Condor Capital Reviews 3rd Quarter 2017

Condor Capital
1973 Washington Valley Rd
Martinsville, NJ 08836
(p) 732-356-7323
(f) 732-356-5875
info@condorcapital.com

In the third quarter of 2017, domestic stocks continued their strong year-to-date run, with the technology sector again outperforming and the energy sector bouncing back. Consumer staples were the only sector to post a loss.

Global economies exhibited nearly unprecedented synchronization, with 94% of economies generating economic growth. Emerging markets led once again thanks to continued growth in China and a resurgence in countries like Brazil, which had struggled in the prior quarter.

While the Federal Reserve kept rates steady for the first time in three quarters, it did move forward with plans to begin unwinding its $4.5 trillion balance sheet.

September 2017

Domestic equity markets continued their strong year-to-date run in the third quarter of 2017, with international and fixed income markets generally following suit. The S&P 500 Index posted a 4.48% gain, finishing the quarter at yet another all-time high. Steady macroeconomic data and another round of strong corporate earnings growth were two key catalysts here, helping domestic markets shrug off some lingering concerns over higher-than-average valuations. The technology sector was a market leader once again in the quarter, while consumer staples was the only sector to post a loss. Energy, which had been the worst performer by far in the second quarter, made a notable comeback in the period due in large part to a rebound in oil prices. More generally, growth tended to outperform value and small-caps led their mid- and large-cap peers.

Internationally, equity markets almost across the board were characterized by economic growth and positive returns. Roughly 94% of global economies generated positive year-over-year growth in the period, providing a sound economic backdrop for both developed and emerging stock markets, while a weakening U.S. dollar proved to be a tailwind for foreign-denominated securities as well. Developed markets were supported by a slight easing of political tensions and the continuation of accommodative central bank policies, though these economies still generally underperformed their emerging counterparts. A strong bounce back by countries that had struggled in the second quarter, such as Brazil and Russia, was a key catalyst for emerging markets in the period, while persistent growth in China continued to aid returns as well.

Central banks were in the spotlight once again in the third quarter. Domestically, the Federal Reserve elected not to raise interest rates at its September meeting, breaking a streak of three consecutive quarters of rising rates. The central bank did, however, announce plans to begin winding down its balance sheet. The balance sheet, which expanded to over $4 trillion in Treasuries, mortgage-backed securities, and other assets during the Fed's post-recession bond buying program, is a key component of the bank's stimulatory easy money policies. As a result, the announcement marks a significant step towards ending quantitative easing. The European Central Bank and Bank of Japan, on the other hand, proved much less willing to scale back stimulus programs of their own in the period, though comments by the central banks' leadership did indicate that their outlooks for their economies have begun to brighten.

Beyond central banks, fixed income markets in the third quarter were generally driven by persistently tight credit spreads and another slight flattening of the yield curve. While treasuries did experience some notable fluctuations in the quarter, especially following the Fed's balance sheet decision, yields finished the quarter right around where they began, with short-term yields ticking slightly higher and longer-term yields finishing essentially flat. Despite tight spreads, risk-on sentiment among investors again proved to be a driving factor for fixed income in the period, with high-yield bonds outperforming their investment-grade peers and corporate debt generally outpacing its government-issued counterpart. Emerging markets bonds, particularly those issued in local currencies, were the top performing area of the bond market in the third quarter.

Outlook – Following three consecutive quarters of gains, markets will look to finish the year strong in the final quarter of 2017. Over the course of the year, investors' focus has shifted from pro-growth policy hopes in the aftermath of the election towards economic output and corporate earnings growth, and this is likely to remain the case in the fourth quarter of 2017. While relatively high equity valuations, especially in growth areas such as technology, will remain in focus, continued strength in corporate earnings, economic data, and consumer & business sentiment are likely to play an important role in buttressing the U.S. stock market.

In the political sphere, multiple false starts on health care bills have dampened investors' expectations for action on tax reform and infrastructure, indicating that assumptions these policies will pass are not priced into markets in a significant way. As a result, it appears that there is relatively little downside risk politically and that the passage of any pro-growth policy would be a positive surprise that could act as a catalyst to the upside. On the monetary policy side, the Federal Reserve will continue to play an important role. All eyes will be on the Fed's December meeting, when it will be revealed whether the central bank decides to raise interest rates for a third and final time in 2017. A decision to raise rates will signal that the Fed's outlook for the economy remains positive and that its longer-term plan remains unchanged. Additionally, it remains to be seen how fixed income markets will react to the recently announced balance sheet unwind over the longer term. While it is highly likely that bond yields will rise and prices fall, the timing and extent of any moves remain to be seen.

Three quarters of the way through the year, moves in financial markets have generally been consistently positive. While concerns that markets are overvalued continue to linger, it remains our view that the fundamental drivers of growth remain intact. Regardless, a diversified strategy with a long-term outlook remains the most suitable approach for the vast majority of investors, regardless of potential volatility in the shorter-term. As we enter the fourth quarter of 2017, as always, we continue to recommend a comprehensive portfolio tailored to individuals' long-term needs over attempts to predict and time short-term market moves.

- **Congress puts repealing the federal estate tax back on the table as part of its tax reform efforts**
- **Walk through a brief history of the federal estate tax**
- **A look into what repeal could mean for your individual tax obligation**

Future of the Federal Estate Tax

While no one can predict the future, the possibility of tax reform is once again in the spotlight. If it occurs, it may very well include repeal of the federal estate tax and related changes to the federal gift tax, the federal generation-skipping transfer (GST) tax, and the federal income tax basis rules.

History of the federal estate tax

In general, an estate tax is a tax on property a person owns at death. In one form or another, a federal estate tax has been enacted or repealed a number of times since 1797.[1]

Estate tax enacted	Estate tax repealed
1797	1802
1862	1872
1894	1902
1916	2010*
2011*	

**For 2010, the estate tax was repealed, but later retroactive legislation provided that an estate could elect to be subject to estate tax in return for a stepped-up (or stepped-down) income tax basis for most property. The estate tax was extended in 2011, with some changes.*

The estate tax has undergone many changes over the years, including the addition of a federal gift tax and a federal GST tax during modern times. A gift tax is a tax on gifts a person makes while alive. A GST tax is a tax on transfers to persons who are two or more generations younger than the transferor. In recent years, property owned at death has generally received an income tax basis stepped up (or down) to fair market value at death.

During the 2000s, the estate, gift, and GST tax rates were substantially reduced, and the gift and estate tax lifetime exclusion and the GST tax exemption were substantially increased. The estate tax and the GST tax, but not the gift tax, were scheduled for repeal in 2010 (although certain sunset provisions would bring them back unless Congress acted), but legislation extended the estate tax and the GST tax in 2011. (For 2010, the estate tax ended up being optional and the GST tax rate was 0%.) The gift and estate tax lifetime exclusion and the GST tax exemption were increased to $5,000,000 and indexed for inflation in later years. For 2013, the top estate, gift, and GST tax rate was increased to 40%, and the extension and modifications were made "permanent."

2017 Estate Planning Key Numbers	
Annual gift tax exclusion	$14,000
Gift tax and estate tax basic exclusion amount	$5,490,000
Noncitizen spouse annual gift tax exclusion	$149,000
Generation-skipping transfer (GST) tax exemption	$5,490,000
Top gift, estate, and GST tax rate	40%

Federal estate tax

Repeal of the estate tax seems possible once again. If repeal occurs, it could be immediate or gradual as during the 2000s. Would it be subject to a sunset provision, so that the estate tax would return at a later time? All of this may depend on congressional rules on the legislative process, other legislative priorities, and the effect the legislation would have on the budget and the national debt.

Federal gift tax

If the estate tax is repealed, the gift tax may also be repealed. However, it is possible that the gift tax would be retained as a backstop to the income tax (as in 2010). To some extent, the gift tax reduces the ability of individuals to transfer property back and forth in order to reduce or avoid income taxes.

Federal GST tax

If the estate tax is repealed, the GST tax would probably be repealed (as in 2010). If the gift tax is not repealed, it is possible that the lifetime GST tax provisions would be retained, but the GST tax provisions at death repealed.

Federal income tax basis

If the estate tax is repealed, it is possible that the general income tax basis step-up (or step-down) to fair market value at death would be changed to a carryover basis (i.e., the decedent's basis before death carries over to the person who inherits the property). In 2010, a modified carryover basis (a limited amount of property could receive a stepped-up basis) applied unless the estate elected to be subject to estate tax. It is also possible that a Canadian-style capital gain tax at death could be adopted in return for a stepped-up basis for the property.

Learn more about what exactly a 529 Plan is and why it might be an ideal way to help yourself or a family member save for a college education

Kickstart Your College Fund With a 529 Plan

If you're looking to save money for college, one option to consider is a 529 college savings plan. Created over 20 years ago and named after the section of the tax code that governs them, 529 plans offer a unique combination of features that have made them the 401(k)s of the college savings world.

How do 529 plans work?

529 college savings plans are individual investment-type accounts specifically made for college savings. People at all income levels are eligible. Plans are offered by individual states (you can join any state's plan) but managed by financial institutions designated by each state.

To open an account, you select a plan and fill out an application, where you will name an account owner and beneficiary (there can be only one of each), choose your investment options, and set up any automatic contributions. You are then ready to go. It's common to open an account with your own state's 529 plan, but there may be reasons to consider another state's plan; for example, the reputation of the financial institution managing the plan, the plan's investment options, historical investment performance, fees, customer service, website usability, and so on.

A plan's investment options typically consist of portfolios of various mutual funds that vary from conservative to aggressive in their level of risk. Depending on the market performance of the options you've chosen, your account will either gain or lose money, and there is the risk that the investments will not perform well enough to cover college costs as anticipated.

Benefits

So why bother going to the trouble of opening a 529 account when you could choose your own mutual funds (or other investments) in a non-529 account?

Federal tax benefits: Contributions to a 529 plan accumulate tax deferred, which means no income tax is due on any capital gains or dividends earned along the way. Later, earnings are completely tax-free when a withdrawal is used to pay the beneficiary's college expenses — a benefit that could be significant depending on how your investment options perform. States generally follow this federal tax treatment and may offer an income tax deduction for contributions. That's why it's important to know what 529 tax benefits your state offers and whether those benefits are contingent on joining the in-state 529 plan.

Contributions: You can contribute a lot to a 529 plan — lifetime contribution limits are typically $300,000 and up. Compare this to the small $2,000 annual limit allowed by Coverdell Education Savings Accounts. In addition, 529 plans offer a unique lump-sum gifting feature that some may find particularly compelling: Individuals can contribute a lump-sum amount of up to five years' worth of the $14,000 annual gift tax exclusion — a total of $70,000 in 2017 — and avoid gift tax if they make a special election on their tax return and avoid making any other gifts to that beneficiary during the five-year period. Married couples, such as grandparents who want to contribute to their grandchild's college fund, can make a joint lump-sum gift up to $140,000 that is tax-free.

College account on autopilot: For college savers who are too busy or inexperienced to choose their own investments or change their asset allocation over time, a 529 college savings plan offers professional money management. And by having a designated account for college savings, you segregate those funds and possibly lessen the temptation to dip into them for a non-college purpose — a scenario that may be more likely if you are using a general savings account to save for college. Finally, by setting up automatic monthly contributions to your 529 account, you can put your savings effort on autopilot.

Tradeoffs

Non-college use of funds: The federal tax benefits of 529 plans can be great if you use the funds for college. If you don't, then the earnings portion of any withdrawal is subject to federal income tax at your rate *and* a 10% federal penalty.

Changing investment options: With a 529 plan, you're limited to the investment options offered by the plan. Plans generally offer a range of static and age-based portfolios with different levels of risk, fees, and investment goals. (Age-based portfolios generally have a "glide path" where the underlying investments automatically become more conservative as the beneficiary approaches college age.) If you're unhappy with the performance of the options you've chosen, under federal law you can change the investment options for your *future* contributions at any time, but you can change the options for your *existing* contributions only twice per calendar year. This rule can make it difficult to respond to changing market conditions. However, also under federal law, once every 12 months you can roll over your existing 529 plan account to a new 529 plan without having to change the beneficiary, which gives you another option if you're unhappy with your current plan's investment options or returns.

Condor Capital
1973 Washington Valley Rd
Martinsville, NJ 08836
(p) 732-356-7323
(f) 732-356-5875
info@condorcapital.com

Please remember to contact Condor Capital Management if there are any changes in your personal/financial situation or investment objectives for the purpose of reviewing, evaluating, or revising our previous recommendations and/or services. Please also advise us if you would like to impose, add, or modify any reasonable restrictions to our investment advisory services. A copy of our current written disclosure statement as set forth on Form ADV Part II A/B continues to remain available for your review upon request.

How Much Can I Deduct If I Donate My Car to Charity?

If you donate your car to charity, you can claim an income tax deduction for the donation if you itemize your deductions on your federal income tax return.

The fair market value (FMV) of your car represents the maximum deduction you may take on your federal income tax return. Certain commercial firms and trade organizations publish monthly or seasonal guides for different regions of the country that contain dealer sale prices or average dealer prices for recent-model cars. While these prices are not "official" and the publications are not considered appraisals of any specific donated property, they do provide clues for making an appraisal and suggest relative prices for comparison with current sales and offerings in your area. In certain circumstances, if the tax deduction you claim for your car is greater than $5,000, you may need a written appraisal of the car's FMV from a qualified appraiser.

If the charity sells your car and you claim a deduction of more than $500, you can deduct the lesser of (1) the gross proceeds of the sale (as indicated on IRS Form 1098-C) or (2) the car's FMV on the date of your contribution. In the following circumstances, you can generally deduct the car's FMV at the time of your contribution: The charity is going to significantly use your car instead of selling it; the charity is going to fix up the car materially before selling it; or the charity is going to give the car away or sell it (at a price well below its FMV) to a needy individual as part of its charitable mission. In this instance, IRS Form 1098-C should indicate which of the exceptions applies.

If the charity sells your donated car for $500 or less, you can deduct the lesser of $500 or the FMV of your car on the date of your contribution. However, if one of the exceptions noted above applies, you may generally deduct the FMV of your car.

Charitable contribution deductions are generally limited to 50% of your adjusted gross income (AGI), or 30% or 20% of AGI depending on the type of charity and the property donated. Disallowed amounts can generally be carried over and deducted in the following five years, subject to the percentage limits in those years. Your overall itemized deductions may also be limited based on the amount of your AGI.

If I Donate Used Property to Charity, What Documentation Is Needed?

The documentation needed to obtain a federal income tax deduction for donating used property to a charity typically depends on the value of the property. In general, do not attach the documentation to your income tax return. Keep the records so that you can provide them to the IRS if requested to do so.

If you claim a deduction of less than $250, you must have a receipt from the charitable organization (a letter acknowledging your contribution will suffice) that shows the name of the organization, the date and location of your contribution, and a reasonably detailed description of the property. You must also have a record of the fair market value (FMV) of the property (and how you determined it) at the time of the contribution.

If you claim a charitable deduction for $250 or more, you must substantiate the contribution with a contemporaneous written acknowledgment of the contribution from the charity. The acknowledgment must contain the name of the charity and a reasonably detailed description of the property. The acknowledgment must also include either (1) a statement that no goods and services were provided by the charity in return for the contribution, (2) a good-faith estimate of the value of such goods and services (these reduce the amount of the charitable deduction), or (3) a statement that the goods and services were token benefits or consisted entirely of insubstantial membership benefits or intangible religious benefits.

If the value of the contribution is over $500, your records must also include how you acquired the property (e.g., purchase, gift, inheritance, or exchange), when you obtained the property, and the cost or other basis of the property (including any adjustments).

If you claim a deduction of over $5,000 for a noncash charitable contribution of one item or a group of similar items, you must also obtain a qualified written appraisal of the donated property from a qualified appraiser.

If the amount of your deduction for all noncash contributions is more than $500, you must file IRS Form 8283 with your federal income tax return.