an investment newsletter you can trust from
PHILLIPS FINANCIAL
A foundation of trust

July 10, 2018

Please enjoy our 2018 2nd quarter newsletter, including:

- Market commentary
- Tips for when the kids become adults
- Updates on the new tax law
- "Phillips Financial in the Community" highlighting a Phillips Associate and his or her community involvement. This issue we focus on Jeanine Herold and her work with the Northeast Indiana Regional Partnership

A Review of Second Quarter 2018

Investment results for the first 6 months of 2018 proved to be a great example of how portfolio diversification can mitigate overall portfolio volatility and help balance return trends from various asset classes over time.

For example, the widely followed S&P 500 index produced a positive total return of 3.43% for the quarter compared to a negative 0.76% in the first quarter after posting a very strong total return of 21.83% in 2017. On the other hand, Emerging Markets results, as measured by the MSCI Emerging Markets Index, produced a total return of negative 7.96% for the quarter after leading the pack in 2017 with a total return of 37.28%, followed by additional positive total return of 1.42% in the first quarter.

On a year-to-date basis Small Cap stocks have been leading the equity markets. The S&P Small Cap 600 Index and S&P Small Cap Value Index had positive total returns of 9.39% and 7.14% percent, respectively. During 2017, while both had positive returns in excess of eleven percent, they never-the-less lagged their larger capitalization counterparts.

On the fixed income side, not much has really changed from the first quarter. The small but continued rise in interest rates during the quarter was reflected in the Bloomberg Barclays US Aggregate Bond Index which posted a negative 1.62% total return year-to-date through June after posting a negative 1.46% at the end of the first quarter.

In our first quarter 2018 newsletter we indicated that market volatility had returned after being much more subdued in 2017. Fortunately, volatility was less during the second quarter although the recent acceleration of international tariff issues and the approaching mid-term elections could make markets more unstable in the months to come.

Because you will likely continue to see uneven quarterly and annual trends in market returns of the various asset classes within your portfolio, we remind you to take a long-term view, avoid rash actions and talk with your advisor throughout the year. He or she is here to help you stay on track in working toward achieving your long-term financial goals.

Index	% Last Quarter Return 4/1/18 - 6/30/18	% Year-to-Date Return 1/1/18 - 6/30/18	% Cumulative 1 Year Avg. 7/1/17 - 6/30/18	% Cumulative 3 Year Avg. 7/1/15 - 6/30/18	% Cumulative 5 Year Avg. 7/1/13 - 6/30/18	% Cumulative 10 Year Avg. 7/1/08 - 6/30/18
Bloomberg Barclays US Aggregate Bond Index	-0.16%	-1.62%	**-0.40%**	1.72%	2.27%	3.72%
S&P 500 Index	3.43%	2.65%	14.37%	11.93%	13.42%	10.17%
S&P 500 Value Index	1.40%	-2.22%	7.58%	8.82%	10.45%	8.44%
S&P Mid Cap 400 Index	4.29%	3.49%	13.50%	10.89%	12.69%	10.78%
S&P Small Cap Index	8.77%	9.39%	20.50%	**13.84%**	**14.60%**	**12.25%**
S&P Small Cap 600 Value Index	8.58%	7.14%	18.46%	13.26%	13.58%	11.77%
MSCI EAFE Index	-1.24%	-2.75%	6.84%	4.90%	6.44%	2.84%
MSCI Emerging Markets Index	**-7.96%**	**-6.66%**	8.20%	5.60%	5.01%	2.26%
Wilshire REIT Index	**9.73%**	1.52%	3.88%	7.84%	8.42%	7.81%
S&P GSCI Commodities Index	8.00%	**10.36%**	**30.04%**	**-4.37%**	**-9.41%**	**-12.36%**

Source: Standard & Poor's, Bloomberg, Morgan Stanley Capital International, Wilshire Associates, Fidelity Investments, BlackRock, Inc.
Green = best performing asset class
Red = worst performing asset class

Index returns are for illustrative purposes only, and do not reflect any management fees, transaction costs or expenses. The performance of an unmanaged index is not indicative of the performance of any particular investment. It is not possible to invest directly in any index. Past performance is no guarantee of future results.

When the Kids Become Adults: Are You/They Ready?

Your kids are finally grown and out of the house. You've done your job to raise them and provide for them should something happen to you. Time to kick back and relax!

Or is it? As your children enter adulthood there are a few things you may need to tend to. So here's one more list of stuff to do for your kids:

1. Any child over age 18 should have a health care power of attorney naming appropriate people as primary and successor representative. A young adult will most likely name a parent as primary. If married, the parent is often named the successor rep. The important thing is to make sure this document is in place so that if something happens to your child an appropriate representative has been designated. For example, if a medical incident occurs to your child while at college, the hospital or doctor may be reluctant to release information to you until you are court appointed as the health care representative.
2. What about the provisions of your will or trust? Have you reviewed these documents to verify when your adult children will gain control of their inheritance? Here's what often happens. We create a will and trust when our kids are little. We give a lot of thought to who the guardian should be if "something" happens to us. Then we put together a trust that says our kids get 50% of their inheritance at age 25, 25% at age 30 and the rest at age 35. At this point we've managed to accumulate a net worth of about $10,000, so who cares? But now our kids are in their early 20s, one of them is hooked up with a girlfriend we don't like, one can't seem to "find herself," and the third one is a perfect angel. And we now have a net worth of $1.5 million with $1 million of life insurance. Are you still comfortable giving each of them unfettered access to half their inheritance at age 25? If not, you need to revisit those documents.
3. While you're at it, take a quick look at your beneficiaries. Are they still in line with your goals with respect to giving your kids access to their inheritance?
4. On the flip side, you might consider changing your legal documents to give one or more of your adult children some responsibilities in the event "something" happens to you. Is one of them now at an age to serve as your executor, durable power of attorney, or health care rep? Or, especially in the case of your health care rep, should they be given the right to access information about your health directly from health care providers, even if you don't feel they are ready to serve as the actual rep?

That's a lot to think about isn't it? If these are issues that are pertinent to you call your Phillips Financial advisor to learn more about how we can help you, and your kids, plan for a financially sound future.

Updates on the New Tax Law

Here are a few updates and clarifications from the new tax law that was passed late in 2017:

1. After our last newsletter we learned that a clarification had been issued with respect to the tax deductibility of interest on home equity lines of credit (HELOC). If the reason for the loan is related to the residence that is tied to the HELOC, the interest generally remains deductible. If the loan is not related to the residence, the interest is not deductible.
2. The law as passed provided that at the federal level tuition for private elementary and high school is now considered a qualified expense for the purpose of 529 plan withdrawals. Withdrawals could be taken from 529 plans for these tuition expenses and no federal tax would be owed. But Indiana did not immediately pass the same legislation. This is important because many Hoosiers make contributions to the Indiana 529 plan specifically to receive a tax credit on their Indiana taxes. That credit is lost if non-qualified withdrawals are made. Recently (May 18), however, the Indiana General Assembly passed legislation that mirrors the federal policy. So now you should be able to withdraw 529 plan funds for primary and secondary tuition. But be careful this year. There is still need for clarification about which expenses would count (for example, can you count expenses that were incurred prior to the passage of the bill?) and the total dollar amount that may be withdrawn without state taxes and penalties imposed.
3. The family maximum contribution to an HSA account jumped back up to $6900. It started out at $6900, then was reduced by a whopping $50 to $6850, and now, after much debate and consternation, has been moved back up to

$6900. Isn't it great to see our tax dollars being put to such good use by our politicians – carefully reevaluating such weighty matters!

As with any tax matters, especially newly enacted provisions, it is critical that you discuss the rules with your accountant before taking action. Especially with items 1 and 2 above, there could be criteria and caveats that could affect your ability to take advantage of these provisions.

Phillips Financial in the Community: Jeanine Herold and the Northeast Indiana Regional Partnership

Jeanine Herold, Managing Member and Financial Advisor with Phillips Financial since 2002, became involved with the Northeast Indiana Regional Partnership in 2016 when the firm increased its commitment to the organization by becoming a member of the Regional Opportunity Council. Founded in 2006 the Northeast Indiana Regional Partnership http://neindiana.com is a public-private partnership whose mission is to build and market Northeast Indiana to increase business investment in the region.

To build a globally competitive region, the Partnership supports collaborative regional efforts to increase per capita income, population growth and educational attainment. Its efforts focus on business attraction, talent attraction and talent development. The Partnership represents 11 counties: Adams, Allen, DeKalb, Huntington, Kosciusko, LaGrange, Noble, Steuben, Wabash, Wells and Whitley counties.

The Regional Opportunity Council (ROC) is the investor board of the Regional Partnership. It's made up of more than 120 leaders from regional businesses, educational institutions, foundations, and the public sector. This group works together to assess the region and develop initiatives to strengthen Northeast Indiana's economy.

Jeanine is the primary representative from Phillips to the ROC, attending all of the Council meetings. She also serves on the Talent Attraction and Branding committees. Jeanine said, "Phillips is one of the smaller firms on the ROC. All of the Phillips partners support the efforts of the ROC and what it is doing for our community."

Jeanine is strongly involved in the ROC's efforts to launch a community-wide mentoring program. "ROC member firms have designated people to participate as mentors/mentees for the next year. There will be training sessions and one-on-one mentoring within the community," explained Jeanine. "I believe expansion of this program will give our community a distinctive 'story' to tell potential employees and businesses about why they should consider Fort Wayne. We genuinely care about our community and want to help people of all ages and stages develop their potential. It also sends a message that we want to attract and retain people who are interested in personal growth and development; and that we are interested in helping new people become integrated into our community."

The Northeast Indiana Regional Partnership promotes the idea that "the contributions of many lead to collective success for all. We understand that the future of Northeast Indiana is largely influenced by our success and leadership in achieving transformative change throughout the region. That's exactly what the ROC is all about: collaboration for the common good."

Jeanine concurred, "I believe strongly that Fort Wayne is one of the greatest places to create a great life in this country; and with the work of the Partnership our resources are being mobilized to make it even better."

Definitions and Disclosures:

Bloomberg Barclays Aggregate Bond Index. An index managed by Bloomberg to track the general performance of the domestic taxable investment grade bond market.

S&P 500 Index. An index that measures the large-capitalization sector including roughly 500 leading companies representing over 80% of the largest market capitalization in the U.S. equity markets. It is a capitalization-weighted index from a range of securities chosen by Standard & Poor's for liquidity and industry group representation.

S&P 500 Value Index. Contains those securities from the S&P 500 Index with lower-than-average sales and growth rates and that generally reflect lower price-to-earnings and price-to-book ratios.

S&P MidCap 400 Index. An index that measures the mid-capitalization sector including roughly 400 leading companies representing about 7% of the U.S. equity market. It is a capitalization weighted index from a range of securities chosen by Standard & Poor's for liquidity and industry group representation.

S&P SmallCap 600 Index. An index that measures the small-capitalization sector including roughly 600 leading companies representing about 3% of the U.S. equity market. It is a capitalization-weighted index from a range of securities chosen by Standard & Poor's for liquidity and industry group representation.

S&P SmallCap 600 Value Index. Contains those securities from the S&P SmallCap 600 Index with lower-than-average sales and earnings growth rates and that generally reflect lower price-to-earnings and price-to-book ratios.

MSCI EAFE Index. An index developed by Morgan Stanley Capital International Inc. as an equity benchmark for performance of publicly traded securities in developed international markets.

MSCI Emerging Markets Index. An index developed by Morgan Stanley Capital international Inc. as an equity benchmark for performance of publicly traded securities in emerging markets.

Wilshire REIT Index. An index developed by Wilshire Associates to track the general performance of Real Estate Investment Trusts (REITs) traded on domestic equity markets.

The S&P GSCI Commodities Index. An index developed by Standard & Poor's and Goldman Sachs that is based on a production-weighted basket of principal physical commodities that reflects the level of commodities prices at a given time and is designed to be a measure of the performance over time of the market for these commodities.

The information contained herein should not be construed as personalized investment advice. There is no guarantee that the views and opinions expressed in this newsletter will come to pass. Investing in the stock market involves risk and may not be suitable for all investors. Information presented herein is subject to change without notice and should not be considered as a solicitation to buy or sell any security. Phillips Financial does not make any representations as to the accuracy, timeliness, suitability, completeness, or relevance of any information prepared by any unaffiliated third party, whether linked to this newsletter or incorporated herein, and takes no responsibility therefore. All such information is provided solely for convenience purposes only and all users thereof should be guided accordingly.