

## Year-End Thoughts 2017

Bonds & Interest rates - We have a new Fed Chairperson with Jerome Powell. Based on my research I believe he will continue with Janet Yellens course to raise rates slowly. I also believe Mr. Powell is aligned to President Trumps' desire to loosen regulations on banks.



I recently sold out of two ETF's that were based on fixed income and those were the Schwab Aggregate Bond (symbol SCHZ) and the Powershares Preferred fund (symbol PGX). I made this rebalancing decision as I believe that interest rates higher will affect those investments with underlying longer maturities. When these types of investments go down in value a fraction at a time we call it, "A Death by A Thousand Cuts". I would rather do the work of selling and rebuying when I believe the time is best suited. We intend to evaluate both investments for re-purchase once we see some rate increases booked. The Preferred ETF was sold because of underlying long maturities or in some cases perpetual maturity. I'm keeping some cash so all the allocation doesn't go into stocks/equities.



I constantly research the possibility of buying individual bonds. In particular, I look for Municipal tax-free bonds of A quality or better. This week in my search for Calif Muni Bonds that paid over 3% Yield to Worse the resulting maturities went out past the year 2040. It is this type of low yield for long maturity that has kept me and other traditional bond buyers away from their purchase.

I have not sold all our fixed income investments as we still own short-term bond funds with target rate maturity from Guggenheim of 2019 and 2020. We have fixed income exposure to debt outside the USA, and also bank floating rate bonds (symbol BKLN).

Banks, REITS and Utilities could be negatively affected by rate increases but in a different way based on the underlying growth of the economy. For example, we don't own an ETF based on utilities as they have very little ability to grow their revenue and operate more as a government play on regulation. If the economy is strong and corporations are borrowing under the revised tax plan, then higher rates could be good for bank stocks in the ability to loan more and get higher margins of profitability. REIT's are trickier as they are going through a radical round of volatility as consumers move away from retail purchase to those online. A secondary trend in REIT's that I am following closely is the re-purposing of malls into new destinations that cannot be duplicated online. The physical experience is based on being their live. With new tax laws making the online advantage of zero taxation disappear the local retailer is

no longer stuck with one foot in the cement. One of the largest publicly traded owners of US malls is General Growth Partners and they have been given a buyout offer of almost \$15bb from Brookfield Property Partners. There are some smart people who have identified these same trends and believe this to be a future opportunity.



Tax Planning laws - Talk with your CPA and Estate Attorney. One of the biggest changes in the tax code since the Reagan era is about to take place with passage of new legislation. I highly encourage any business owners to take a serious look at the structure of their company (LLC, INC, Individual) and have a conversation with your CPA to see how you may benefit or loose under the proposed changes and what changes you might consider. One example of tax change for individuals is the amount of deductibility of home interest plus state/local taxes, and these are both major issues for Californians. With the AMT (alternate minimum tax) being greatly altered for limits maybe it is worth investigating a 0% interest rate home loan and then taking the extra savings from non-principal paydowns to maximize your pre-tax retirement contributions. The only thing that matters for investing is how much you get to keep after-tax and the risk you took to get there. We cannot provide tax or legal advice, but we can offer investment advice and work together with your other professional to form a team that benefits you, our client.

Harvesting tax losses – As we have done every year we have tried to maximize our tax harvesting of losses to offset any gains. If you have outside accounts, you should consider the same approach. For married couples or qualifying partners with trusts, keeping a loss on the books and hoping for a position to recover might not be the best strategy. Under current regulations investments have a “Step-up” in cost basis at time of death which is good for appreciated securities, but this means the opposite for investments at a loss. An underwater investment gets reset in the Step-up to current price and that paper loss disappears. If the loss was realized and you can’t use all the loss to offset current year gains, then you get to carry forward that loss to deduct against future gains. This tax loss credit can also be used to reduce your ordinary taxable income (by \$3k under current regulations). In a Trust situation the surviving partner gets to keep those tax loss credits for future use, but if they were never realized as booked losses then there is no credit to use. I have personally witnessed people not willing to harvest their loss on some penny stock idea because they were hoping it would come back, then pass away and loose \$100k + tax loss credit for surviving spouse. There are other investment strategies to help this process of harvesting losses and delaying gains. If you or friends of yours need assistance, please ask and we would be happy to analyze and offer free advice. The new tax laws are now being disseminated. This is a dynamic process that is still unfolding as I write this newsletter, so please consult your tax-professional prior to making any big decisions that might impact you personally.



Estate Attorney – A large percentage of our clients have their assets held in legal Trusts and we highly encourage every client to revisit their strategies with the passage of new legislation. Estates that once had exposure to tax gains at death may no longer be relevant and many other issues are all in need of review depending on your individual situation.

Advance Care Directives – these are documents typically prepared by your attorney that describe your exact wishes in case you are in need of medical attention. I strongly urge all our clients that do not have these documents to consider talking to an attorney to obtain them. For those that already have Advanced Health Care Directives I strongly suggest you make sure you have multiple copies stored securely online. Make sure your loved ones or trusted people in your life have access to them should an emergency ever happen. I will store them securely on our cloud file as a courtesy to any client. Unfortunately, more than once, I have been called upon at nights or weekends to have these crucial documents sent directly to a hospital.

As an example; Doctors at a Florida hospital faced an ethical dilemma when an unconscious man arrived in the emergency room with a tattoo that read "Do Not Resuscitate" emblazoned on his chest.



The man had arrived with no identification and no family or friends. His tattoo, which included a signature and had the word "Not" underlined, left doctors unsure of what to do next. Was the tattoo a clear representation of the patient's wishes? Should they honor it and avoid any heroic efforts to save his life? Were they required to, legally?

Doctors detailed the case and the decisions they made in a report published in the [New England Journal of Medicine](#). At first, they decided not to honor the tattoo, "invoking the principle of not choosing an irreversible path when faced with uncertainty," they wrote.

However, this decision left the medical team conflicted, and they brought in an ethics committee to consult on it further. After reviewing the case, the committee advised the doctors to honor the DNR tattoo.

"They suggested that it was most reasonable to infer that the tattoo expressed an authentic preference," the doctors wrote.

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The outcome was the hospital staff eventually found someone that had his legal documents that did specify his DNR request.



Bitcoin/Gold - Bitcoin and the blockchain mania have become an alternate currency in place of gold. With little to no tangible value, cryptocurrency is manufactured and the hope and belief it will be worth something, to somebody else, someday. Since the USA and other nations moved away from gold standards, it was replaced by the Fiat Standard, which in the simplest form of understanding is "Trust Us". So, cryptocurrency works on the same principle of trust and belief. Right now, a mania exists as evidence in the huge price swings of

these established and newer contenders. Today 12/21/17, some \$24mm iced tea company changed its name to incorporate the word blockchain and the stock moved up 200%. Many professionals in economics and investing believe this new alternate currency is taking away the flight to safety normally associated with owning gold. In my opinion this will keep pressure on gold from appreciating but in the event of a breakdown in cryptocurrency then their will be a massive flight into gold. The secondary issue after the imaginary value of cryptocurrency is the unregulated nature of the exchanges that hold the digital currency. In 2014, the exchange Mt. Gox was handling about 70% of all bitcoin transactions and was found to have been hacked for several years leading to the final estimated disappearance of 200,000 bitcoins. If these were your bitcoins, then you have no recourse in recovering your stolen asset. Yes, you can sue, but who? And how do you recover what is no longer there?



This is my segway into the subject of hacking as a tail end to the previous paragraph on bitcoin. It is widely believed that North Korea is actively engaged in stealing cryptocurrency from anybody they can find. An entire government has dedicated huge resources for stealing so they can fund their ongoing needs for commerce. Myself and Adam Meyers subscribe to several daily blogs on technology and hacking news. Websites and Apps are now actively being hacked by nefarious actors, or in some cases the website owners themselves, to serendipitously mine for crypto-currency using the users phone or computer without the owner's knowledge. Another huge issue we are tracking is websites that use Plugins. A new breed of criminal has figured out if they legally buy the Plugin from its current owner and then change the program to include malicious code then they easily get access to thousands or millions of computers. A very popular program for creating websites is called Wordpress, and this Plugin scheme has already been used multiple times. We are aware of this because we subscribe to a blog dedicated to protecting Wordpress sites from attacks.

Protecting client's data and information has now become one of the largest consumers of our time in the servicing of our client family. I highly encourage a personal discussion with me on what I can offer for assistance in helping you on a personal level to protect your data and finances. We have helped many and we view this sharing of knowledge as a deep honor to help our clients sleep easier or be more at peace with the process. All too often I hear the feedback of capitulation "What Can I Do"? The honest answer is you really can't prevent 100% but you can decrease the odds of something happening to you, and the severity if something were to occur. It's the same reason I keep earthquake bug-out bags in all my vehicles.



New client portal – we are testing a new client portal for the sharing and storage of your personal documents and quarterly reports. We hope to have this implemented soon as we have been testing several over the last two years. We appreciate your feedback in this matter, so we allocate our financial resources into serving you with the ultimate care. This new client portal also allows for the secure aggregation of most investment and credit card accounts. No advertising or marketing on these sites, just 100% client focused.

Retirement planning software – We have been working on developing our own client retirement software to compliment the work we have already done with our budget software. We hope to have this completed by the second quarter of 2018 and available, at no cost, to any of our clients. The custom program we are looking to create will include variables such as Required Minimum Distribution, incorporate new tax laws, factor in Social Security and a variety of features we believe address the needs of our clients. Ultimately, a software tool that has value to our clients and not a bunch of number and graphs that look pretty with no tangible or appreciable use for individuals.

ETF advantages and costs – Schwab now offers almost 300 different ETF’s with no trading commission. For those ETF’s or stocks that do have a trading fee the cost per transaction has been reduced to \$4.95. This low transaction cost combined with our management fee, that starts at an annualized rate .95%, is translating into cost savings that benefit each client. We are honored and proud to be on the leading curve of reducing client cost, while also increasing client service.

CD’s and cash management – as a reminder we offer a program here at Goldey Capital that allows us to help manage your cash and liquidity with no management fee or transaction fees. This includes the buying of short-term FDIC insured CD’s. We don’t mind doing the extra work for the buying and rolling over of CD’s as we have an entire national inventory to choose from at Schwab and it’s no problem.

With the addition of a skilled investment professional in Adam Meyers we have now have the ability to take on more clients while still maintain a high-level of personal care for our existing clients. We appreciate the ability for new introductions and offering our concierge service to others you may know.



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