

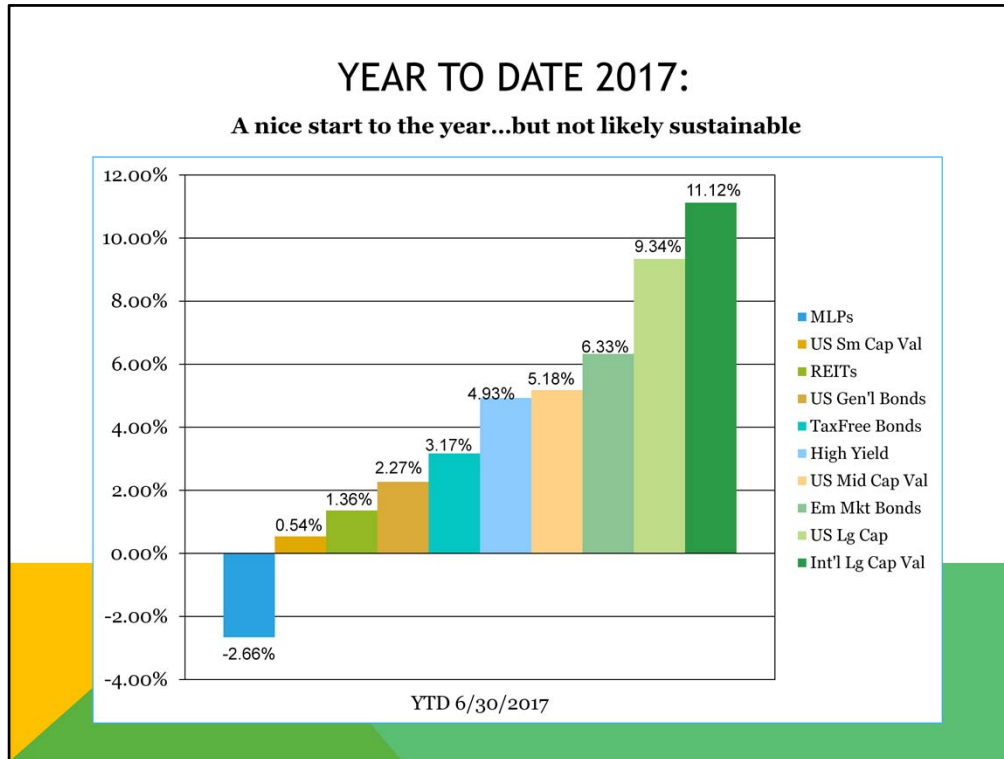


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REGISTERED
INVESTMENT
ADVISOR

INVESTMENT OVERVIEW

STEVE WHITE, CFA



Returns have been surprisingly strong for the first half of the year; we wish we could just annualize them for the rest of the year and call it good! While oil and gas, small cap and real estate have been relatively weak, international and large cap stocks have been amazingly robust. Even bonds, with still-low interest rates, have had a solid first half.

INVESTMENT OUTLOOK

Stocks:

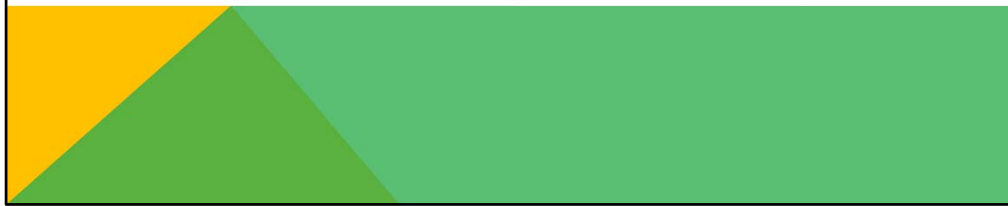
- US Stocks: Large Caps have moved up nicely on promise of tax cuts; gridlock and administration volatility muddy the water
- International Stocks: Euro Zone appears positive and more stable with Merkel and Macron leading; uncertainty over Brexit terms is a minus

Stocks look fairly fully valued, but earnings yields are still attractive compared to bond yields. International stocks, even after the strong first half of 2017, still look reasonably valued.

INVESTMENT OUTLOOK

Bonds:

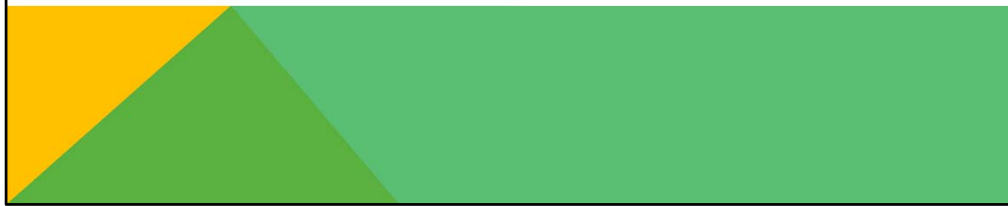
- US Bonds: flat to modestly negative returns for 2H 2017 as we expect 1-2 more rate hikes
- International Bonds: flattish returns to 2H 2017 given EU reluctant to raise rates



We're a bit more apprehensive about bonds; the Fed has already hiked rates a couple of times, and will likely do 1-2 more before year end. After this week's strong job report, some forecasters are suggesting that GDP for the second half of the year could approach 3%. With a tighter job market and strong GDP, inflation will likely rise. Thus, we are keeping your bond exposures defensive against further rate hikes by maintaining a shorter-than-average maturity in the bond funds you hold.

Our Goal:

Every line item in your portfolio generates
income




INCOME GENERATION: BONDS

		Yield	Annual
		<u>Range</u>	<u>Volatility</u>
US Taxable Bonds		2.5-3.5%	3-4%
US Tax-Free Bonds		2-3%	3-4.5%
International Bonds		2-2.5%	3-4%

To use a sailing analogy, bonds are the keel of a sailboat—they provide stability so that when markets begin to roil, they keep the boat from rolling over by maintaining or even increasing in value. Returns are modest, but that low volatility and inherent stabilizing influence are what we're looking for from this asset class.

Bonds won't provide much income with interest rates being as low as they are currently, but they will provide some income.

INCOME GENERATION: STOCKS				
			<u>Yield Range</u>	<u>Annual Volatility</u>
US Stocks			2-3%	15-25%
International Stocks			3-4%	18-25%
Real Estate Investment Trusts			5-7%	18-22%
Oil/Gas Pipelines/Storage			6-9%	18-28%
High Yield Taxable Bonds			5-6%	8-12%
High Yield Tax-Free Bonds			4-5%	5-8%
Emerging Market Bonds			5-7%	10-15%



Income is stronger with stocks and the other investments we include on this page like REITs, oil and gas partnerships and other types of bonds-because they have at least one thing in common: their volatility is markedly higher than that of bonds on the previous page.

We allocate your investment portfolio across these different types of assets to boost your income while trying to minimize the portfolio's volatility as best we can.

Hopefully this table will give you an idea of the current yields available with these different asset classes, along with our best guess of their future volatility.



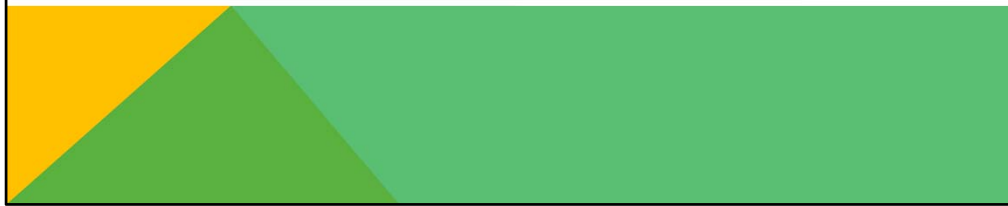
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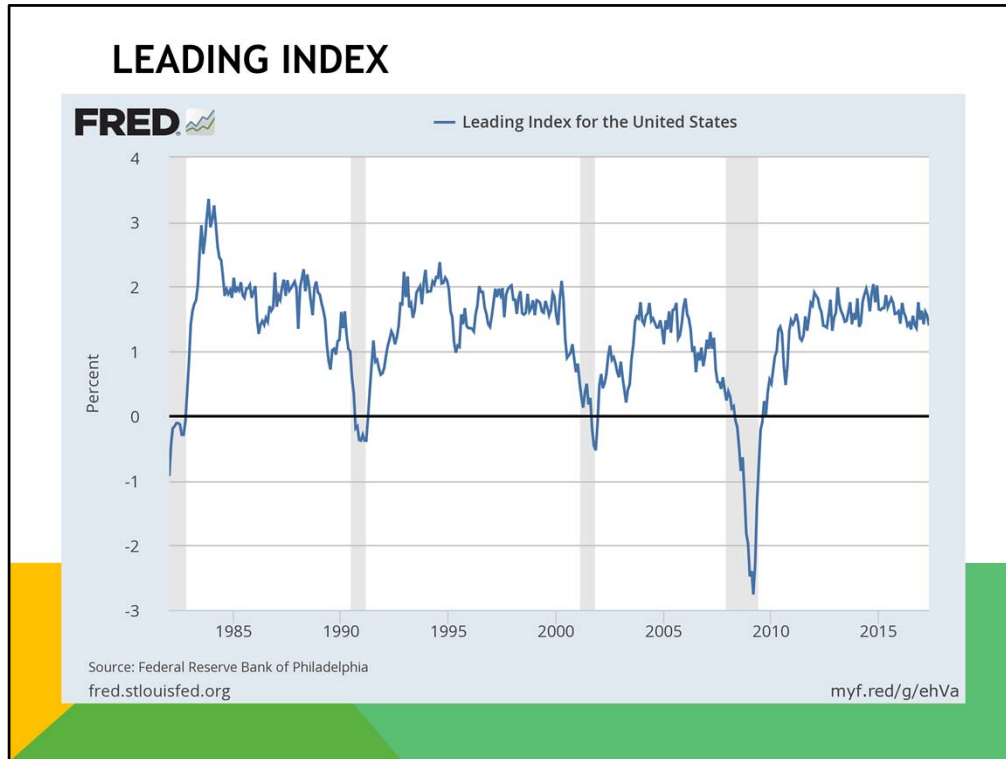
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ECONOMIC OUTLOOK

MIKE LING, CFP®

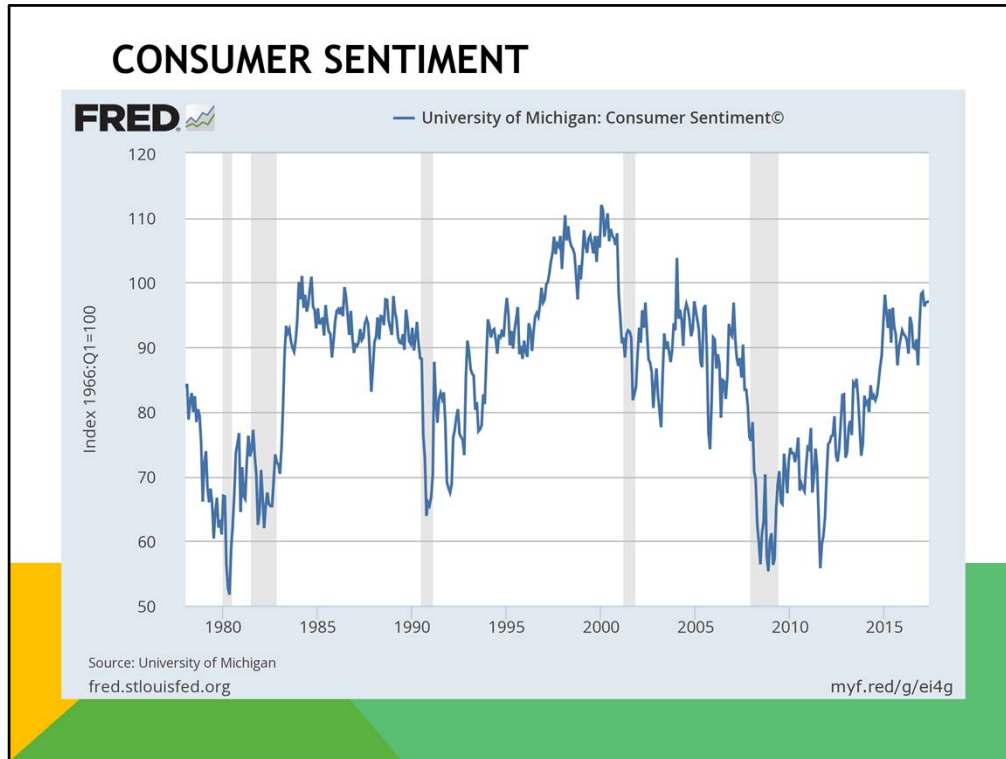
U.S. ECONOMY: THE BIG PICTURE





When the blue line is above zero continued economic growth is anticipated.

The leading index for each state predicts the six-month growth rate of the state's coincident index. In addition to the coincident index, the models include other variables that lead the economy: state-level housing permits (1 to 4 units), state initial unemployment insurance claims, delivery times from the Institute for Supply Management (ISM) manufacturing survey, and the interest rate spread between the 10-year Treasury bond and the 3-month Treasury bill.

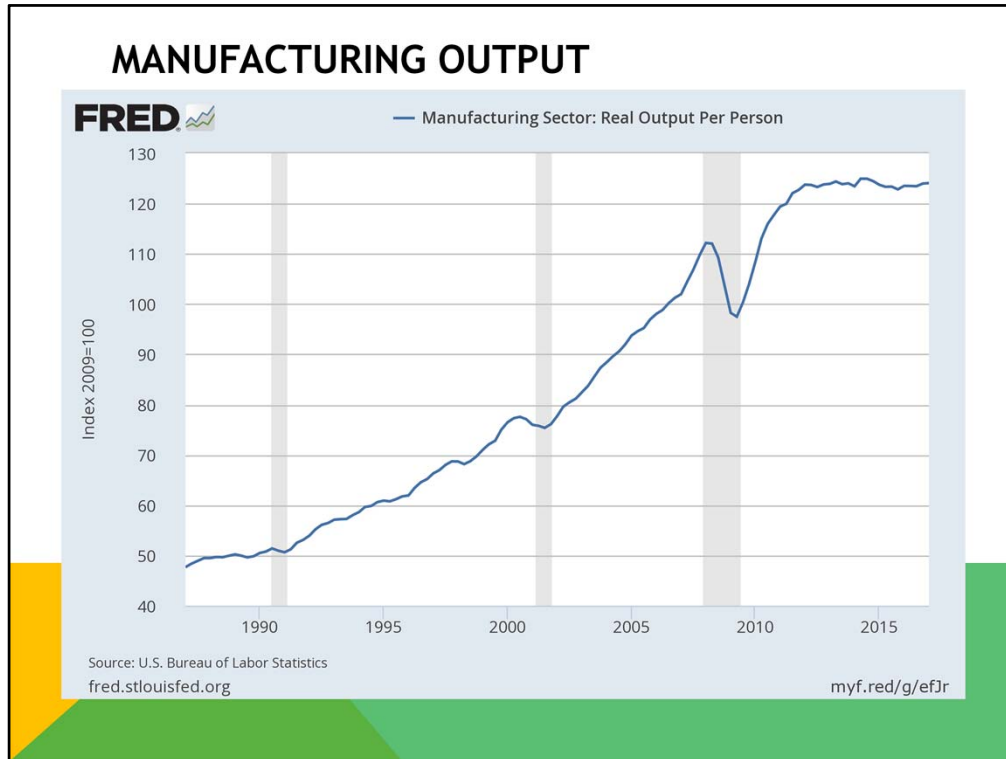


While there has been much made of those left behind in this economy, in general, consumers feel good about their own situation. They don't feel as good about the national economy. This is likely significantly due to the current political climate.

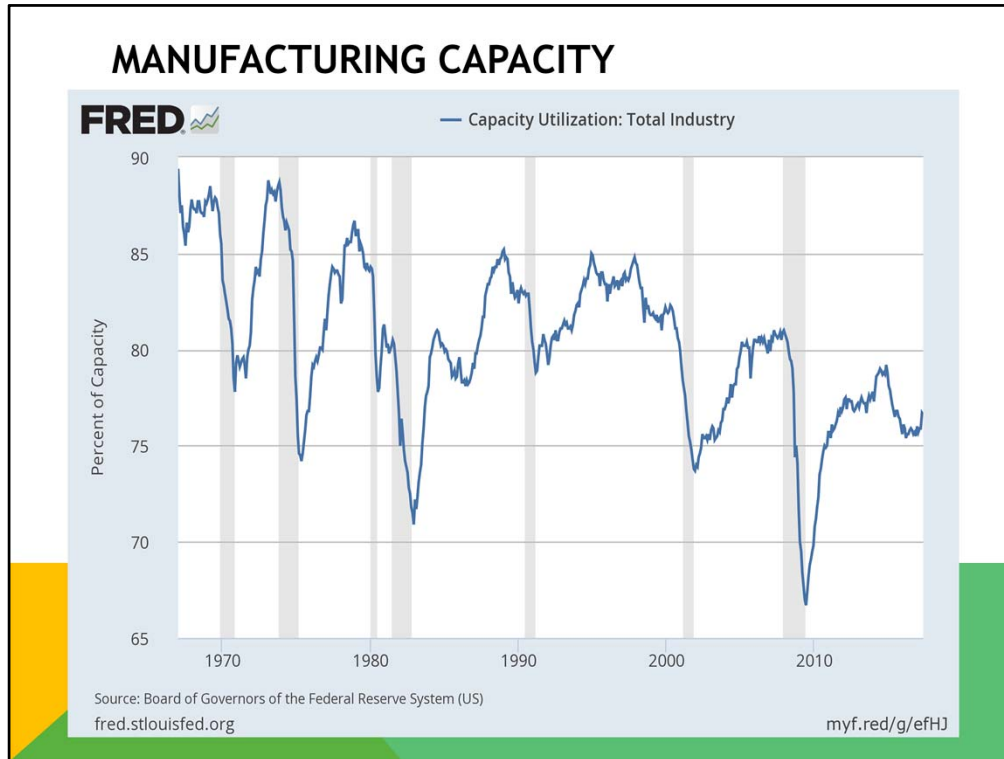
Consumer sentiment takes into account an individual's feelings toward his or her own current financial health, the health of the economy in the short term and the prospects for longer term economic growth.

Read more: Consumer Sentiment <http://www.investopedia.com/terms/c/consumer-sentiment.asp#ixzz4mBr536hC>

Follow us: Investopedia on Facebook



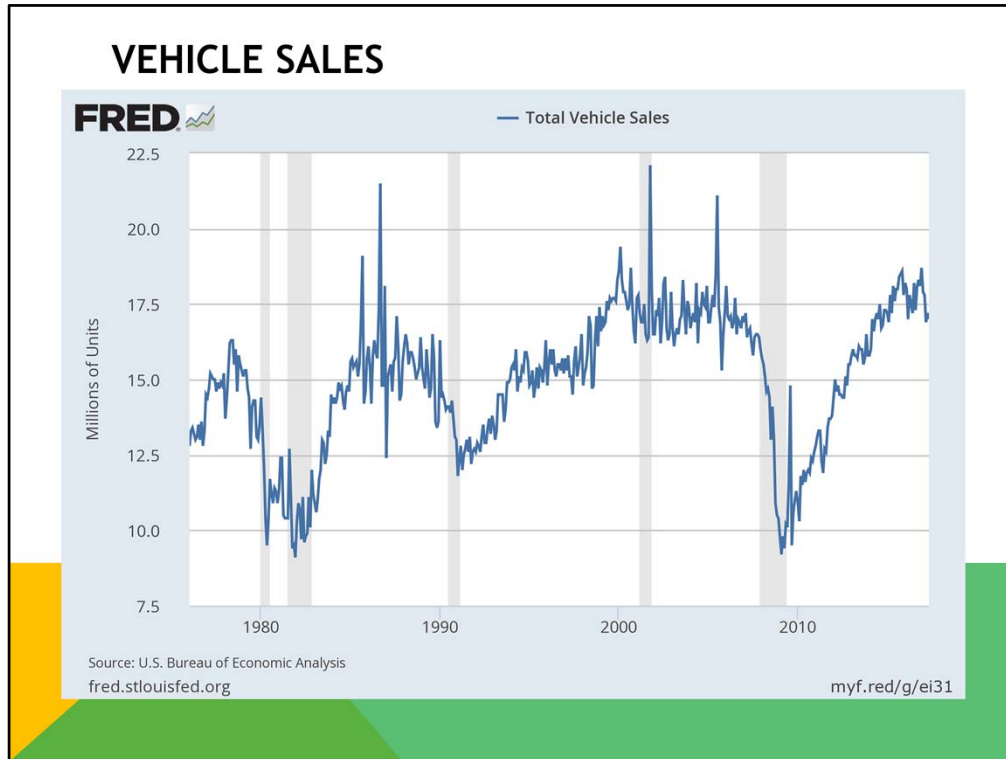
For the first time in the past few decades manufacturing output per person is flat. While manufacturing only comprises 8.7% of national output it's often used when judgment is made about the health of the economy. So, flat manufacturing output doesn't have the impact some claim.



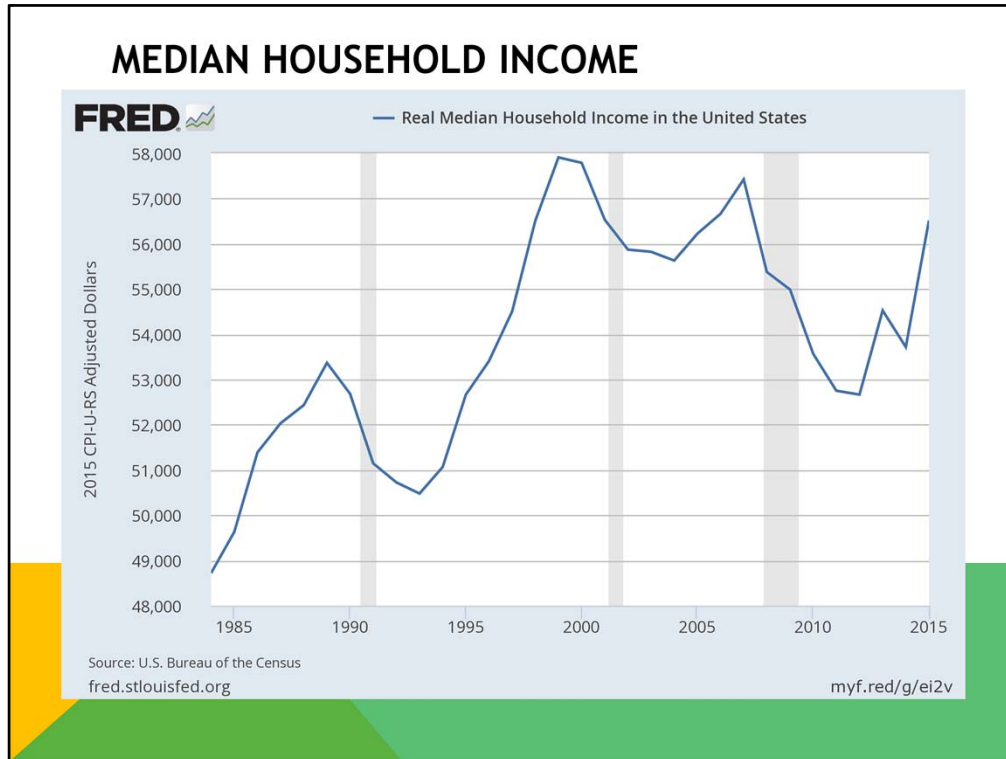
Capacity has tightened somewhat in the past 7 years but it hasn't returned to normal levels during extensive expansions. This indicates that companies don't need to build more factories because the current ones can produce more before needing to building additional facilities.

Capacity Utilization: Total Industry (TCU) is the percentage of resources used by corporations and factories to produce goods in manufacturing, mining, and electric and gas utilities for all facilities located in the United States (excluding those in U.S. territories).(1) We can also think of capacity utilization as how much capacity is being used from the total available capacity to produce demanded finished products.

Capacity utilization indexes are constructed for 71 industries in manufacturing, 16 in mining, and 2 in utilities.



The US has had a strong rebound in vehicles sales but some economists suspect this demand will begin to decline.

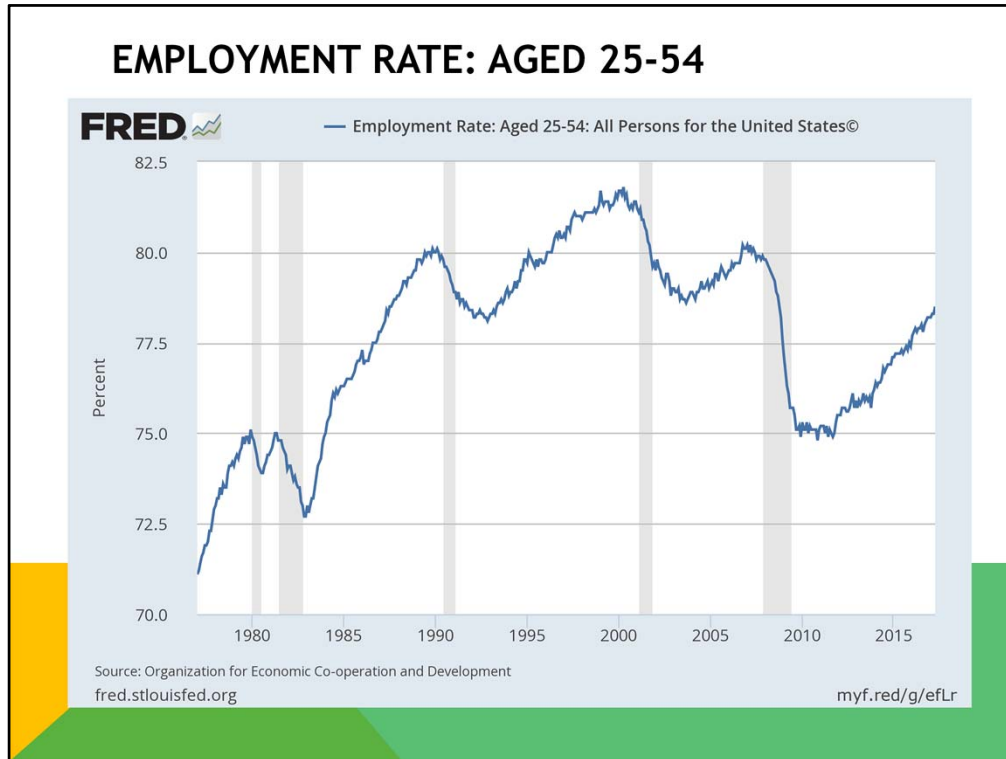


Household incomes have rebounded but are still lower than they were nearly 20 years ago.

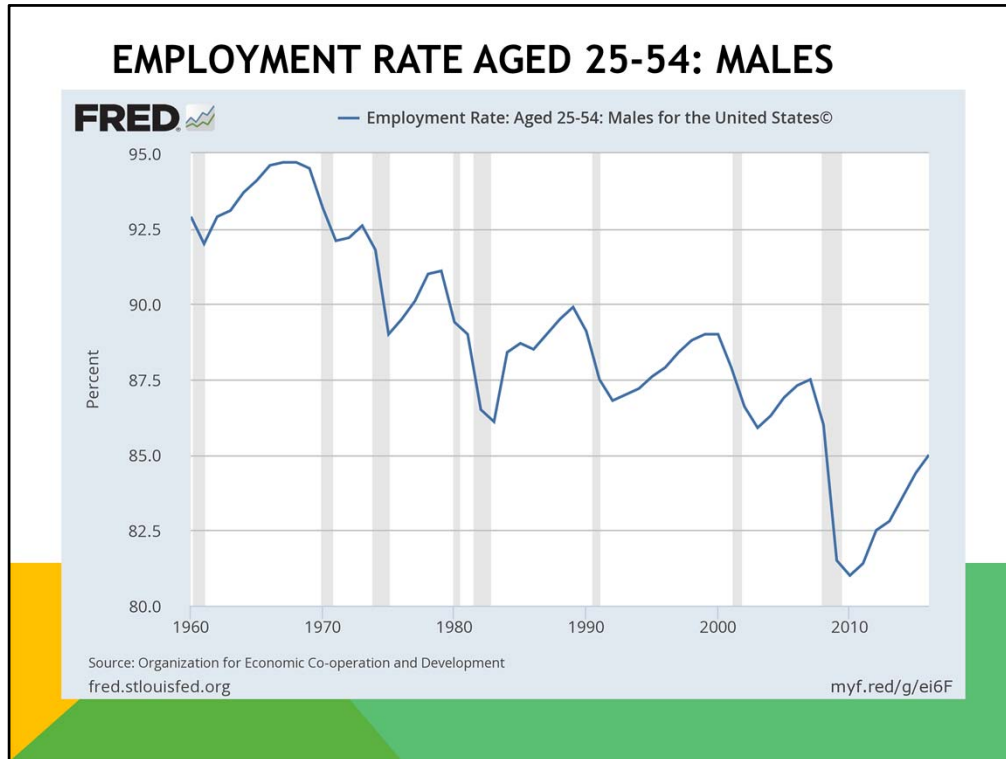


Currently nearing the low unemployment rates in 1999.

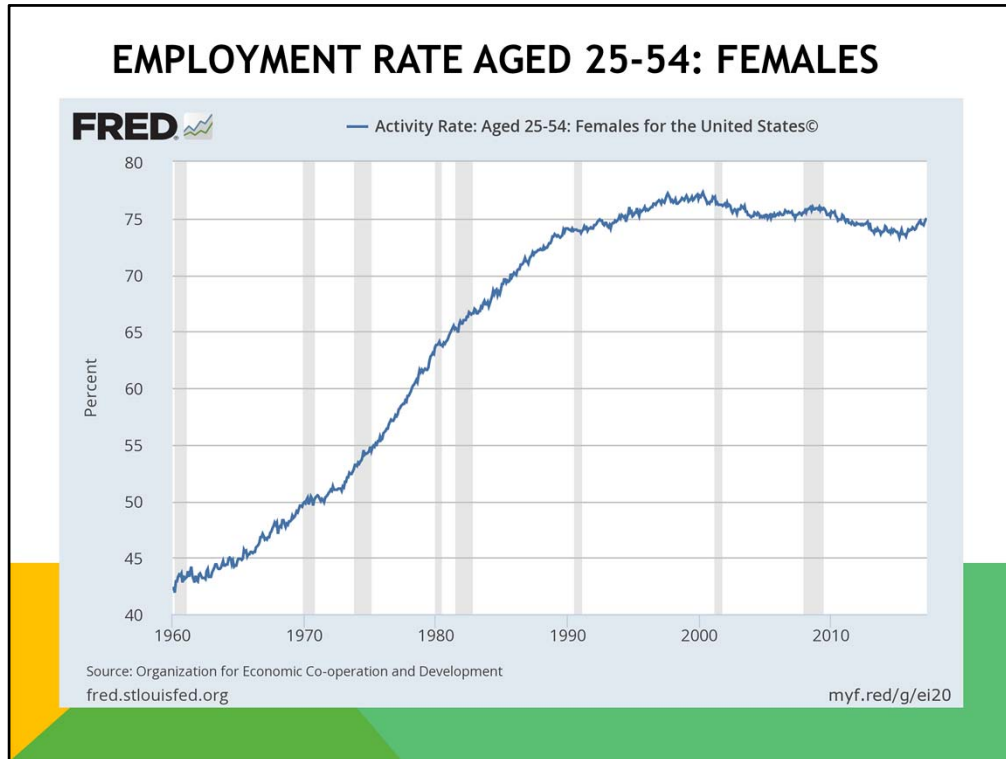
The unemployment rate represents the number of unemployed as a percentage of the labor force. Labor force data are restricted to people 16 years of age and older, who currently reside in 1 of the 50 states or the District of Columbia, who do not reside in institutions (e.g., penal and mental facilities, homes for the aged), and who are not on active duty in the Armed Forces.



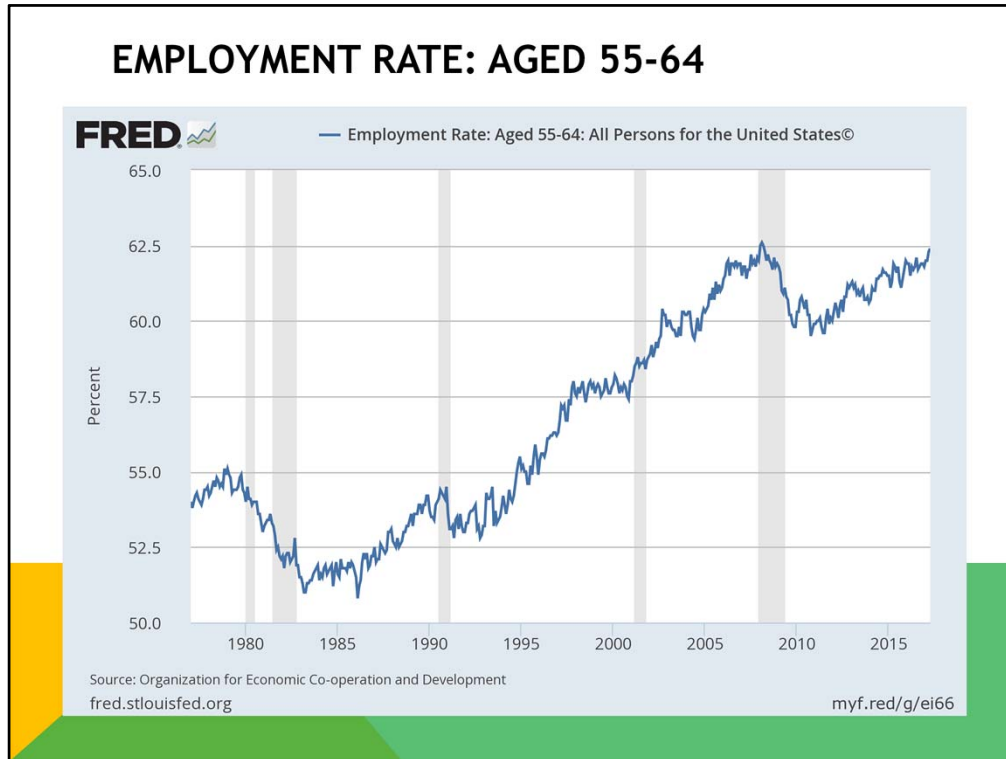
But employment participation for younger workers continue to lag.



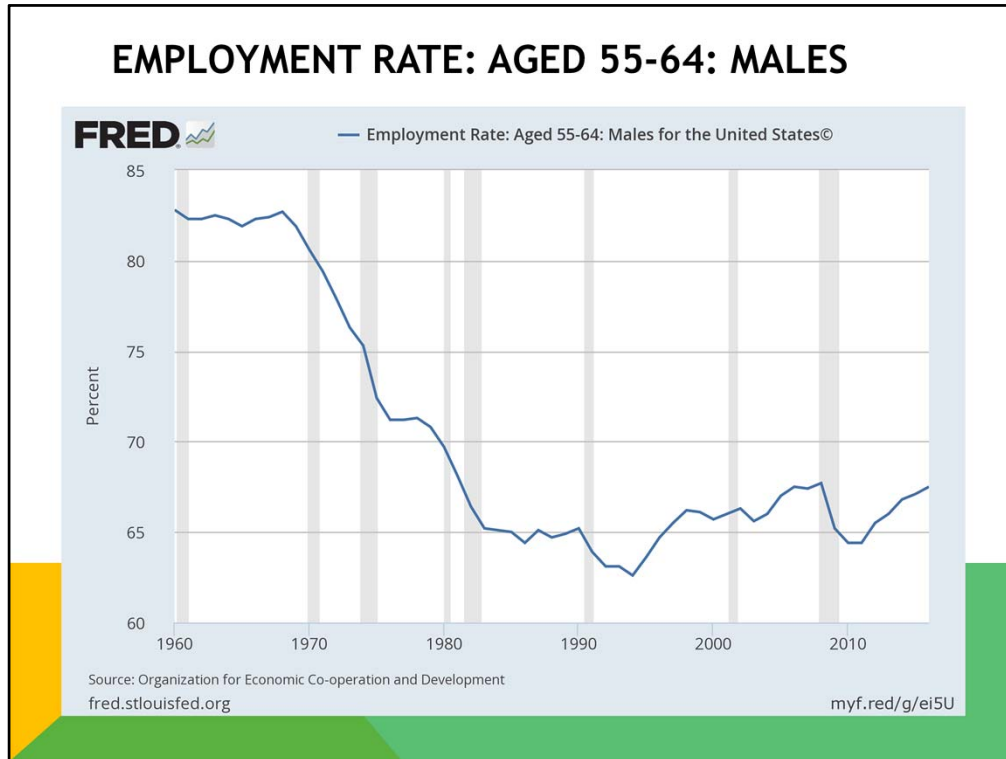
Younger males have steadily dropped out of the labor force since 1960.



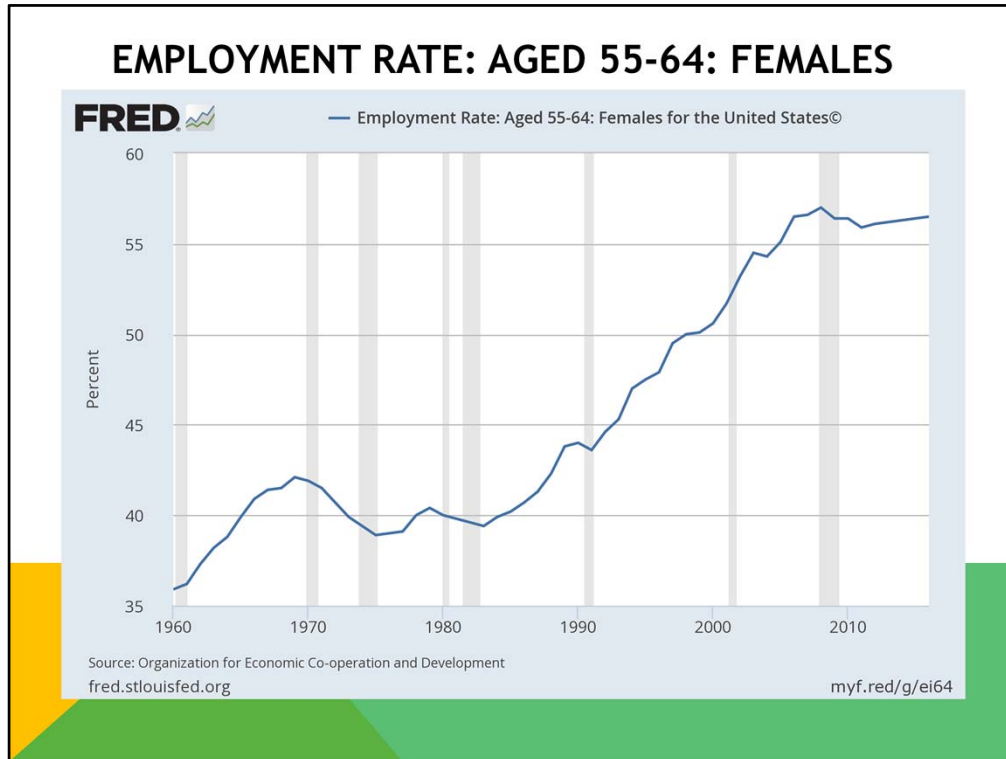
...while women have remained regardless if the US is in a recession.



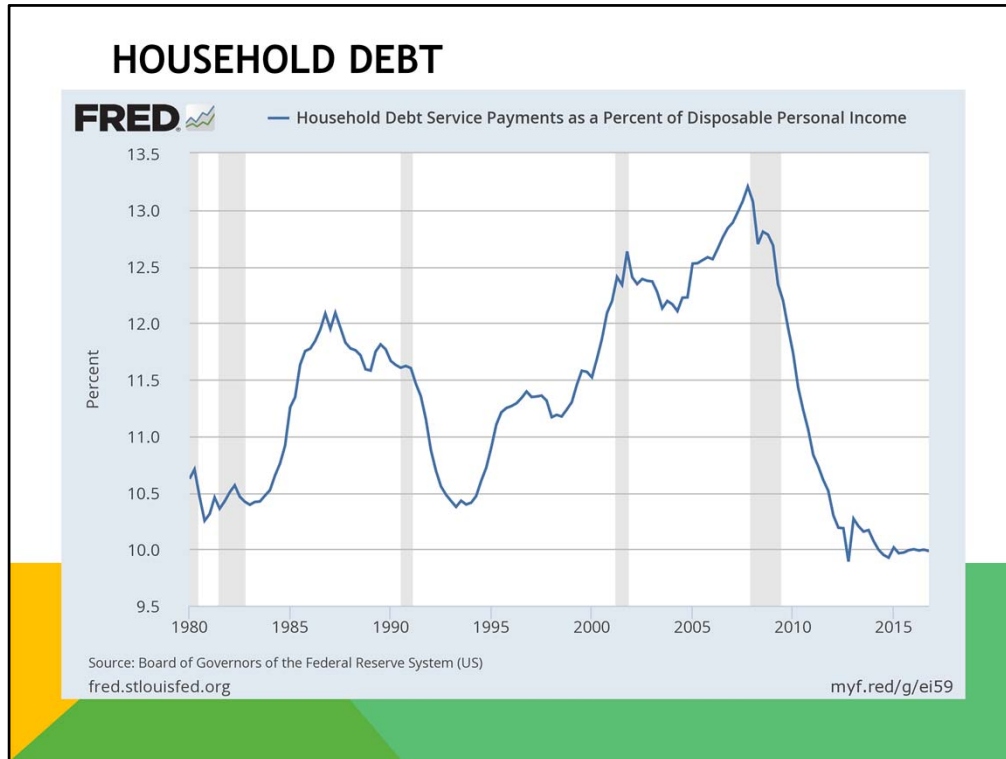
Older works participation has rebounded since the Great Recession.



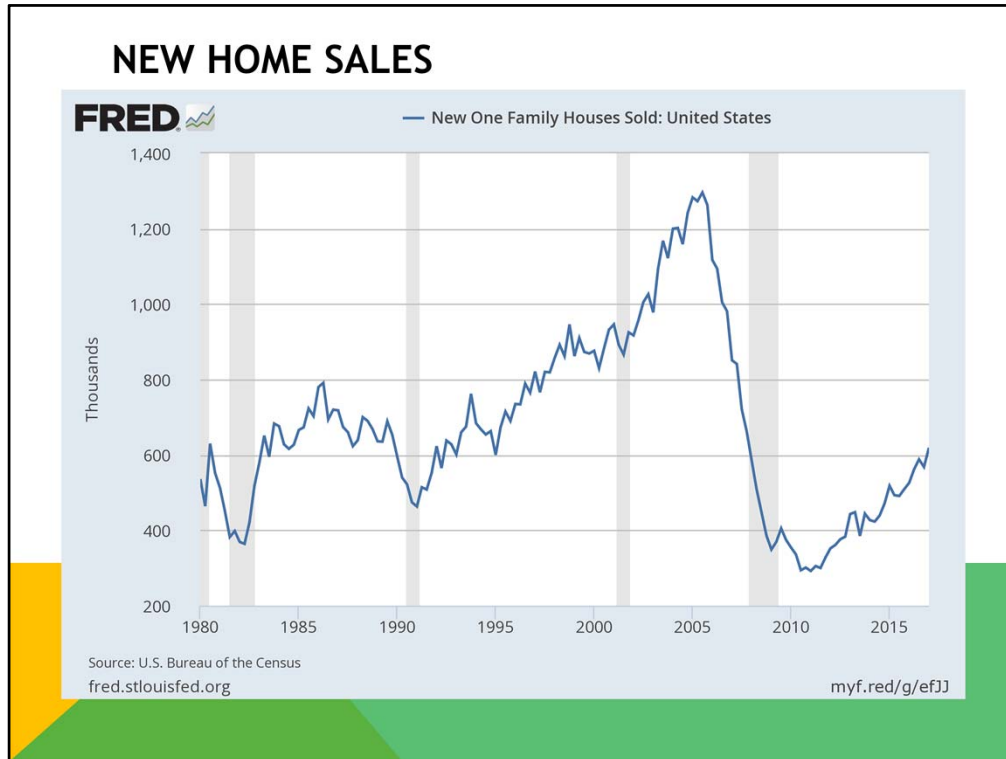
But like their younger counterparts, male workers are struggling.



...while older female workers are fully participating

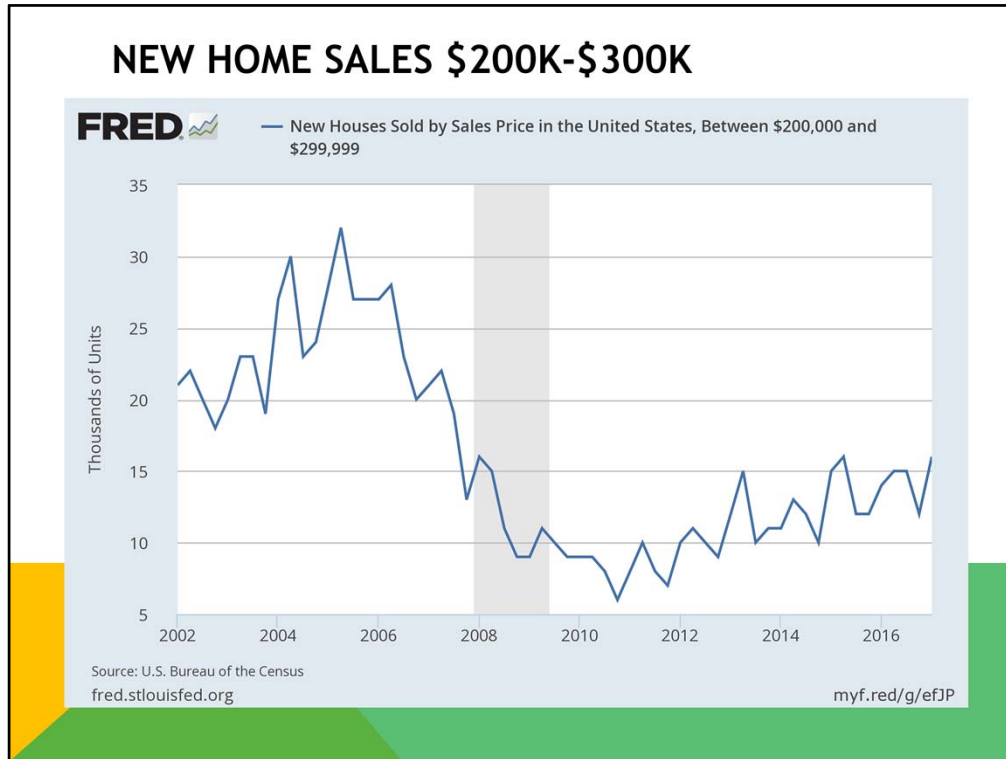


Good news about consumer debt – it's really low. The low debt ratio indicates that consumers can expand their spending. The low ratio may be a result of the hangover from the last recession.

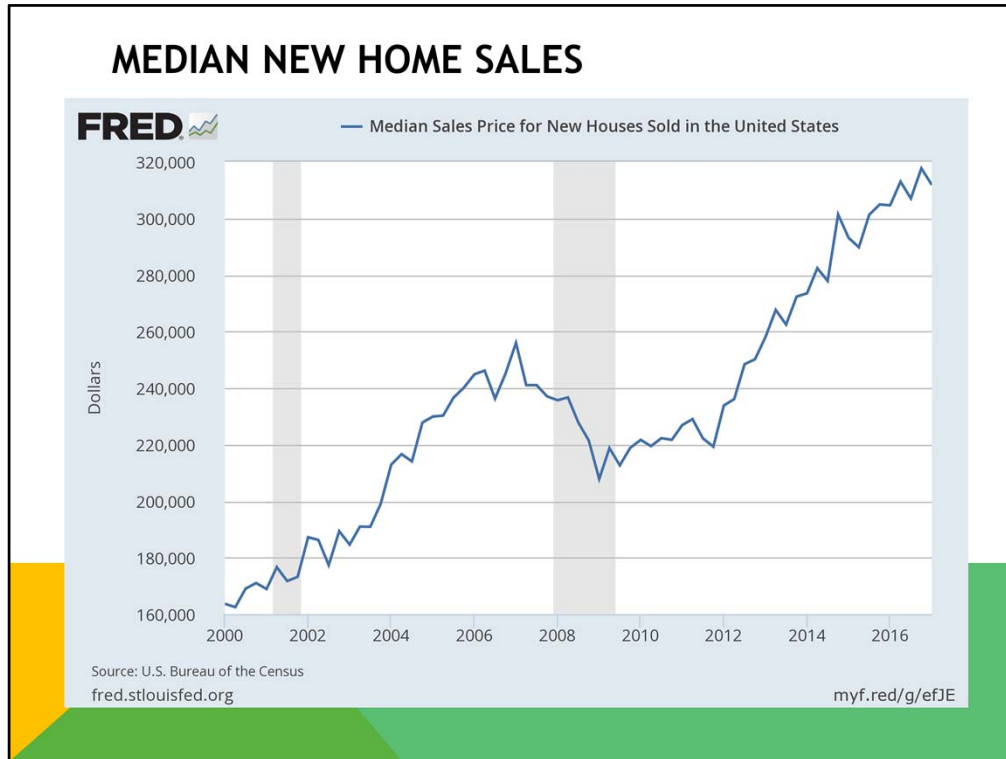


New home sales are still far behind their peak but rebounding steadily. This suggests that the housing prices should continue to rise.

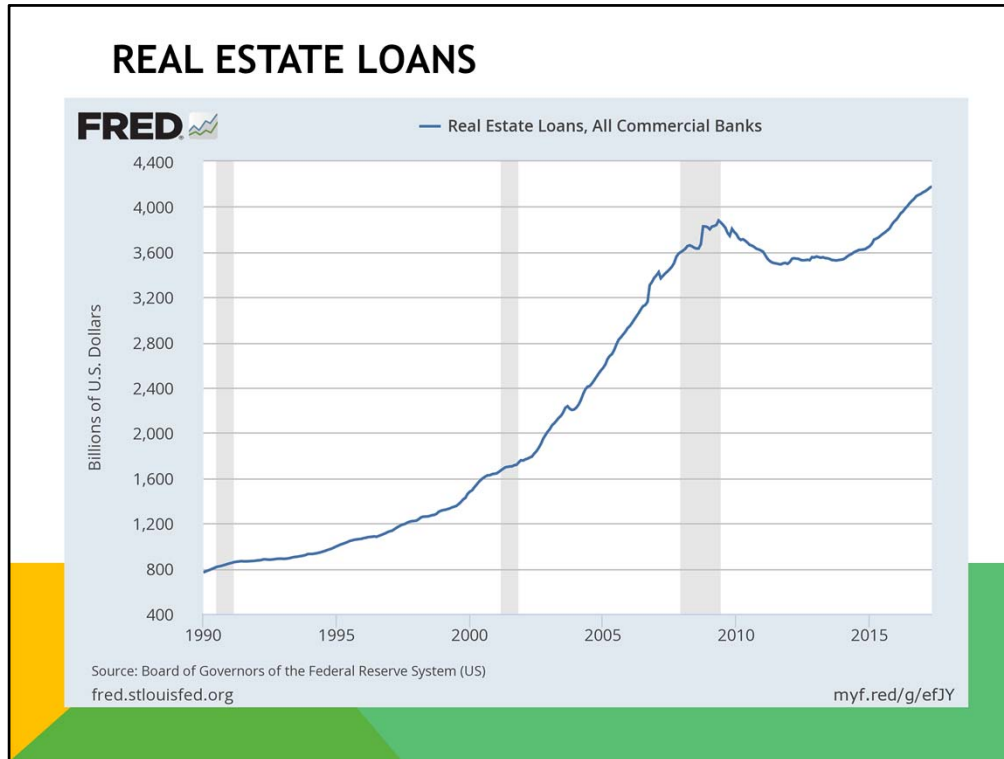
And home prices in cities are nearly as high as before the Great Recession.



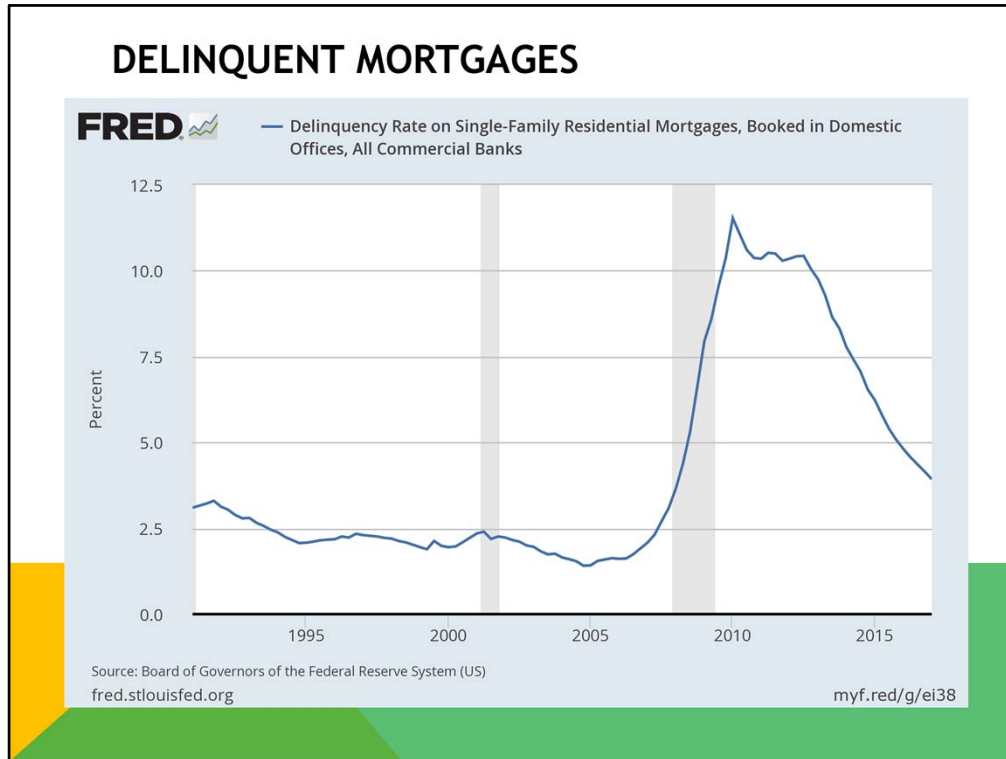
Yet, sales for more modestly priced home have lagged.



...so how can the median home prices be so much higher?

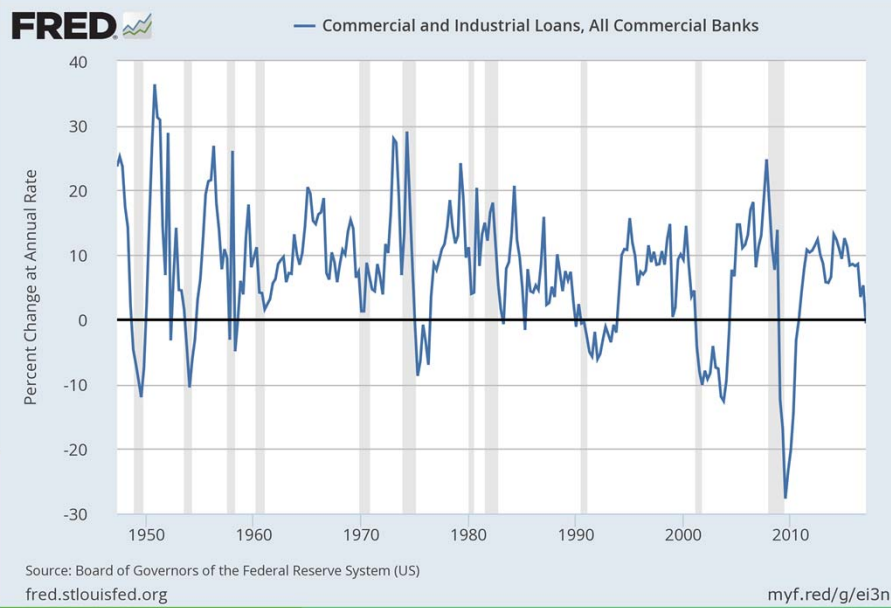


...and the value of all the loans is gaining new highs. Because it's higher valued homes that are inflating and skewing the "median" price. In other words, high priced markets like NY, San Francisco, LA, Boston, etc. are doing well but more modest homes have not. It seems to be another indicator that higher income consumers continue to do well and lower income households struggle.

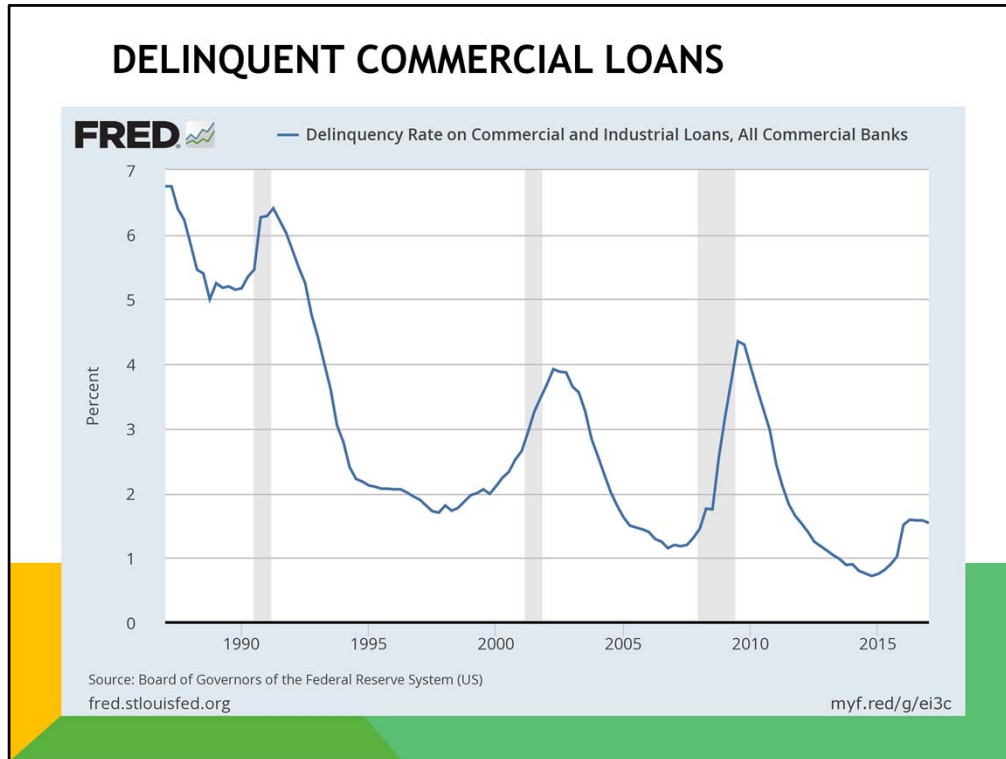


At least mortgage delinquencies continue to drop

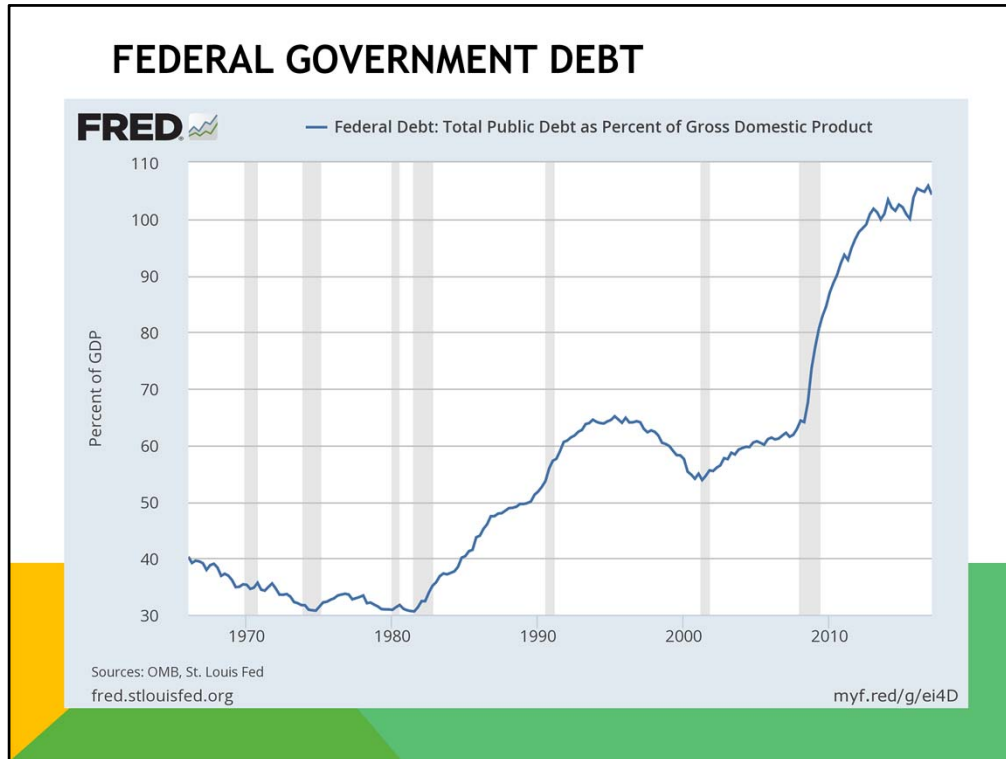
COMMERCIAL AND INDUSTRIAL LOANS



And commercial lending is doing ok but not stellar



And there has been a recent uptick in these delinquencies.



Uncle Sam has momentarily reduced the rate of increase of the national debt but the overall level still grows.

IN SUMMARY

The good

- Slow and steady
- Consumer confidence is strong
- Consumer and corporate debt is relatively modest
- Housing prices and sales remain strong
- Industrial capacity has room to expand

The mediocre

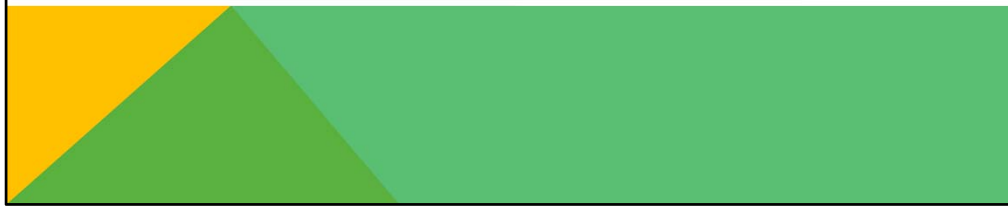
- Flat auto sales
- Lackluster wage growth
- Workforce participation remains low



POLITICAL AND SOCIAL UNREST: MARKETS AND ECONOMICS

“Forget Trump-Generated Volatility, the World is Awash in Calm.”

- WSJ 6/20/17



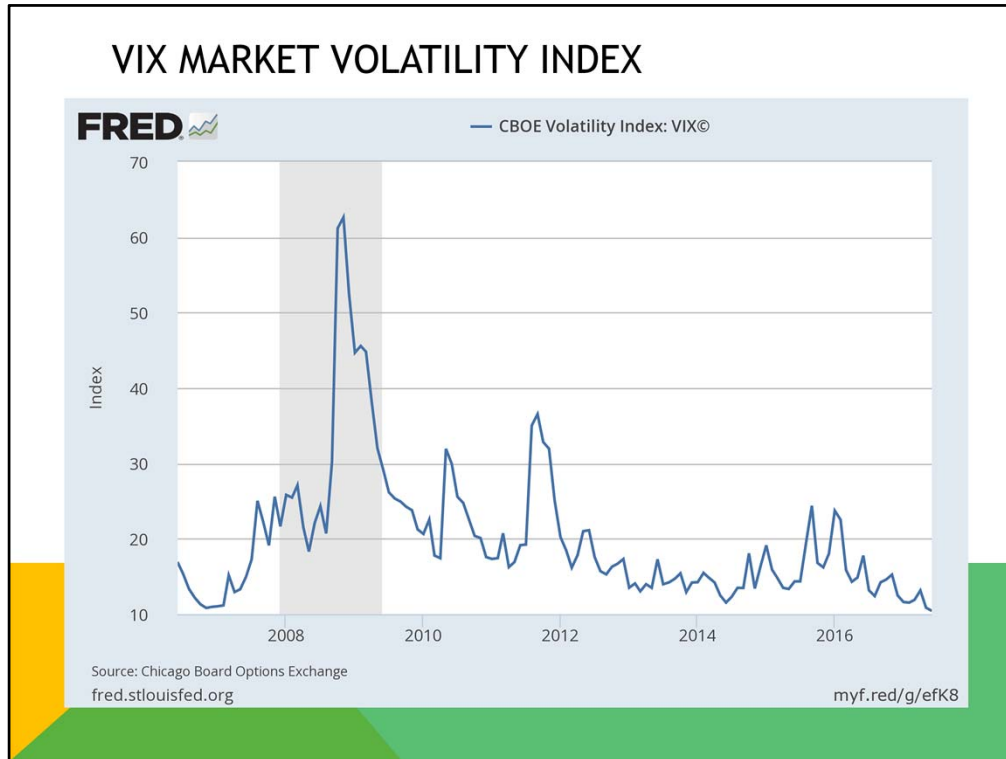


The focus on low financial stress has been low for nearly 10 years.

The STLFSI measures the degree of financial stress in the markets and is constructed from 18 weekly data series: seven interest rate series, six yield spreads and five other indicators. Each of these variables captures some aspect of financial stress. Accordingly, as the level of financial stress in the economy changes, the data series are likely to move together.

How to Interpret the Index:

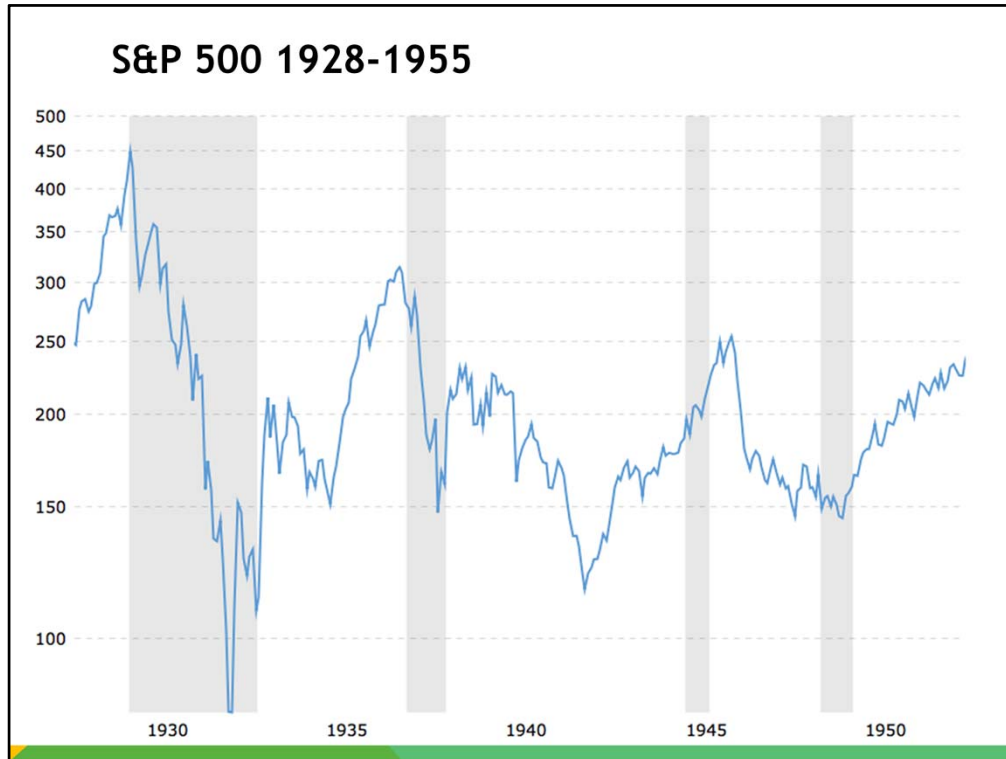
The average value of the index, which begins in late 1993, is designed to be zero. Thus, zero is viewed as representing normal financial market conditions. Values below zero suggest below-average financial market stress, while values above zero suggest above-average financial market stress.



VIX measures market expectation of near term volatility conveyed by stock index option prices.

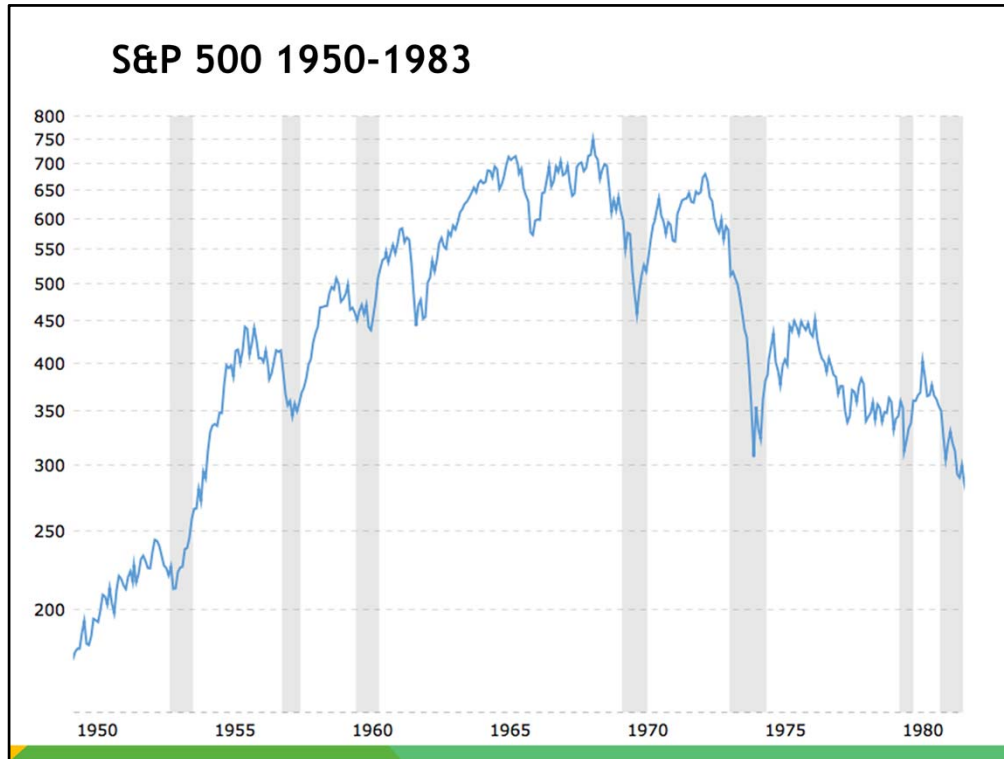


Growth (adjusted for inflation and on a logarithmic scale) in the S&P since 1928.



The Great Depression 1929-1939
WWII 1941-1945
Korean War 1950-1953

While the Great Depression saw an initial plummet in the S&P 500, the index rebounded by 1937. The next drop that began in 1936 bottomed by early 1942. With the U.S. entering WWII in late 1941 there were significant profits to be had so the stock market gained during the war. The market decline immediately following the end of the war. Many companies struggled to revert back to producing manufactured consumer goods. But, once again, the Korean War provided a nice boost to the stock market.



Korean War 1950-1953

Kennedy Assassination November 1963

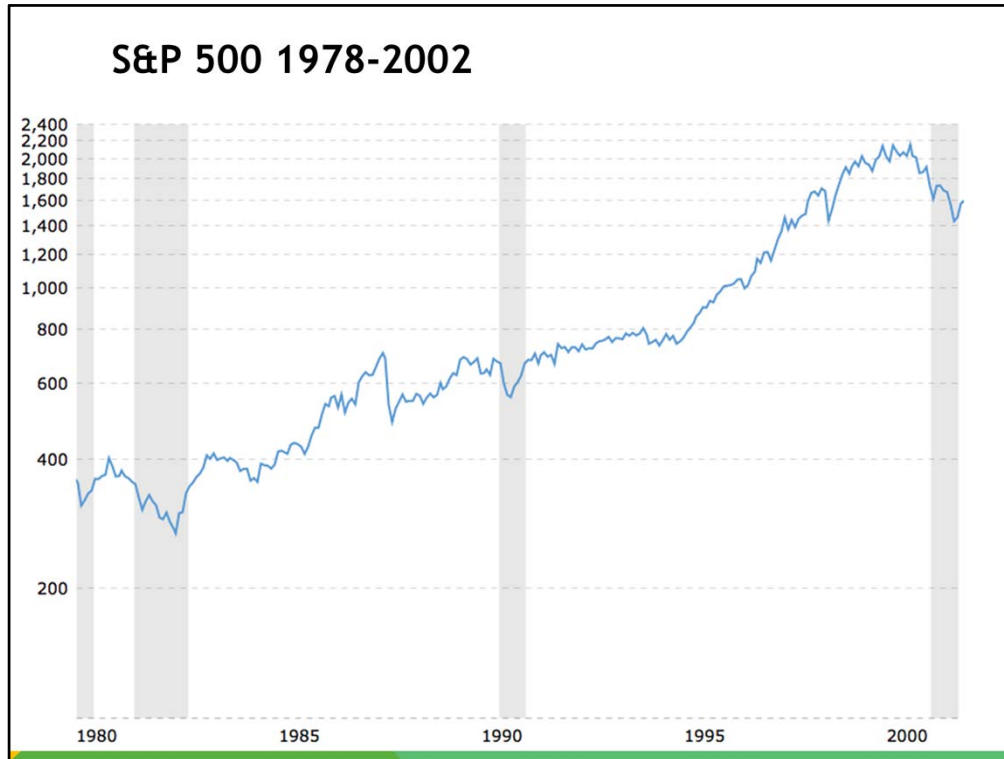
Martin Luther King Assassination 1968

Vietnam War 1963-1973

Oil Embargo 1973

Watergate 1974

As illustrated above the U.S. economy and stock market experienced an enormous growth from 1950 and 1969. During that time widespread social unrest erupted beginning in 1954 and culminated with the assassination of Martin Luther King in 1968. Immediately following his death the movement erupted into extensive inner city riots. Meanwhile protests against the Vietnam War spread across many college campuses. 1973-1974 saw the ending of the war and diminishment of the civil right's rioting. Additionally, Nixon resigned and OPEC established an oil embargo. The coup de grace was economic mailase which was labeled "stagflation".



Berlin Wall comes down

Persian Gulf War I 1991

NAFTA (North American Free Trade Agreement) 1994

Y2K December 31, 1999-January 1, 2000

1981 proved to be a watershed year. That year the U.S. experienced a sharp, painful recession and Business Week penned the cover of their magazine with “The Death of Equities”. It also anchored a 19-year economic expansion for the U.S. and most of the developed world. Meanwhile the Soviet Union was nearing an implosion. It was a golden era. Even the Gulf War further convinced Americans that we were the sole superpower. It was a heady time.

Additional fuel to this growth was the passage of NAFTA which significantly increased trade between Canada, U.S. and Mexico. The topping on the sundae was the initial adoption of the Internet by companies and consumers. The dot.com boom expanded, and expanded, and expanded.

Next up, Y2K.



9/11/2001

Iraq War II and Afghanistan War 2003-2011

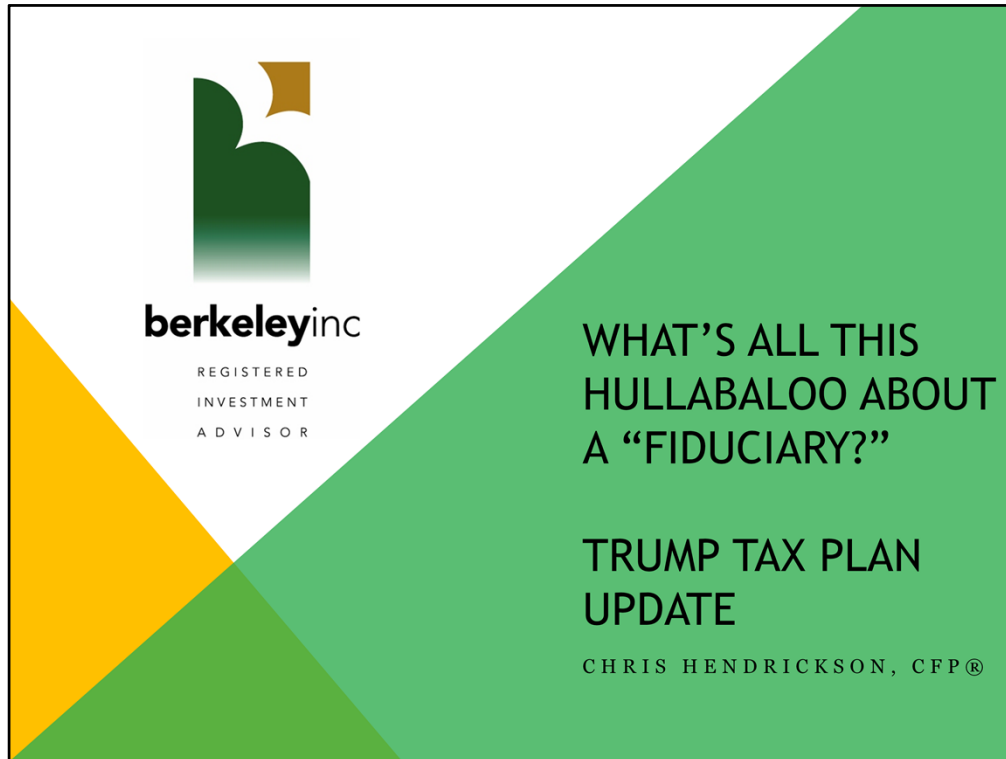
Great Recession 2008-2009

The beginning of the new millennia started with a bang but soon ended with thud. Businesses, in preparation of potential electronic calamity cased by Y2K, purchased all the redundancy they could handle. This resulted in on heck of a new year's hangover. The tech bubble burst and in March 2000 the stock market began to decline. On September 11, 2001 the U.S. was attacked by a Middle East Terrorist group. Initially, the extent of the attack was unknown so all air transportation was suspended and no movement was allowed in or out of the U.S. The stock and bond markets were closed for a week following the attacks. While the U.S. was already officially out of the recession the stock market continued downward. Following a steady and modest stock market decline the Great Recession hit. It's been a tough 17 years.

OVERALL

- Capitalism feeds on economic activity
- Wars and social unrest does not necessarily affect stock markets negatively
- Trade restrictions, such as the Oil Embargo, have sizable impacts
- Encumbered financial flows can cause lasting economic damage (The Great Depression and the Great Recession)



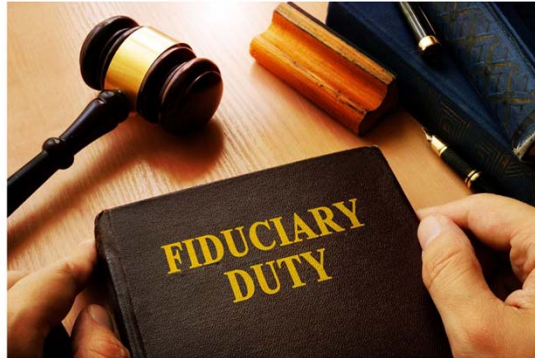


I'm going to talk about the 'F' word- Fiduciary.

(survey- 32% reported being extremely knowledgeable of the rule, 50% of clients working with advisor knew if advisor was Fiduciary or not)

I will first provide a brief overview on what that's all about and then spend a few minutes providing an update on where things stand with the Trump Administration's tax plan.

DOL CONFLICT OF INTEREST FINAL RULE



You may have heard the media reports about a new fiduciary rule for **retirement accounts** that President Trump called for a review of two months before it was to go into effect. After a delayed rollout due to this review, the Dept of Labor rolled out the first phase of this so called fiduciary rule, which requires financial advisors to act in your best interests. As of June 9, 2017, **anyone who handles retirement assets and gives advice**—this includes financial professionals of all types, whether they call themselves brokers, financial advisors, financial planners, or wealth managers—**must adhere to a new “impartial conduct standards.”**

Rule start date was delayed from April 10 to June 9 including a transition period for the applicability of certain exemptions to the rule extending through Jan. 1, 2018.

FIDUCIARY RULE

Overview -

- Expands definition under ERISA of 1974
- Applies to retirement accounts only
- Mainly applies to brokers & insurance agents who had less stringent “suitability standards”
- Registered Investment Advisors (i.e. Berkeley, Inc.) already held to a fiduciary standard
- RIAs regulated by the SEC and Investment Advisor Act of 1940

“Demands that advisors act in the best interests of their clients, and to put their clients’ interests above their own.”

The rule expands the “investment advice fiduciary” definition under the [Employee Retirement Income Security Act of 1974](#) (ERISA). ERISA had never been revised to reflect changes in retirement savings trends, particularly the shift from defined benefit plans to defined contribution plans, and the huge growth in IRAs.

If this legislation remains in place it will automatically **elevate all financial professionals who work with retirement plans or provide retirement planning advice to the level of a [fiduciary](#)**, bound legally and ethically to meet the standards of that status. While the new rules are likely to have at least some impact on all financial advisors, it is expected that those who work on commission, such as brokers and insurance agents, will be impacted the most.

The rule was designed to ensure recommendations made by financial advisors to their clients regarding their retirement accounts are always made in the best interests of the client without any conflicts of interest. **The good news is that doesn’t affect your accounts with us in any way.** As a Registered Investment Advisor, **Berkeley Inc. is already under the highest fiduciary standard**—so enacting the rule, changing it, or possibly rescinding it doesn’t change our status. We have had this higher standard in place all along and will continue to do so, whether funds are in a retirement account or not. We always put your needs first and we always act in your best interests.

Registered investment advisors, who are registered with the SEC, or with their state securities commission, are required to adhere to the Investment Advisor Act of 1940, which requires a fiduciary standard of care. Therefore even without the DOL Fiduciary Rule we as a fee-only registered investment advisor are required to put your interests first.

Also the overwhelming majority of CFPs are already subject to a fiduciary duty when providing financial planning services to clients. A CFP Professional must at all times act as a fiduciary when providing financial advice to clients, and therefore, act in the best interest of the Client.

TIMELINE AND HISTORY OF THE RULE

- Initially created under the Obama administration
- President Trump's memorandum attempted to delay rule 180 days
 - Included instructions for DOL to review "economic and legal analysis" of rules impact
- DOL issued memorandum on March 10 possibly delaying implementation for 60 days
- Late March Vanguard & Blackrock call for additional delay
- Office of Management and Budget reviewed
- Phase 1 took effect June 9, 2017
- Additional public input & DOL continues

The law was initially created under the Obama administration on April 6, 2016 & scheduled to be phased in on April 10, 2017. But on February 3, 2017, President Trump issued a memorandum that attempted to delay the rule's implementation by 180 days. This action included instructions for the DOL to carry out an "economic and legal analysis" on the rule's potential impact. Then on March 10, 2017, the DOL issued its own memorandum clarifying the possible implementation of a 60-day delay to the fiduciary rule.

In late March, 2017, the world's two largest asset managers, Vanguard and BlackRock, called for a more significant delay to the rule considering the confusion these repeated moves to delay the rule have caused. After a 15-day public comment period, during which time the DOL received about 193,000 comment letters, with nearly 178,000 opposing a delay, the DOL sent its rule regarding the delay to the Office of Management and Budget for review.

After the review by the OMB, the DOL publicly released an official 60-day delay to the fiduciary rule's applicability date. The 63 page announcement noted that "...it would be inappropriate to broadly delay application of the fiduciary definition and Impartial Conduct Standards for an extended period in disregard of its previous findings of ongoing injury to retirement investors." Responses to the delay ranged from supportive to accusatory, with some groups calling the delay "politically motivated." In **late May 2017 newly appointed Labor Department Secretary Alexander Acosta**, in an opinion piece for the Wall Street Journal, **confirmed the fiduciary rule would not be delayed beyond June 9** as the DOL seeks "additional public input."

In the months leading up to the June 9 rollout, there was a lot of uncertainty around whether President Trump's Labor Department would actually implement the Obama-era regulation.

It's important to understand that the fiduciary rule is set up as a phased rollout. While the new obligations to clients are going into effect now, the rule's remaining provisions (including one that would allow investors to bring class actions) are slated to roll out on Jan. 1, 2018. There is also a Labor Dept review underway to determine if the second part of the rule is necessary. That review is expected to continue through Jan. 1 of next year.

BREAKING DOWN THE FIDUCIARY RULE

- Two core duties of standard:
 1. Duty of Loyalty
 2. Duty of Care
- All fees and commissions must clearly be disclosed in dollar form
- Applies to anyone making a recommendation or solicitation on retirement plans
- Fiduciary standard replaces “suitability standard”
- Best Interest Contract Exemption (or BICE)

Two core duties of a fiduciary standard: the Duty of Loyalty (to act in the interests of the client), *and* the Duty of Care (to act with the care, skill, prudence, and diligence of a professional).

The DOLs definition of a fiduciary demands that advisors act in the best interests of their clients, and to put their clients' interests above their own. **It leaves no room for advisors to conceal any potential conflict of interest**, and states that all fees and commissions must be clearly disclosed in dollar form to clients. The definition has been expanded to include any professional making a recommendation or solicitation — and not simply giving ongoing advice. Previously, only advisors who were charging a fee for service (either hourly or as a percentage of account holdings) on retirement plans were considered fiduciaries.

Fiduciary is a **much higher level of accountability** than the **suitability standard** previously required of financial salespersons, such as brokers, planners and insurance agents, who work with retirement plans and accounts. **"Suitability"** meant that as long as an investment recommendation met a client's **defined need and objective**, it was deemed appropriate. Now, financial professionals are legally obligated to put their client's best interests first rather than simply finding “suitable” investments. The new rule could therefore eliminate many commission structures that govern the industry.

Suitability standard- advice is based primarily upon the financial objectives, income level and age of the client.

The rule won't actually bar commission-based products. In fact, a carve-out that is **slated to go into effect next January** will allow advisors sell you certain specialized products using a commission structure—even if there's a conflict of interest. The provision, called the “Best Interest Contract Exemption” (or BICE) **requires that advisors disclose their conflicts and their client's need to sign a contract acknowledging that** they've received and understood the disclosure. This is to guarantee that the advisor is working unconditionally in the best interest of the client. All compensation that is paid to the fiduciary must be clearly spelled out as well.

WHAT IS AND ISN'T COVERED?

Covered	Not Covered
401(k)	Taxable account transactions
403(b)	Client-initiated investment purchases
IRAs & Roth IRAs	General investment education and advice
Simplified Employee Pension (SEP)	
SIMPLE IRA	
Employee Stock Ownership Plans	
Pension Plans	

Covered retirement plans include:

Defined-contribution plans: four types of [401\(k\) plans](#), [403\(b\) plans](#), [employee stock ownership plans](#), [Simplified Employee Pension](#) (SEP) plans and [savings incentive match plans](#) (simple IRA)

Defined-benefit plans: pension plans or those that promises a certain payment to the participant as defined by the plan document

Individual Retirement Accounts (IRAs)

What Isn't Covered

Taxable transactional accounts or accounts funded with [after-tax](#) dollars are not considered retirement plans, even if the funds are personally earmarked for retirement savings.

If a customer calls a financial advisor and requests a specific product or investment, that does not constitute financial advice.

Financial advisors can provide education to clients, such as general investment advice based on a person's age or income, and it also does not constitute financial advice.

WHAT'S BEEN THE REACTION SO FAR?

For –

- NAPFA, CFP Board & FPA support it
- Supporters see increased transparency, reduced commissions & churning

Against –

- Many financial professionals oppose it
- Opponents would rather be held to the suitability standard for expense reasons
- Commission-paid professionals fear it will eliminate commissions even with BICE
- Labor Dept. review still ongoing
- Phased rollout means little federal enforcement until Jan 1, 2018

There's **little doubt that the 40-year-old ERISA rules were overdue for a change**, and many industry groups have already jumped onboard with the new plan, including the [National Association of Personal Financial Advisors](#) (NAPFA), the [CFP Board](#), and the [Financial Planning Association](#) (FPA). Supporters applauded the new rule, saying it should increase and streamline transparency for investors, make conversations easier for advisors entertaining changes, and most of all, prevent abuses on the part of financial advisors, such as excessive commissions and investment churning for reasons of compensation. **A 2015 report by the White House Council of Economic Advisers found that biased advice drained \$17 billion a year from retirement accounts.**

However, the **legislation has met with staunch opposition from other professionals, including brokers and planners**. Financial advisors would rather be held to a “suitability” standard than a “fiduciary” standard because **the latter will cost them money – in lost commissions and the added expense of compliance**. The stricter fiduciary standards could cost the financial services industry an estimated \$2.4 billion per year by eliminating conflicts of interest like front-end load commissions and mutual fund 12b-1 fees paid to wealth management and advisory firms.

While the best interest contract exemptions would permit broker-dealers and insurance companies to **provide plan participants with fiduciary advice while still receiving commissions, many professionals fear the conflict-of-interest yardstick would essentially eliminate commissions**. This in turn would force financial advisors to create or shift fees onto individuals, and could price many middle- and lower-market investors out of the

market, they argue.

It's important to understand that the **fiduciary rule is set up as a phased rollout**. While the new obligations to clients went into effect June 9th, the rule's **remaining provisions (including one that would allow investors to bring class actions) are slated to roll out on Jan. 1, 2018**. There is also a **Labor Dept review underway to determine if the second part of the rule is necessary**. That phased rollout also means there won't be much federal enforcement at this point. The **Labor Department has said it won't penalize anyone who doesn't follow the new standards until they are completely finalized**. Yet investors can **still bring claims through the industry's arbitration process** as the non-enforcement policy doesn't prevent that.

WHAT'S BEEN THE REACTION SO FAR?

Lawsuit filed against the rule in the US District Court for the Northern District of Texas, June 2016 by:

- US Chamber of Commerce
 - Securities Industry and Financial Markets Association,
 - Financial Services Roundtable
-
- Some believe targeting IRAs is beyond jurisdiction of DOL
 - DOL continues to defend the rule in multiple lawsuits

Three lawsuits have been filed against the rule. The one that has drawn the most attention was filed in June 2016 by the U.S. Chamber of Commerce, the Securities Industry and Financial Markets Association and the Financial Services Roundtable in the U.S. District Court for the Northern District of Texas. The basis of the suit is that the Obama administration did not have authorization to take the action it did in endorsing and fast-tracking the legislation. Some lawmakers also believe the DOL itself is reaching beyond its jurisdiction by targeting IRAs. Precedent dictates Congress alone has approval power regarding a consumer's right to sue.

Some critics suggest the new Fiduciary Rule makes no difference anyway. Those observers say consumers will still be subject to being cheated by "bad actors." For example, complying with the new rule will require more paperwork. Paperwork, critics say, is a great place to hide a scam and then later say the customer signed and knew what he or she was signing. More recently, members of President Trump's advisory team have both criticized the rule and Trump signed an executive order to delay its implementation. The DOL continues to defend the rule in multiple lawsuits in 2017.

WHO DOES THE FIDUCIARY RULE AFFECT?

- Broker dealers and RIA firms expect increased compliance costs
- Smaller firms may disband or be acquired
- Advisors to smaller 401k plans may be forced out
- Annuity vendors will have to disclose commissions to clients
- Fee-only advisors will no longer be the only “true” fiduciaries

The new DOL rules are expected to increase compliance costs, especially in the broker-dealer world. Fee-only advisors and [Registered Investment Advisors \(RIA\)](#) are expected to see increases in their compliance costs as well.

The Fiduciary Rule could be tough on smaller, independent broker dealers and RIA firms. They may not have the financial resources to invest in the technology and the compliance expertise to meet all of the requirements. Thus, it won't be surprising to see some of these smaller firms disband or be acquired. The brokerage operations of MetLife Inc. and American International Group have already been sold off in anticipation of these rules and the related costs.

Advisors and registered reps who dabble in terms of advising 401(k) plans may be forced out of that business by their broker-dealers due to the new compliance aspects. This could reduce the number of advisors who serve smaller plans. That's what happened in the U.K. after the country passed similar rules in 2011; since then, the number of financial advisors there has dropped by about 22.5%. Ameriprise CEO Jim Cracchiolo said, “The regulatory environment will likely lead to consolidation within the industry, which we already see. Independent advisers or independent broker-dealers may lack the resources or the scale to navigate the changes required, and seek a strong partner.”

Annuity vendors also will have to disclose their commissions to clients, which could significantly reduce sales of these products in many cases. These vehicles have been the source of major controversy among industry experts and regulators for decades, as they usually pay very high commissions to the agents selling them, and come with an array of charges and fees that can significantly reduce the returns that clients earn with them.

Some firms see an industry-wide fiduciary standard for retirement accounts could be a big business opportunity. For years, fee-only financial planners have sold themselves as “true” fiduciaries, but now advisors at Merrill Lynch, Wells Fargo and other big firms can say the same thing. In fact, they're already taking out ads doing exactly that.

SEC WANTS THEIR OWN RULE

- SEC projected in April 2017 proposing their own fiduciary rules soon
 - Would likely extend beyond retirement accounts
 - Would govern all client dealings
 - Support non-government, third party examinations (e.g. FINRA)
- Two sets of rules could drive compliance costs higher

As if there wasn't enough confusion among advisors and clients about the new plan, the Securities and Exchanger Commission (SEC) has projected proposing its own set of fiduciary rules in April 2017. It is likely any new SEC rules would extend beyond retirement accounts and govern the way in which RIAs and brokers treat clients in all dealings, mandating that the client's interests must come first in all cases. SEC Chairwoman Mary Jo White has indicated that she supports non-governmental, third-party examinations of investment advisors. The Financial Industry Regulatory Authority (FINRA) would be an example of such a third party.

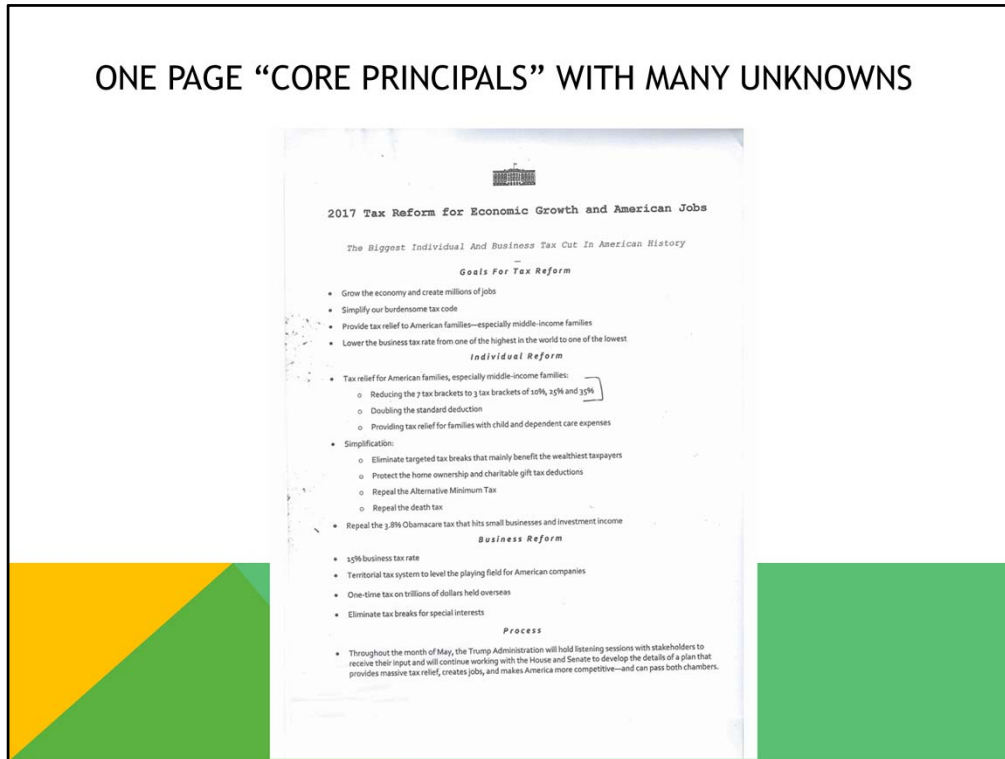
A major concern of many advisors and brokers will likely be whether or not a new set of SEC rules will be consistent with the new DOL fiduciary rules. In the event of conflicting rules, financial advisors may find it difficult to follow the proper course of action. If advisors and their firms are now faced with a second set of rules that is decidedly different than the DOL rules, the costs of compliance and the manpower needed also could drive some smaller broker-dealers out of the business.



- Goals of Trump Tax Reform Plan:
- ✓ Grow economy & create millions of jobs
 - ✓ Simplify the tax code
 - ✓ Provide middle class tax relief
 - ✓ Lower the business tax rate

President Donald Trump has been trying since being elected to shift the focus of Washington into Republican friendly territory- tax reform. Here are the goals of his tax reform plan.

ONE PAGE "CORE PRINCIPALS" WITH MANY UNKNOWNNS



Here's a copy of the Trump administration's April 26th released "core principles" for tax reform and simplification. This replaced candidate Trump's September proposal. No timetable was provided (because it's going to take a while), and specific details were not given (because they don't know them yet). Therefore it's important to note **the following information is only conjecture at this point because no law has been passed.** (estimates suggest the plan could add \$6-\$7 trillion to national debt over 10 years)

- one page, double spaced, "biggest individual and business tax cut in American history."
- Revealed by Treasury Secretary Steven Mnuchin & economic adviser Gary Cohn

PRESIDENT TRUMP TAX PLAN

	Current	House Plan. ¹	Candidate Trump. ²	President Trump
Income Tax Brackets – Married Filing Jointly (MFJ)	10% (\$0) 15% (18,650) 25% (75,900) 28% (\$153,100) 33% (233,350) 35% (\$416,700) 39.6% (\$470,700)	12% (\$0) 25% (\$75,300) 33% (\$231,450)	12% (\$0) 25% (\$105,000) 33% (\$255,000)	10% ³ 25% 35%
Qualified Dividend/ Long-term Capital Gains	20% maximum	1/2 of marginal rate	20% maximum	Unchanged. ⁴
Medicare Surtax	3.80%	Eliminated	Eliminated	Unchanged
Alternative Minimum Tax	28% (maximum)	Eliminated	Eliminated	Eliminated
Standard Deduction/ Exemption. ⁵	\$20,800	\$24,000	\$30,000	\$25,400
Itemized Deductions		mortgage interest and charitable only	Cap on itemized deductions (\$100K – single filer; \$200K MFJ)	mortgage interest and charitable only
Estate & Generation Skipping (GST) Taxes	40% (maximum)	Estate & GST Taxes Repealed	Estate & GST Taxes Repealed	Unchanged
Corporate Income Tax	35%	20%	15%	15%
Repatriation of Foreign Profits	35% tax rate, deferred until repatriated	One-time tax of 8.75% for repatriated cash profits	One-time tax of 10% for repatriated cash profits	One-time tax on repatriated profits (tax rate not provided)
Corporate Treatment of Capital Investment	Depreciated over multiple years	Immediately expensed	Immediately expensed	Unchanged

(their handout has old proposal comparison!)

Under President Trump's proposed plan (guess it's not a "plan", more like an outline), the number of tax brackets would be reduced from 7 to 3 with a top rate of 35%; the 3.8% Medicare surtax would be eliminated. The standard deduction would be doubled to over \$25,000 (for married filing jointly taxpayers) while most itemized deductions would be eliminated (the announcement only mentions **retaining deductions for home mortgage interest and charitable gifts**).

Back in September, Trump's proposal provided the tax rates and the income cutoffs for each bracket. But even that minimum level of detail is absent from his latest version. All he says now is that he'd have three brackets of 10 percent, 25 percent and 35 percent. (He tweaked the first and last ones a little).

How might you be impacted? Since no details were provided as to the income thresholds to which each rate would apply, it is not yet possible to determine the exact impacts. On the surface, it appears that overall tax rates would not change substantially for lower- and middle-income taxpayers but could be reduced for those with higher incomes, particularly when the elimination of the 3.8% Medicare surtax is considered.

¹ <https://abetterway.speaker.gov/assets/pdf/ABetterWay-Tax-PolicyPaper.pdf>

² <http://www.taxpolicycenter.org/publications/analysis-donald-trumps-revised-tax-plan/full>

³ Bracket Values were not provided.

⁴ Items noted as "unchanged" were not included in the announcement. Assumes details of existing

“Candidate Trump “tax plan remain in effect.

⁵ The House and Trump plans combine the standard deduction and personal exemptions into a single standard deduction. For comparison, current legislation combines the standard deduction of \$12,700 and exemptions of \$8,100 (MFJ).

BETTER CARE RECONCILIATION ACT OF 2017

Potential impact of proposed Senate & House bills:

- Lack of Coverage Penalty repealed – retroactive 2016
- Lower-income tax credit preserved but reduced
- 3.8% investment income surtax repealed – retroactive 2017
- 0.9% Medicare tax repealed in 2023
- Medical expense deduction returns to 7.5% in 2017
- HSA & MSA limits expanded
- “Cadillac” plan tax delayed to 2026 from 2020

About a week ago, Senate leaders delayed a vote on the Better Care Reconciliation Act of 2017 until after July 4. The bill seeks to repeal or replace large swaths of the Affordable Care Act (ACA), also known as Obamacare.

While there are some differences between the Senate bill and the American Health Care Act, which the House of Representatives passed in May, the bills overlap in many areas. Those overlaps provide a likely picture of how the final product would affect your pocketbook.

Penalty for lack of coverage: Both bills repeal excise taxes for people who don’t have appropriate coverage, retroactive to the beginning of 2016.

Taxpayers who made these penalty payments will be eligible for refunds.

Premium tax credit: ACA provides lower-income taxpayers with upfront credits to help purchase insurance on exchanges. The Senate bill largely preserves this credit through 2019, while the House bill modifies the current credit for 2018 and 2019 by increasing it for younger adults and decreasing it for older people.

Investment income surtax: Both bills repeal the 3.8% surtax on net investment income retroactive to the beginning of 2017. This levy took effect in 2013 and applies to most married couples with adjusted gross income above a threshold of \$250,000 (\$200,000 for single filers).

Additional Medicare tax: Both bills also repeal the 0.9% additional Medicare tax for married joint filers earning more than \$250,000 (or \$200,000 for single filers)—but not until 2023.

Medical expenses deduction: The ACA raised the threshold for deducting medical expenses to 10% of income. The Senate’s bill lowers the threshold to 7.5% for all taxpayers, while the House bill lowers it to 5.8%. Both provisions take effect for 2017.

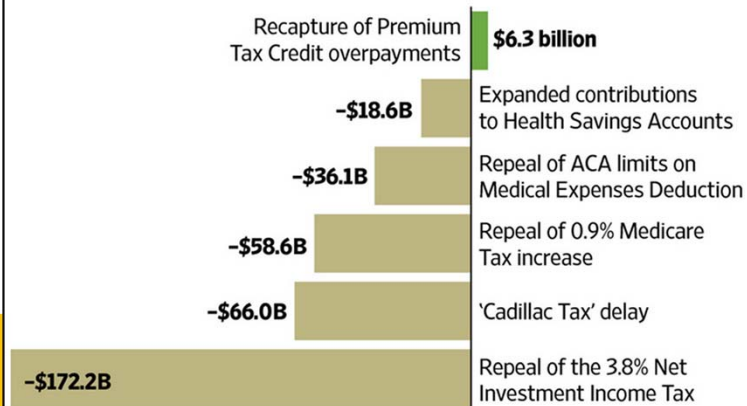
Health Savings Accounts (HSAs) and Medical Spending Accounts (MSAs): Both bills propose to expand these accounts, which allow pretax contributions to cover out-of-pocket expenses for high-deductible health plans. The permitted 2018 contribution to an HSA or MSA would increase to equal the maximum out-of-pocket limit for high-deductible plans approved by the IRS, rising from \$3,450 to \$6,650 for individual coverage and from \$6,900 to \$13,300 for family coverage.

“Cadillac” plan tax: The ACA levied a 40% tax on the value of health-coverage plans exceeding a certain threshold, but the provision has never taken effect because it is unpopular on both sides of the aisle in Congress. Both bills push the date of this levy to 2026 from 2020.

AFFORDABLE CARE ACT AND TAXES

What it Costs

Revenue estimates for selected tax provisions of the health-care bill before the Senate.



Note: Gain or loss from 2017- 2026

Source: Joint Committee on Taxation

THE WALL STREET JOURNAL.

Proposed law under debate in Congress would repeal the 3.8% surtax on net investment income. This graphic provides a nice summary of the impacts to revenue for some of the main provisions of the current proposals.

The road ahead from here is sure to be a heated debate over the future of U.S. tax policy. According to House Speaker Paul Ryan, tax reform will get done in 2017 so the “once-in-a-generation moment doesn’t slip by.” Our guess is it will be at least fall before we begin to see anything of substance on it. Don’t hold your breath! Due to so many unknowns and no approved plan, we would advise caution before implementing tax strategies based on these early proposals.

Questions??

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