

April 2019

The Capstone Quarterly

Happy Spring! We hope that your 2019 is off to a great start and that you are all drying out from our unusually rainy Southern California. In this newsletter, Bryce gives a review of our investment strategy and Casey discusses the tax season that is upon us.

Bryce's Point of View

-By Bryce Pease, CFP®, Chief Investment Officer

The economy continues to grow and so does volatility in the stock markets -- from a big drop last fall then to a strong jump back up this last quarter. To try to protect our investors we sold most of our stock funds last fall and then started back in when the markets started to rise again.

If you look at all the points and counterpoints made about the year, though, the logical conclusion is that 2018 was neither a "good" year or a "bad" year. It was.....a year! The markets are volatile and the economy appears to be strong. There are indicators of economic strength for 2019 as well as signs that market volatility may continue.

With wages and markets rising it might be natural to think that it will continue on forever. History teaches us that this is likely not the case, which is why we find it necessary to always review our investment strategy.

Some of our rules of investing:

1. Know what we own. We try to invest in industries and funds showing positive momentum. What does the fund own?
2. Prediction is futile. No one can predict what the economy will do, so we don't even try. Instead, we focus on what we can control, like the types of funds we invest in.
3. Take time. Investing isn't a race. There is always time to research and find outstanding funds to invest in. We follow the tortoise's example, not the hare's.
4. Avoid long shots. Investing isn't gambling, either. While we have no control over the markets, we do have control over how much risk we take on. Your portfolio isn't the place for speculation or bets. For that we can always head to Vegas.
5. Buy good funds. We try to buy funds that have positive momentum, performing well against the overall markets as well as their peer group.
6. We try to learn from our mistakes. Even the greatest investors sometimes get things wrong. When that happens, we accept it humbly and try to determine how we can improve.
7. If we don't understand it we don't buy it.

Ultimately, *all* investing comes with risk, and there is no strategy or rule that guarantees success. We use what we believe to be solid research to try to make smart, *simple* investment decisions.

Whatever 2019 has in store, rest assured there will be both obstacles to avoid *and* opportunities to seize. But whatever happens, we here at Capstone Pacific will continue analyzing *all* the facts and data to try to help you make smart, unbiased, unemotional financial decisions -- music to any investor's ears.

As always, please let me know if there is anything I can do for you in 2019.

Casey's Corner

-By Casey Morris, CFP®



Tax season – the period between January and April 15, when most people file their taxes – is often a hectic time. But this year's tax season is special.

It's been a little over a year since the *Tax Cuts and Jobs Act* went into effect. As the largest overhaul of the tax code since 1986, the still-relatively-new law could have a major impact on your taxes, *including* your refund. For that reason, I thought it would be good to review some points to remember.

Quick disclaimer: The tax law is a politically charged subject, but you won't find any politics here. While experts may argue over whether the tax law has been good or bad for the country, this letter is solely about how the law may affect *you*.

So, here's some things to remember: Will you enjoy a larger tax cut by taking the standard deduction, or itemized?

For most people, the standard deduction is probably the way to go. But if you still choose to take itemized deductions, there are changes to those you need to be aware of as well. For instance:

Medical expenses: For your 2018 taxes, you can deduct out-of-pocket medical and dental expenses that exceed 7.5% of your "adjusted gross income". (This is your total gross income minus specific deductions.) This is down from the previous 10%, although the level returns to normal next year.¹

State and local taxes: One of the biggest changes to itemized deductions is that you can now deduct *no more than \$10,000* of any combination of state and local income taxes, sales taxes, and property taxes. For people living in high-tax states, this is perhaps the single biggest reason why it now makes more sense to take the standard deduction.¹

Mortgage interest: If you took out a mortgage or home equity loan *before* December 15, 2017, you can deduct up to \$1,000,000 in interest. However, the new tax law caps the deduction at \$750,000 for loans taken out after that date.¹

Charitable contributions: The limit on charitable contributions in cash is now 60% of your adjusted gross income, up from 50% before the new tax law. That means you may be able to deduct more of any charitable *cash* contributions you made in 2018.¹

A few more things to be aware of this tax season

It's impossible to cover all the ways the new tax law will affect your filing this year. But there are a few more things to be aware of.

Tax Refunds

First, your tax refund could be smaller than in years past. As of this writing, the IRS has reported the average refund to be 8.4% *less* than last year.²

This shouldn't come as a surprise. Since many people received a tax cut in 2018, refunds will also go down. That's especially true for people who previously used itemized deductions on their property and local income taxes. The changes in federal tax withholding also play a major role. It's possible, too, that many people will end *owing* money to the government this year.

For that reason, taxpayers should hold off on planning any major purchases until they know exactly what their refund will be.

The IRS is playing catch-up

As you probably know, Washington was paralyzed by the longest government shutdown in history earlier this year. During the shutdown, the IRS operated with only 12% of its staff.³ That means the IRS has a *lot* to catch up on, including answering questions, preparing reports, processing returns, and distributing refunds. And because the tax code is so different now, you may need to wait longer than normal to get your questions answered or get your refund.

Ways to de-stress your tax filing

Preparing your taxes is never fun, but there are ways to minimize stress. For example:

1. **Work with a qualified professional.** While there is software aplenty to help you file, nothing beats working with an experienced Certified Public Accountant. I would be happy to put you in touch with a good one if you need assistance with this.
2. **File electronically.** If you're doing it on your own, it's better – and faster – to file electronically than on paper. You can learn more at www.irs.gov/filing/free-file-do-your-federal-taxes-for-free.
3. **Do a “paycheck checkup.”** This is a resource the IRS provides to determine if you need to adjust your withholding or make additional tax payments. Visit www.irs.gov/paycheck-checkup to learn more.
4. **Start now.** If you've already finished your tax return, great! But if not, don't delay. Start gathering documents, writing down questions, and examining your options. The easiest way to ensure tax-related headaches – and make mistakes on your return – is to wait until the last minute.

Finally...

As always, if you have any questions about the markets, or about your portfolio, please let us know. We love to hear from you. Feel free to share this report with others that may be interested.

Sincerely,

The Team at Capstone Pacific

P.S. If you ever run across anyone who could use our services, we always appreciate it when you pass on our name.

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¹ “Tax Reform: Basics for Individuals and Families,” *Internal Revenue Service*, <https://www.irs.gov/pub/irs-pdf/p5307.pdf>

² “Filing Season Statistics for Week Ending February 1, 2019.” *Internal Revenue Service*, <https://www.irs.gov/newsroom/filing-season-statistics-for-week-ending-february-1-2019>

³ “Federal shutdown means tax refunds may be delayed,” *CNBC*, <https://www.cnbc.com/2019/01/04/what-the-federal-shutdown-could-mean-for-tax-season.html>