If these growth rates are sustained, the underlying fundamentals of the market will be positive. Any lowering of actual results or projected growth rates will cause the market to go down in price.

Against this back drop, we continue to be positive for economic growth and stocks in the long run but expect more volatility in both areas in coming quarters. We are in the second longest expansion post War World II. The end and beginning of economic cycles are difficult to predict, and this one is no different.

As we discuss with you during our meetings, our goal is to match your portfolio to your risk tolerance, which changes over time. We rebalance your portfolio to your targeted asset allocation within your policy statement on a routine basis.

Your portfolio should be an investment, not a source of short-term cash. Hence, why we are always asking about your cash needs, and where necessary (IRA RMD's), we create enough cash to provide for these needs for the next twelve months. Your financial plan should always include a reserve fund for unexpected emergencies.

We are honored to have you as our client, and we appreciate your use of the planning and investment positioning services of our firm. We welcome any questions, comments or feedback, and we look forward to seeing many of you in the coming months.

Thank you,

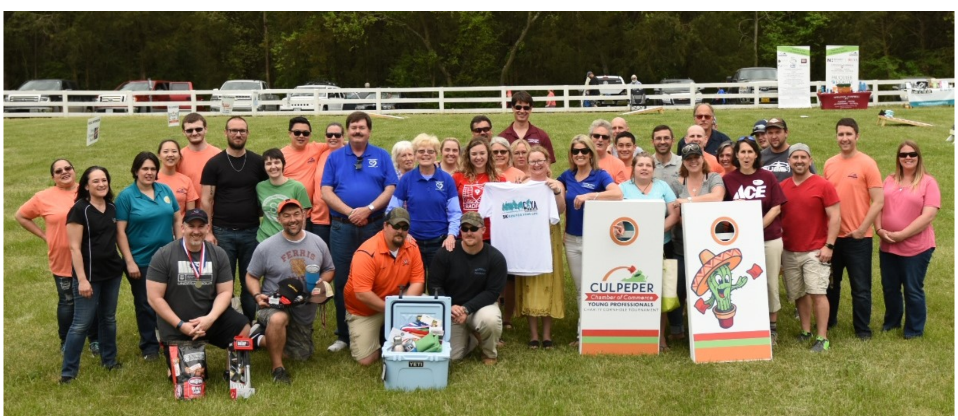
Quintin, Ginny and Ella

PWM
Piedmont Wealth Management

131 W. Davis Street
Culpeper, VA 22701

Community & Announcements

We had a great time supporting the Culpeper Young Professionals 1st Annual Charity Cornhole Tournament in May. Ginny, Chairman of the Young Professionals, spent many hours planning and volunteering at this event. All proceeds benefit two local non-profits, Living the Dream Foundation and Come As You Are, in substance abuse awareness and their recovery programs. We look forward to next year's event!



We ended June sponsoring, playing and volunteering in SAFE's 2nd Annual CaddyShack Open. Quintin and our team of players had beautiful weather and a great time on the course. Ginny enjoyed the tournament as a volunteer and even got to play one of the holes. SAFE is a local non-profit who provides programs and shelter to those fleeing and who have survived domestic violence and sexual assault.

Contact Us

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Web: www.piedmontwm.com

Our Office Hours

Monday—Friday, 8:00AM—5:00PM

2018 Holidays/Closures

Friday, July 20—*Closed*

Monday, September 3—*Labor Day*

Thursday, November 22 and
Friday, November 23
Thanksgiving & Day After

Monday, December 24 and
Tuesday, December 25
Christmas Eve & Day

Monday December 31 and
Tuesday, January 1
New Years Eve & Day

October 2018

PWM

Piedmont Wealth Management

Client Newsletter

To Our Clients

As we look to the end of a difficult hurricane season, it reminds us to consider our own emergency preparedness in the event of a major disaster. As such, we want to focus on the importance of building a financial emergency kit before it may be needed.

Building Your Emergency Kit

Where do I begin?

You should start by storing electronic copies of your important documents on a password-protected, cloud-based system while backing them up to a password-protected external thumb drive at least once per month. While these storage options can be used to obtain copies of your documents, you may not have access to electronic means for an unknown period following a disaster.

What do I need?

We recommend you purchase a box or safe that is portable, fireproof and waterproof. While there is no guarantee it won't be damaged during a disaster, it will go a long way in safeguarding important papers. A safety deposit box is also an option, but access may be an issue if your entire community is impacted by the disaster.

What should I include in my emergency kit?

<u>Cash and Keys</u>

Make a duplicate of all keys to your home and automobile(s).

You will need cash in the immediate aftermath of a disaster. Your debit, credit or ATM cards may not work or be accepted by retailers if processing networks are down.

<u>Contacts</u>

Make a list of the important people in your life—family, friends, medical and professional advisors—and include all contact information. You may store this information electronically, but we recommend that you place a paper copy inside your kit as well.

<u>Identification</u>

If disaster strikes, you may be asked to confirm your identity to obtain disaster relief services, file insurance claims, or get access to your property and financial assets.

Your kit should contain essential documents, including extra originals or copies of a passport, driver's license, birth certificate, marriage certificate, adoption records, Social Security card, green card, any military records, and pet ID tags. These will allow you to establish your identity, the identity of immediate family members, and will eliminate the need to replace important ID markers.

<u>Valuables</u>

Create an inventory of your personal belongings and household items. Record what is in each room of your home and assemble a paper, photo or video inventory to include in your emergency kit.

Be sure to save receipts and record serial numbers for major purchases, home upgrades, or any appraisals of property or other valuable belongings.

<u>Important Records</u>

Financial documents that can fit into your kit include mortgages, property deeds and legal documents, such as a power of attorney, trust documents, advanced medical directives, wills, and insurance policies.

Include recent bank and credit card statements, brokerage account records, and statements related to investments that might be held outside a brokerage firm (such as mutual funds or 529 college savings).

Preparing Your Family

A disaster will take an enormous mental toll on you and your family, but having your financial house and records in order will remove some of the burden. Kids look to mom and dad for their security, and your children's wellbeing will be largely dependent on you.

The following is a checklist obtained from UNICEF USA to address the needs of your children;

- Pack their essentials such as medicine and clothes.
- Pack their toys, favorite books, music, electronics, and have fresh batteries.
- Talk to your kids about what to expect at a shelter.
- Develop a system with your children that will allow them to be identified if they are separated from you.
- Learn basic first aid skills in case you or your children become sick and medical supplies are scarce.
- Talk with your children in a way they will understand. Be honest without making unrealistic promises. Just as important, let them know there are resources available to assist your family.

We sincerely hope you never experience the pain that comes with the loss of property or worse. Taking proactive steps in advance can help eliminate some of the uncertainty in the event disaster strikes.

Economic and Market Comments

September 15th marked the ten-year anniversary of Lehman Brothers declaring bankruptcy, sparking a financial crisis that engulfed the global economy. Lehman's failure could easily be described as a "systemic event" which is financial jargon for an event that triggers severe financial instability and sends shockwaves through the economy.

We have slowly recovered from the downturn. Recent reports show unemployment is at a historic low, interest rates are gradually increasing, and GDP is above pre-crisis levels. Major U.S. market indexes have topped pre-recession highs, but the crisis left an indelible mark of being cautious on investors.

As the current bull market pushes higher, some investors fear a repeat. We will continue to hear every time the stock market goes down by more than 1 or 2%, as measured by the major indexes. A near 10% correction brings the memory back quickly. We are hopeful that over time these memories will fade. As we have said on many occasions, pay attention to the fundamentals of economic growth.

Will it happen again?

No one can unequivocally say "Never." The days of borrowing without proper credit history, down payments, and proven ability to service the debt are gone. The excess created prior to 2008 does not seem to be in place at this time. Today, banks are much better capitalized than in 2007, and the major banks have a much larger cushion to absorb loan losses. Underwriting standards for home loans are also more realistic.

During the Fed's quarterly press conference, Fed Chief Jerome Powell was asked about financial conditions. He said, "The single biggest thing I think that we learned was the importance of maintaining the stability of the financial system." Further to that, "We've put in place many, many initiatives to strengthen the financial system through higher capital, and better regulation, more transparency, central clearing, margins on unclear derivatives, all kinds of things like that, which are meant to strengthen the financial system."

Economic and Market Comments *(continued)*

These measures won't prevent another recession, and systemic risks have not completely abated, but the financial system is in a much better position to withstand a shock than it was in 2008.

Table 1 shows some statistics about market performance across a broad spectrum of asset classes and time periods.

Table 1: Key Index Returns	MTD%	YTD%	*3-YR%
Dow Jones Industrial Average	1.9	7	18.2
NASDAQ Composite	-0.8	16.6	21
S&P 500 Index	0.4	9	15.7
Russell 2000 Index	-2.5	10.5	15.9
MSCI World ex-USA**	0.5	-3.8	6.4
MSCI Emerging Markets**	-0.8	-9.4	9.8
Bloomberg Barclays US Aggregate Bond TR	-0.6	-1.6	1.3

Source: Wall Street Journal, MSCI.com, MarketWatch, Morningstar

MTD returns: Aug 31, 2018—Sep 28, 2018

YTD returns: Dec 29, 2017— Sep 28, 2018

**Annualized*

***in US dollars*

In Conclusion

As a nation, dare say as a world, we are consumed by the headlines put forth by the mass media which will create short-term volatility. We have seen this time and again since 2008, with the most recent being earlier this year. Investors who are patient with a disciplined approach are rewarded during these periods, as stocks historically have an upward bias in the long term as the economy expands.

While heading to the safety of cash during volatility may bring short-term comfort, opting for the sidelines can have long-term costs. A recent Fidelity study reports that “Investors who stayed in the markets (during 2008) saw their account balances—which reflected the impact of their investment choices and contributions—grow 147%” between Q4 2008 and the end of 2015. “That's twice the average 74% return for those who moved out of stocks and into cash during the fourth quarter of 2008 or first quarter of 2009.” Even worse, over 25% who sold out of stocks during that downturn never got back into the market.

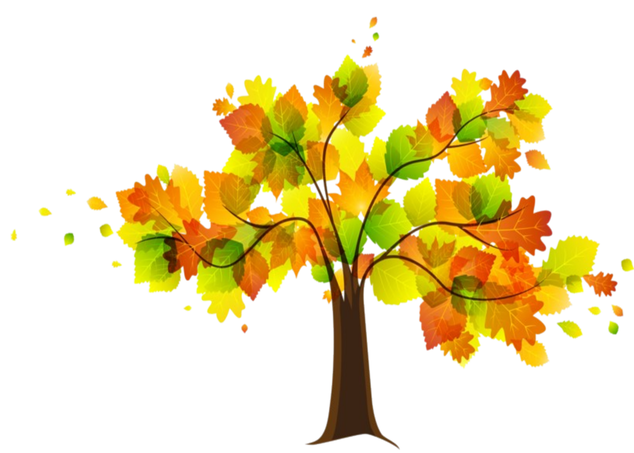
However, the opposite is also true. Don’t become overconfident when stocks are surging. As we discuss in our meetings, your Investment Policy reflects your willingness to take the risk for potential higher returns. We amend those statements as necessary to reflect changes in your life and rebalance your portfolio to match your risk tolerance.

The focus should not be on timing the market. History has shown time and again, it's about time in the market, diversification, and the balance between riskier assets (such as stocks) that have long-term potential for appreciation, versus safer, less volatile assets that are less likely to appreciate. We do focus on the fundamentals and rebalancing your asset allocation as needed and based on your objectives.

We are honored and humbled that you have given us the opportunity to serve as your advisor. Please contact us if you have any concerns or questions prior to our next meeting. We look forward to seeing many of you during the upcoming months.

Happy Fall!

Quintin, Ginny and Ella



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Community & Announcements

Piedmont Wealth Management is a long-standing member and sponsor of the Culpeper Chamber of Commerce.

Ginny has proudly served as Chair of the Young Professional's Advisory Council and recently resigned after 3 years. The Young Professional's mission is to create a platform for members to build relationships, develop professionally and contribute to our local community. Ginny attended the YP's 10th Annual Crab Feast on Saturday, September 8 at Mountain Run Winery. The purpose of this event was to promote substance abuse awareness in the Culpeper community by raising funds to support their chosen non-profits for 2018—***Living the Dream Foundation*** and ***Come as You Are***. Ginny will continue to serve on the Chamber Board as the incoming Treasurer and Chair of the Finance Committee.

We were also pleased to sponsor a foursome at the Chamber's 16th Annual Golf Classic on Monday, October 1, where Quintin and his crew took third place in team competition!

Contact Us

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Our Office Hours

Monday—Friday, 9:00AM—5:00PM

Upcoming Holidays/Office Closures

Thursday/Friday, November 22 & 23, 2018
Thanksgiving & Day After

Monday/Tuesday, December 24 & 25, 2018
Christmas Eve & Christmas Day

Monday, December 31, 2018 and
Tuesday, January 1, 2019
New Year's Eve & New Year's Day

Monday, January 21, 2019
Martin Luther King, Jr. Day

Monday, February 18, 2019
Washington's Birthday

November 2018

Piedmont Wealth Management

Client Newsletter

Updates of Interest

The Internal Revenue Service just released the revised contribution and income limits for 2019 for retirement plans, including phase-out limits; and we have summarized these changes below. The new limits for social security are included as well, along with considerations for your income tax return for 2018. We have also prepared a brief synopsis of the Net Investment Income Tax and the new Section 199A qualified small business income determination.

We hope this information is helpful to you in planning for 2019 and completing your year-end planning for 2018. Please contact us or your tax professional with any questions.

IRS Changes in 2019

Retirement Plan Contribution Limits

IRA Annual Contributions	$6,000
Catch Up for over age 50	$1,000
Section 401(k), 403(b), most 457 plans, and Federal Government Thrift Savings Plans	$19,000
Catch Up for over age 50	$6,000
Simple Retirement Plans	$13,000
Catch Up for over age 50	$3,000
Defined Contribution Plan Limits in Total	$56,000

Income Limits for Certain IRA Contributions

Active Participant in Retirement Plan Phase Out Income Limits:	
Joint or Qualifying Widow(er)	$103,000 – $123,000
Single	$64,000 – $74,000
Married with One Spouse an Active Participant	$193,000 – $203,000

Roth IRA Contribution Income Limits

Married, filing joint return	$193,000 – $203,000
Single or Head of Household	$122,000 – $137,000

Social Security

Maximum Taxable Earnings (OASDI)	$133,900
Medicare Premium Tax	No Limit
Earnings Limits while receiving Social Security Benefits:	
Under Full Retirement Age for Entire Year	$17,640
For Months Before Reaching Full Retirement Age in Given Year	$46,920
Beginning with Month Reaching Full Retirement Age	No Limit
Full Retirement Age in 2019	Age 66
Maximum Monthly Social Security Benefit for Workers Reaching Full Retirement Age in 2019	$2,861
Cost of Living Adjustment for 2019	2.8%

Considerations for 2018 Income Tax Filing

Standard Deduction

Married, filing joint return	$24,000
Single or Married, filing separately	$12,000
Head of Household	$18,000
Dependent, filing own return	$1,050
Additional Deduction for Non-Itemizers:	
Blind or over age 65	$1,300
Blind or over age 65, unmarried, not surviving spouse	$1,600

Itemized Deductions

Elimination of Miscellaneous Deductions	
Maximum deduction for state income taxes, local personal property and real estate taxes	$10,000

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Considerations for 2018 *(continued)*

Long Term Capital Gains and Qualified Dividends Tax Rates

If taxable Income falls below
$38,600 (single, married filing separately),
$77,200 (joint), or $51,700 (head of household) 0%

If taxable Income falls at or above
$38,600 (single, married filing separately),
$77,200 (joint), or $51,700 (head of household) 15%

If taxable Income falls at or above
$425,600 (single), $239,500 (married filing separately),
$479,000 (joint), or $452,400 (head of household) 20%

Net Investment Income Tax

In 2018, Capital gains, dividends and certain passive income for those making over a certain threshold are assessed an additional tax known as the net investment income tax (NIIT). NIIT is assessed at 3.8% on taxpayers whose modified adjusted gross income (MAGI) exceeds the following thresholds:

- Single: $200,000
- Married filing jointly: $250,000
- Married filing separately: $125,000
- Head of Household: $200,000
- Qualifying Widow(er) with dependent child: $250,000

Although not passed into law yet; the NIIT may be repealed for the 2019 tax year.

Section 199A Operational Rules and Limits

The new provision and calculation for the qualified business income deduction is extremely complex. That said, we recommend you consult your CPA for the operational rules and limits of this new code section, especially if your income exceeds the thresholds below.

Deduction available to:

- Sole Proprietorships
- Partnerships
- Trusts
- S Corporations

Deduction available for income not exceeding the following thresholds:

- $157,500 single
- $315,000 married filing joint return (indexed for inflation)

Deduction is usually equal to the lesser of:

- 20% of qualified business income (QBI) plus 20% of REIT dividends and publicly traded partnership income

  OR

- 20% of individual's taxable income in excess of net capital gain

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January 2019

Piedmont Wealth Management

Client Newsletter

To Our Clients

We hope you had a wonderful holiday season and your New Year has started well. We normally focus a significant portion of our newsletter on planning. However, given the upheaval in the financial markets for the fourth quarter of 2018, this letter will focus on the markets.

Overview of 2018

Let's take a moment to hit on key themes from the past year and revisit the following comments included in our January 2018 letter.

> ***"The momentum generated by a growing U.S. and global economy is likely to carry over into the new year. As of this date, S&P earnings are forecasted to rise as much as 14% for the next year. The odds of a recession which could produce a longer-term downward bias in the market appear to be very low.***
>
> ***Unexpected events can create short-term emotional responses in the market that are best avoided by long-term investors. The market last year enjoyed very little volatility with the biggest drop in the S&P at just 2.8% according to the St. Louis Federal Reserve and LPL research. This was the smallest decline (correction) since 1995."***

Looking back at 2017, the lack of market volatility was remarkable. The U.S. economy exhibited strong growth in both the second and third quarters, and a recession did not ensue. We knew it would not last forever; however, predicting an expected exit date is impossible.

January 2018 began with optimism and on firm footing, building on highs in the wake of tax reform, low interest rates, low inflation, and strong growth of corporate profits. If stocks rise or fall on the fundamentals (as they usually do), then the outlook was quite favorable as the year began.

So what happened to change the upward bias of the market in 2018?

A spike in Treasury bond yields tripped up bullish sentiment early in the year. President Trump's attempt to level the playing field on international trade had little impact in the first half of the year. Investors decided trade simply wasn't important, until later realizing that tariffs had the potential to slow economic growth. The ongoing trade war between the United States and China created uncertainty that could not be overcome by the good news of corporate profits or continued historically low interest rates.

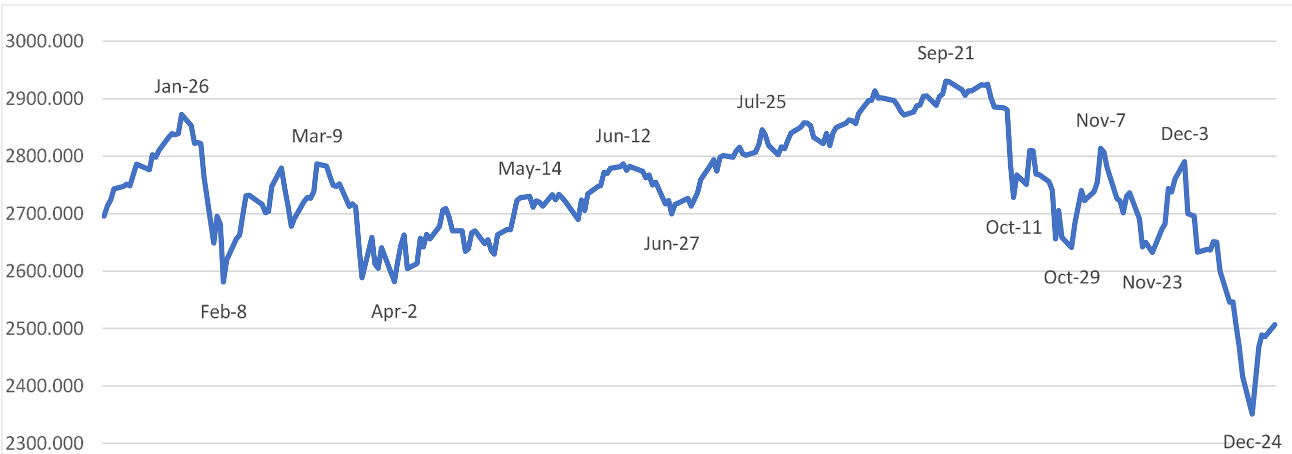
The continued stalemate in Washington created further uncertainty about growth in the economy and the Federal Reserve Bank moved toward normalizing interest rates. Caution quickly entered the picture, and most major U.S. indexes began to experience their first downturn since 2008. Selling began in October and the decline accelerated in December. Key tech stocks that had been market leaders for several years lost their mojo and pulled down major averages.

The factors contributing to the decline include heightened uncertainty over the ongoing trade war and fear that continued rate hikes may stifle economic activity in 2019, resulting in lower profits. We know that news from other parts of the world impacts U.S. markets. Combine today's 24-7 news feed with computerized trading platforms allowing trade to occur somewhere in the world nearly every day, the markets react to news much faster.

Overview of 2018 *(continued)*

As the year came to a close, the peak-to-trough decline in the S&P 500 Index totaled 19.8% (St. Louis Federal Reserve thru 12.24.18). We exceeded the long-term average annual peak-to-trough drawdown by six percentage points. Still, we are just shy of the 20% threshold, which is the commonly accepted definition of a bear market.

Here is a chart from Yahoo Finance that reflects the movement in price in the S&P 500 Index for 2018.



If Christmas Eve marks the bottom of the sell-off, it won't be the first time we have experienced a steep correction that side-stepped a bear market. We witnessed similar declines in 1998 and 2011, and a profit-crushing recession was avoided in both cases. The recent fourth quarter decline may have been unsettling, the total decline in the S&P 500, including reinvested dividends, amounted to just over 4% (S&P Dow Jones Indexes) for the calendar year in 2018.

Overseas stocks fared quite a bit worse, as the global economy shifted into a lower gear earlier in the year, and trade tensions, which are more likely to rattle foreign economies, added to woes. Table 1 shows major market index price returns for 2018 and for the last three years.

Table 1: Key Index Returns	YTD %	*3-YR%
Dow Jones Industrial Average	-5.6	10.2
NASDAQ Composite	-3.9	9.8
S&P 500 Index	-6.2	7
Russell 2000 Index	-12.2	5.9
MSCI World ex-USA**	-16.4	0.4
MSCI Emerging Markets**	-16.6	6.7
Bloomberg Barclays U.S. Aggregate Bond TR	0	2.1

Source: Wall Street Journal, MSCI.com, Morningstar

YTD returns: Dec 29, 2017-Dec 31, 2018

**Annualized*

***in U.S. dollars*

We believe no one can consistently time the peaks and valleys of the market. As with any market to much good news in the short term, followed by any disappointment can create volatility. The reverse is true when too much bad news enters the market. This is clear as you look at a chart for 2018. We had major market peaks, followed by a correction, followed by another major peak, and then a correction; which, for the most part, qualifies as a bear market.

What's in Store for 2019?

As we begin 2019, we have the opposite image of what we saw the prior year—cautious sentiment, ongoing trade issues, a partial government shut down, and lower economic forecasts.

Markets in the short term can be unpredictable as investors try to anticipate events that may impact the economy and corporate profits, and the so-called January barometer typically gets some play in that arena. Loosely defined, some say that January performance sets the tone for the rest of the year. When stocks perform well in January, the bulls have a leg up on the bears. When you add reinvested dividends and a natural upward bias in stocks, this explains why a positive January usually results in a positive year. However, this has not always been the case, as proven in 2016 and 2018.

A recent piece by LPL Research found that the S&P 500 has lost an average of 31% every five years since WWII; included are declines at other times of 19%. Yet, the index has registered an annual advance 75% of the time (Macrotrends) and almost 80% when dividends are reinvested (NYU Stern School of Business Stock/Bond Returns). Further, the S&P 500 has averaged an annual advance of nearly 10% since the late 1920s (CNBC/Investopedia). Again, this demonstrates the need to stay invested to achieve your goals.

We talk constantly about the upward bias of the U.S. economy and remainder of the world. As Warren Buffett opined a few years ago, "It's been a terrible mistake to bet against America, and now is no time to start." (Investment U, Motley Fool).

We do not forecast a recession in the United States, but we are likely to see slower growth because of capacity constraints in our work force, as well as our national lack of investment in property, plant and equipment in the US. Our forecast of 2019 is for more of the same volatility we experienced in 2018. If the trade war with China results in a positive outcome, the Federal Reserve slows rate hikes and adopts a neutral policy; and if our President and Congress can reach a resolution on the budget impasse, this would be positive for the stock markets.

It is rarely profitable to make decisions based on current market sentiment, i.e., panic selling or euphoria that sends us chasing the latest trends. We know that stocks will hit bumps in the road, and a major pothole on occasion, but the long-term data highlights that stocks easily outperform bonds, T-bills, CDs, and inflation. Long term stocks trade on the continued growth in the economy and therefore in corporate profits.

As we meet with you through the year, we will continue to emphasis your financial plan and Investment Policy Statement, which outlines your risk tolerance. We know that stocks can be unpredictable over a short period and sell-offs are normal and sometimes unpleasant. Therefore, we take precautions to minimize volatility and keep you on track toward your long-term financial goals through allocation to bonds and diversification of your portfolio.

As you receive or have received your performance report for the quarter ending December 31, 2018, you may be concerned about the results. However, most of you are not invested 100% in the stock market so your portfolio will not be totally reflective of major market indexes.

We feel a little explanation needs to be made about our Investment Strategy for your portfolios. During our meetings with you we talk about our "Value" Strategy which focuses on companies that are profitable over long periods of time and pay dividends to shareholders. During 2018, our strategy underperformed the "Growth" stocks in the market. We believe this is a short-term occurrence, as a consistent Value Strategy has outperformed Growth over longer periods of time.

We are honored that you have chosen us to help you with your financial planning and investment needs. We look forward to meeting with you during the next several months. If you have any questions from this newsletter or anything else in the meantime, please contact us.

Thank you,

Quintin, Ginny and Ella

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Our Office Hours

Monday—Friday, 9:00AM—5:00PM

Upcoming 2019 Holidays / Office Closures

Monday, January 21 — *Martin Luther King, Jr. Day*

Monday, February 18 — *Washington's Birthday*

Friday, April 19 — *Good Friday*

Monday, May 27 — *Memorial Day*