



3 Questions You MUST Ask Yourself for 2018...



Happy New Year! We hope that this edition of our newsletter finds you staying warm in the cold of winter, energized by the opportunity that the start of the new year brings. **To help you “clear the decks” and commit to the future, we are including some questions** courtesy of the Sudden Money Institute/Financial

Transition Institute that Jared, Kathy and I belong to. **We’ll be discussing them in client meetings as well as the annual goal setting meetings that I have with my team members.** I urge you to grab a cup of tea or coffee, or maybe a glass of wine, as soon as you can to ask yourself and your spouse or significant other, to help you have the best year ever! So, here we go...

- 1) What Needs to Be Protected or Maintained?
- 2) What Do You Need to Let Go of?
- 3) What Do You Need to Create or Add to Your Life?

And in case you discover that **it’s time for some new habits in your life, we have some great ideas in our “Books & Resources” section** to help you dive deeper into making change in your life. What we do know is that it takes

time. If you really want to commit to your goals for 2018 then you need to:

- 1) Write them down
- 2) Share them with someone who can help keep you accountable
- 3) Create a positive, not a negative reward/feedback system (shame doesn’t change behavior)

This is exactly why **we ask our clients at Omega each year to give us their personal and financial goals** and then we keep them on the agenda for the rest of the year’s meetings.

Our goal is to have a positive and significant impact in your life, whether you’re an Omega client or just one of our friends & connections. **Please let us know how we can help, and good luck in creating a fantastic, productive year for yourself!**

Warmly,



Lisa A. K. Kirchenbauer, CFP®, RLP®, CeFT™
President



Well, Congress did it—the **Tax Reform Bill**, officially known as the Tax Cuts and Jobs Act (TCJA), was signed into law on **December 22, 2017**. So what does that mean for each of us?



We can't cover the entire bill in this column. **Probably the biggest question most taxpayers will have this year is: should I itemize deductions or take the standard deduction?** The TCJA significantly **increased the standard deduction** for all filing categories. Starting in 2018 it will be:

- \$12,000 for singles
- \$24,000 for married filing jointly
- \$18,000 for head of households

While raising the standard deduction, the law made some changes to the rules for some of the itemized deductions. **The deduction allowed for State and Local taxes (including both income and property) is limited to \$10,000 total.** You still have the option to deduct state and local sales tax instead of income tax.

The law also **eliminates the ability to deduct interest on home equity lines of credit (HELOCs)**. Home mortgage (acquisition debt) interest is still deductible on first and second homes, but for mortgages closed after December 15, 2017 the deduction is limited to the interest paid on up to a total of \$750,000 of mortgage debt. Debt arising from refinancing pre-December 15, 2017 acquisition debt is not subject to the new limitation as long as the debt resulting from the refinancing does not exceed the original debt amount. Basically that means you can refinance to get a better rate of interest but can't take out additional equity unless you keep the debt under \$750,000 total.

One deduction that got expanded under the new law is the medical expense deduction. The threshold for deducting medical expenses is lowered to costs in excess of 7.5% of adjusted gross income (AGI) for 2017 and 2018. This means it will take fewer expenses than under the previous law to meet the threshold.

Contributions to charity are still deductible. However, because some of the other deductions are limited, some people may not itemize and, therefore, won't get to take a deduction for their charitable giving. We can work with you to develop strategies to take advantage of the charitable contribution deduction.

If you are starting a new job this January, you may notice is that the IRS has not yet finalized the new W-4 form used to determine how much tax you will have withheld from your paycheck. Hopefully, that will be out soon for those of you who are starting a new job or for those who would like to make an adjustment to your withholdings. The reason the form needs to change is because **another change under the new law is the elimination of the personal and dependency exemptions.** (Under the old law, personal and dependency exemptions for 2018 would have been \$4,150 each.)

The tax brackets for individuals have changed for 2018-2025. Most of the rates are lower than before. The starting values for the tax brackets for ordinary taxable income are as follows:

Rate	For Unmarried Individuals, Taxable Income Over	For Married Individuals Filing Joint Returns, Taxable Income Over	For Heads of Households, Taxable Income Over
10%	\$0	\$0	\$0
12%	\$9,525	\$19,050	\$13,600
22%	\$38,700	\$77,400	\$51,800
24%	\$82,500	\$165,000	\$82,500
32%	\$157,500	\$315,000	\$157,500
35%	\$200,000	\$400,000	\$200,000
37%	\$500,000	\$600,000	\$500,000

Table 1. Tax Brackets and Rates, 2018 Source: <https://taxfoundation.org/2018-tax-brackets/>

For long-term capital gains and qualified dividends, the TCJA retains the current tax rates. For 2018, the starting values for the rate brackets for adjusted net capital gains are:

Long-term capital gains rate	Single	Married, Filing Jointly	Head of Household
0%	\$0	\$0	\$0
15%	\$38,600	\$77,200	\$51,700
20%	\$425,800	\$479,000	\$452,400

Table 2. Tax Brackets and Rates, 2018 Source: *Kitces*

Adjusted net capital gains are net capital gains plus qualified dividends less gains required to be taxed at 25% and 28%. The 3.8% Medicare surtax on capital gains remains for incomes (AGI) over \$200,000 (single filers), \$250,000 (joint filers). These brackets are almost the same as what they would have been under prior law. The only change is the way the 2018 inflation adjustments are calculated.

Other changes that will need to be considered in your planning include the new ability to use 529 funds for private school. This needs to be considered carefully with attention paid to current and expected future cash flow.

The Alternative Minimum Tax is here to stay though the exemption amounts are going to be indexed to inflation so that should offer some relief.

For our many business owners, pass-through entities will receive a 20% deduction on taxes for “qualified business income.” A pass-through entity is a partnership, S corporation, limited liability company or sole proprietorship. Qualified business income does NOT include wages or investment income. **C Corporations received the largest one-time tax rate cut in U.S. history with the rate dropping from 35% to 21%.**

The provisions of the TCJA are in effect from 2018-2025, inclusive. That is, the tax law will revert back to what we have now in 2026. Congress, of course, can change the law between now and then!

In other tax news, we are working to get the information to you and your tax advisors to help prepare your 2017 taxes. We expect SEI to send 1099s the last week of February. We will send our usual tax preparation letter to you and your advisors the first week of March.

The tax reform bill is supposed to reduce taxes for most people. The truth is that it depends. **We encourage you to talk with us and your tax advisor about developing strategies that will work in your individual circumstances.**

Investment Outlook



by Jared Jones

“Bull-markets are born on pessimism, grow on skepticism, mature on optimism, and die on euphoria.” – Sir John Templeton

2017 turned out to be a phenomenal year for the stock market. A synchronized global rise in markets will have many investors happy looking at their 12/31 statements.

The question now is can 2018 reach the same heights?

The S&P 500 surged 21% in 2017, and the Dow was up an even larger 25%. Not many people predicted those kind of results at the beginning of 2017. The results are more than triple a few outlooks I remember seeing in January 2017. Many feared global markets would perform poorly in 2017. **However, they were on fire this past year. Emerging Markets returned 37%, while international stocks saw a 27% return.**

Heading into 2018 we have seen strengthening corporate profits and the Republican tax overhaul is expected to boost earnings. As this newsletter is being written, the Dow Jones has just broken 25,000 (see [Lisa's blog](#) on Dow 25,000) for the first time. **Optimism has undoubtedly become widespread among market watchers with two-thirds of newsletters being bullish on stocks in December.**

This optimism has many contrarians fearing that the stock market will overheat in 2018. US stocks are currently trading at historically high prices. **Further, we typically see investors rush into investments with the most enthusiasm towards the end of the bull market.** Could 2018 be the year in which we see optimism turn into euphoria?

OWM has used 2017 to review investment allocations with our clients and gauge cash needs for the future. **We plan to continue doing this throughout 2018 and beyond. When people aren't prepared for the bull market to end, that's when we see investors overextending themselves with unnecessary risks (think Bitcoin).**

It's unclear if we are at a level of euphoria yet. In a recent survey according to the Wall Street Journal, **7 out of 10** money managers felt stocks were over-valued. **In SEI's view**, this remains a concern moving forward. The higher the valuation of the market, the more susceptible it becomes to bad news. This outlook could be holding us back from reaching euphoric levels.

Overall, SEI is optimistic about 2018. In their view, over the next year or so, **global growth will remain vibrant enough to allow assets to perform well.** SEI believes significantly decreasing risk now could result in substantial opportunity loss at a time of positive momentum for the global stock market. However, they are **not ruling out the possibility of a “garden-variety” 5-10% correction, as those on average happen 3 times per year.** 2017 didn't register even a 3% price correction, so this could catch some by surprise..

As a reminder, our “Pools of Wealth” strategy generally has the money you may need in the near term invested more conservatively. Money required later on in life is kept more aggressively invested, so that we can weather the storm and not pull out of the market at the wrong time. **If you are concerned or have questions about your current investments, please don't hesitate to reach out to us.**

2017 performance by index:

Benchmark	Benchmark Returns YTD	Category
Dow Jones Average	+25.08%	U.S. Large Cap Stocks
S&P 500 Index	+21.83%	U.S. Small Cap Stocks
MSCI AC World Index	+23.97%	International Stocks
Barclay Global Aggregate Bond	+3.54%	Intermediate Term Bonds

Source: Eisen, B. (2018, January 02). U.S. Stocks Wrap Up Strong 2017. Wall Street Journal



Procedures for Sharing Sensitive Data

In response to recent cybersecurity attacks, such as the Equifax credit breach in September of last year, we are taking an extra step to ensure that the sensitive information and documents exchanged between ourselves and our clients are kept safe.

Our primary method for sharing sensitive data, such as records that include account or social security numbers, will be the eMoney Vault. In ad hoc instances where sensitive information is shared via email, all attachments will be password protected, and all password information will be shared on an individual basis as a separate correspondence from the email containing the attachment.

These standards apply to documents containing the types of information below:

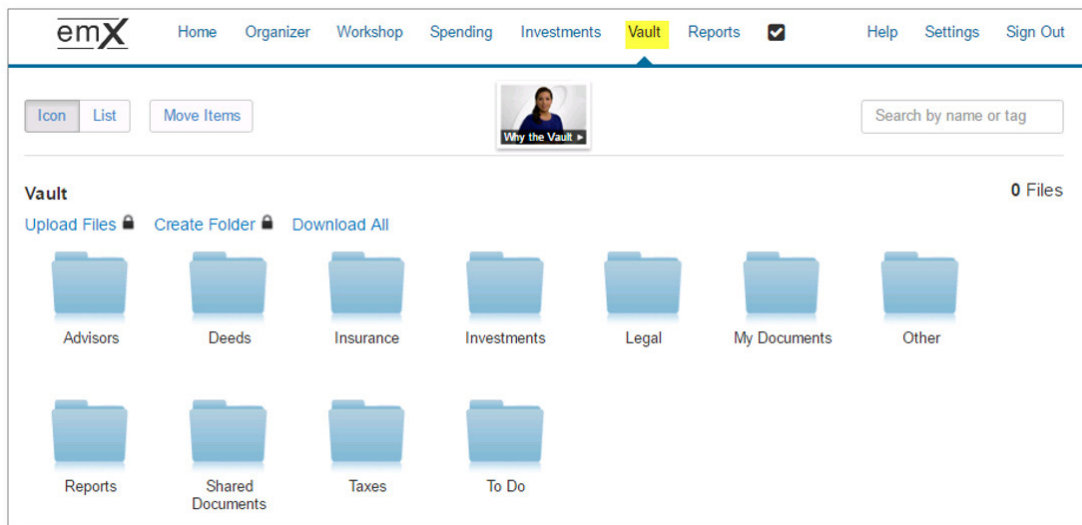
- Account numbers
- Account titling/name
- Demographic data – Mailing address, occupational info
- Contact information – E-mail address, phone number
- Personal information – Date of birth, social security number, license number

Moving forward, protocols such as these will help to better protect your information in the event of a cybersecurity breach.

Utilizing the eMoney Vault & Password Protecting Documents

The eMoney Vault is a great resource for storing your personal documents in a protected cloud environment, separate from your home computer. Additionally, items placed in the *Shared Documents* folder are easily accessible by the OWM team.

To access the eMoney Vault, log into [eMoney](#). Then, click *Vault* on the ribbon at the top of the page (see screenshot below).



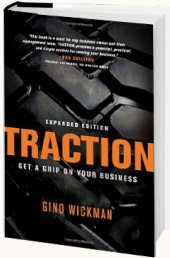
From there, you can upload and organize your personal documents, or use the *Shared Documents* file to send information to OWM. Please note that **only** documents placed in the *Shared Documents* folder are viewable by the OWM team.



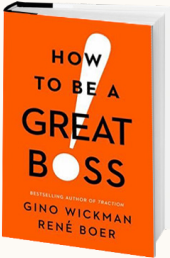
When information is shared via email and locked with a password, the password will be shared with you in a separate email. To unlock the document, simply enter the provided password when prompted by the program. For more information on password protecting documents using Adobe PDF, check out this [article](#).

Business Owners' Corner

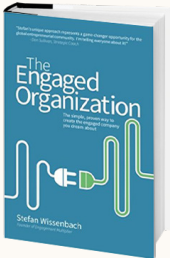
The beginning of the year is the perfect time for a business owner to take stock, answer the questions on the first page of our newsletter and generally create a plan for success in 2018! To be successful, it takes a commitment to growing and learning as a leader and manager. Not great at one or both of these? Here are some resources to get you started:



“Traction” by Gino Wickman - a great book to help you create an easy-to-follow system for goal tracking and accountability. It's time to get your whole team involved!



“How to Be a Great Boss” by Gino Wickman - time to up your game? This is a great book to get you thinking like a leader not just the boss.



“The Engaged Organization” & Engagement Multiplier™ by Stefan Wissenbach. How engaged are your employees? A Gallup survey shows that as many as 80% of employees are NOT engaged at work. Want to prevent that? It's time to up your game by reading the book and setting your company up for quarterly engagement surveys! The survey looks at the engagement of the leadership team and individual employees, while also asking for specific ideas on corporate improvement. The whole process is confidential to get the most honest feedback possible. If you are ready to REALLY hear what's going on then it's time to sign up! Omega has started this in 2018 is looking forward to the feedback and positive change that will come from this effort.

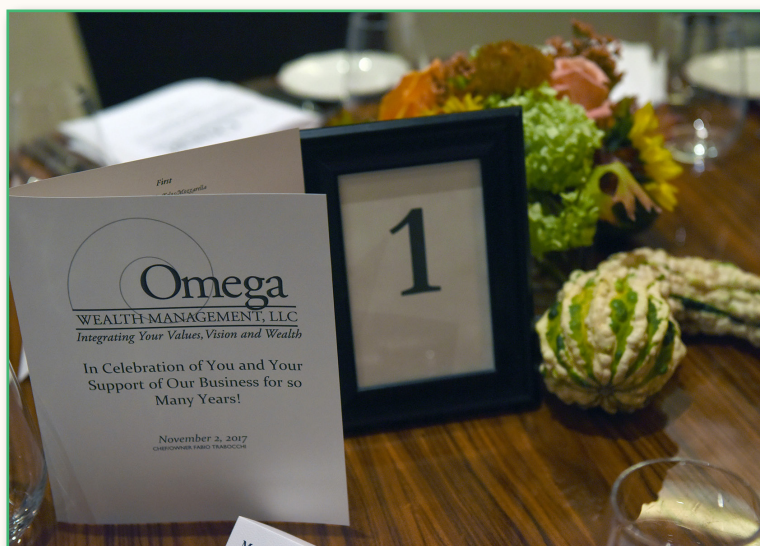
Strategic Coach. If you're a typical lonely entrepreneur, you spend most of your time working IN your business, not ON your business. Why not set aside some time to become more strategic and to be around like-minded, successful entrepreneurs focused on growth?

Time to take it to the next level as a leader, manager & entrepreneur while also getting the benefits of business ownership (which may be even better tax-wise in 2018)!



THE OWM FAMILY

In November, Omega had the chance to honor its clients who have been with OWM 10 years and longer with a fun dinner at “Fiola” in downtown DC. The wine and food were great and Lisa’s twin sons provided some classical music before the fantastic Italian dinner. We look forward to inviting all of our clients to our 20 year celebration in 2019 - be on the look out for the “Save the Date” announcement!



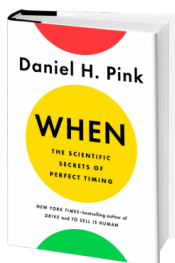
TEAM UPDATES



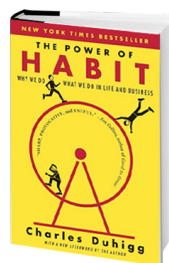
Welcome Emily Cartner! You may have seen our Fall announcement that Emily joined us as our new Office Manager. She graduated from Virginia Tech with a degree in Marketing Management in 2014, and spent several years as a management and cybersecurity consultant before deciding to make the switch to a smaller firm in the fall. Given her career background, she's passionate about business process improvement and technology!

Due to Emily's great management skills, she will be handling all client and prospective client appointment scheduling moving forward. If you don't have your appointment set up yet, Emily will be in touch to offer you an in-house meeting or videoconference meeting. If you are lucky enough to come in, you'll notice that we now have a MENU of drinks possibilities (sorry, no wine or martinis!) Welcome Emily!

BOOKS & RESOURCES



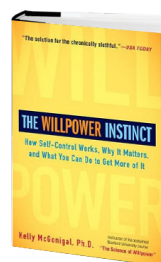
"When" by Daniel Pink (Lisa): I haven't read it yet since it comes out in early January, but it seems like a must-read for anyone who wants to improve their happiness and productivity in 2018.



"The Power of Habit" by Charles Duhigg (Lisa): A great book on how we create and can change habits.



"Changing for Good" by James Prochaska and John Norcross (Lisa): This is the book for people trying to make serious personal change or supporting people making big change in their lives. Whether it's quitting smoking, or addressing other addictions, this book helps us understand the stages of change and the important role relapse plays in the process.



"The Willpower Instinct" by Dr. Kelly McGonigal (Lisa): I took her online class and read the book. McGonigal, a Stanford professor, explores how we can get better at willpower to make the changes we want to make.

DON'T FORGET - Important Dates and Reminders

February 1st & 2nd - OWM Annual (offsite) Strategic Planning Meeting - Our response to you may be delayed

February 19th - President's Day - Markets & OWM closed

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