
Tax Concepts

2019 CCM Tax Guide Now Available

Our [Tax Reference Guide for 2019](#) is now available. You can find the guide and more under the [Resources tab](#) on our website.

Tax Efficient Methods of Making Charitable Gifts

We included this article in our June 2018 newsletter but felt with tax season upon us, it would be a good idea to share with you again.

Who This Applies To: Traditional IRA owners who are at least 70 1/2

Benefits to you: Making your charitable gifts directly from your IRA can result in three possible benefits:

- reduction in taxable income
- a decrease in the taxable portion of your social security benefit
- reduction in Medicare premiums

Summary: If you are receiving required minimum distributions (RMDs) from an IRA, IRS Rules allow for qualified charitable distributions (QCDs) to be made directly from the account. Individuals may make QCDs during the year that do not exceed \$100,000 (per person if filing jointly). QCDs reduce the taxable portion of the withdrawal by the amount of the gift.

Because of recent changes in the tax code, the largest potential benefit derived from a QCD is a reduction in taxable income. The new tax law has doubled the standard deduction for both individuals (\$12,000) and spouses filing jointly (\$24,000). Those who are at least 65 years of age receive an additional standard deduction of \$1,300. To offset those increases, some itemized deductions were taken away or limited. This presents an opportunity for those who make charitable gifts by cash or check and have little or no mortgage interest or medical deductions. Those individuals should consider making their charitable contributions as QCDs.

The abbreviated example below shows how taxable income could be reduced for a married couple, both at least 65 years of age, with a \$50,000 RMD. For simplicity, other income sources are ignored.

	Gift as Deduction		Gift as QCD	
Income				
Taxable IRA Distributions	\$	50,000	\$	40,000
Adjusted Gross Income	\$	50,000	\$	40,000
Deductions				
Taxes (State and Local Taxes)	\$	10,000	\$	10,000
Interest	\$	5,000	\$	5,000
Gifts to Charity by Cash or Check	\$	10,000	\$	-
Total Itemized Deductions	\$	25,000	\$	15,000
Standard Deductions	\$	27,000	\$	27,000
Deduction Taken	\$	27,000	\$	27,000
Taxable Income	\$	23,000	\$	13,000

This simple example does not reflect any secondary benefits that may result in a reduction of taxes on social security benefits or a reduction in Medicare premiums.

How a QCD can be implemented: The custodian of your retirement account will forward the charity a check or facilitate an electronic transfer based upon your signed instructions. Just as you maintain records of charitable gifts when taken as an itemized deduction, you should also maintain those records when QCDs are made. Your tax preparer should be made aware that a QCD was made so that the gift can be properly accounted for at tax filing. Contact your advisor with questions or for assistance.

Market News

What's Behind the 4th Quarter Sell-Off

The intersection of several disruptive market forces, many of which have been looming on the horizon for some time, led to the recent sharp and widespread decline in global markets. We feel like this period of heightened volatility is here for a while. Although markets rebounded strongly after Christmas, several underlying concerns remain:

- sluggish economic growth outside the US, particularly in Europe, Japan, Emerging Markets and China
- worry that the US economy, which has led global growth since the financial crisis, might grow at a slower than expected rate
- the likely deceleration in US corporate earnings growth
- apprehensiveness that the trade war with China will get worse
- inflationary pressures in the US because of a tightening labor market
- the on-going government shutdown that could have lingering effects

There is an expectation that U.S. economic growth will continue at a slower pace in 2019, with the risk of a recession rising. Corporate earnings growth likely will slow, as year-over-year comparisons with strong 2018 earnings will be challenging. Trade tensions remain a risk, but inflation and interest rates are the key indicators to watch. The Federal Reserve has signaled that increases in short-term interest rates will be at a slower pace than in 2018 and may pause in 2019.

Year-to-date Market Summary

Index/Market	YTD
Consumer Disc	0.83%
Consumer Staples	-8.38%
Energy	-18.10%
Financials	-13.03%
Health Care	6.47%
Industrials	-13.29%
Information Technology	-0.29%
Materials	-14.70%
Real Estate	-2.22%
Telecom Services	-12.53%
Utilities	4.11%

Index/Market	YTD
S&P 500 Index	-4.38%
DJ Industrial Average	-3.48%
Russell 3000	-5.24%
Russell 2000	-11.01%
Nasdaq	-2.84%
MSCI EAFE Index	-13.79%
Barclays US Agg Bond	0.01%
10-Year U.S. Treasuries (Yield)	2.69%
WTI Crude Oil	-25.32%
LBMA Gold Price	-0.93%
CBOE Market Volatility	130.25%

Source: Morningstar.com as of 12.31.2018

Where Do We Go From Here?

Global growth is expected to slow in 2019 with many believing that any recession will likely be pushed into 2020. Expect some rebounding in European and Asian growth. Regions that underperformed the US market last year.

There are several fiscal policy actions underway in Europe that should be slightly stimulative in 2019 and the European Central Bank has yet to raise rates. What's crucial is the degree to which China decides to re-stimulate their economy and there is hope that the US-China trade war will soften. The movement to more defensive stock positions will be a key in 2019.

During periods of market turbulence, we believe that if our clients' asset mix of stocks, bonds, and cash appropriately reflects their financial goals, time horizon, risk tolerance, and personal circumstances, sticking with their investment plan is the correct path to take.

Cybersecurity

Use of Artificial Intelligence and Machine Learning

A recent article published in Forbes highlighted 60 cybersecurity predictions for 2019. Among those predictions was the use of Artificial Intelligence (AI) and Machine Learning (ML) as “dual-use” technologies. Many of us now have AI or ML solutions such as Amazon’s Alexa, Google Home, Nest or other smart home systems, video doorbells, and smartphones to make daily activities more convenient. Smart home systems and other AI can learn temperature regulation tendencies, alert us when a package is delivered to our front door, lock and unlock doors and smartphones using facial recognition software, and even make grocery lists.

As the possibilities increase for using AI/ML in our personal lives and in the workplace, hackers and cybercriminals are in the early stages of leveraging this same technology to lure or socially engineer victims.

Ironically, AI/ML is also being used to thwart such attacks. Automated prevention methods that are designed to evaluate the integrity of incoming emails is just one example of how AI/ML is helping to reduce the threats and prevent attacks before they strike. In other words, “Machine Learning will help filter out the noise.”

[Read more.](#)

In The News

Inheriting an IRA

Any inheritance can be complicated but inheriting an IRA can be particularly complex due to the many rules that govern their distributions. However, an inherited IRA can offer substantial long-term advantages and stretch these benefits across multiple generations.

[Read more.](#)

Rethinking Resolutions

It’s not uncommon for people to set unrealistic expectations when making New Year’s resolutions, which likely contributes to most of them failing. This year, why not focus on improving just one area: your travels, and making sure you travel well.

[Read more.](#)

REAL ID

Starting October 1, 2020, every state and territory resident will need to present a REAL ID compliant license/ID, or another acceptable form of identification, for accessing Federal facilities, entering nuclear power plants, and boarding commercial aircraft. [Learn more here.](#)

Please refer to [your local DMV](#) for more information on applying for your REAL ID.

CCM News

NCSU MAE Hall of Fame

Congratulations to Tony Sigmon on his induction into the NC State College of Engineering’s Department of Materials and Aerospace Engineering (MAE) Hall of Fame. Tony was among 13 new members recognized in a ceremony held in November 2018. To read more about the 2018 induction class [click here.](#)



The 2018 induction class.



Tony with his family prior to the ceremony.

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