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High school seniors are awaiting their college acceptance letters and parents are dreading the 1st tuition bill!

College is crazy expensive, but well worth it. Justin and Stef are both thriving in their professions. Mary Kate is crushing med school, Jack is in Naval flight school, Julia aced organic chemistry and Maggie has started her college visits. Smart like their mothers! That's a lot of tuition payments!

There is no right or wrong way to pay for education. Every family is unique and we love working with you figure it out. **Thank you for allowing us to serve you, John and Dan.**

Spring - Summer 2017

Trusted Financial Advisors
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Politics Versus Profits

Beyond Politics

“Uncharted territory”, “Unprecedented”, “Out of control”, “Broken”…….. On a daily basis, we’re told our Union is on the edge of collapse. The media wants us to believe that we're one vote away from Armageddon.

Financial pundits, always eager to predict the future based on the present, are quick to offer answers and there's an army of "advisors" (a.k.a. hucksters) who **ramp up their free "education" events to peddle products based on fear.**

But as the more seasoned members of our client family like to remind us, **American history is chock full of calamitous times.** Some that make today’s problems look like a clear day on the Ocean City beach. Yep, our political system is a mess. No news there.

There are plenty of risks for investors. But “political risk” deserves special mention. Ideally, investors would be able to make portfolio decisions based on economics, business fundamentals, consumer trends, etc. But instead, too many investors make short term decisions based on current political winds. Very dangerous.

Can politics impact markets? You bet. For example, a Presidential tweet on drug prices can drive the share price of pharmaceutical companies lower within seconds. But market moves based on political winners and losers, tend to be short term. Markets often overshoot and undershoot in reaction to headlines.

We can’t immunize our portfolios from the impact of political tug of war. But we can learn from history. Ultimately, market performance (and your portfolio) is determined by “fundamentals”. With regard to bonds, the most important factor is interest rates while stocks will ultimately reflect corporate profits.

Our Preferred Market Indicator

We are often asked, “what do you think about the market?”. We don’t take a view; instead we consider the market primarily on the age-old **PE Ratio.** Simply stated, the PE Ratio measures how much investors are willing to pay for corporate earnings.

The PE Ratio is now well above its historical average. **That means caution is in order.** We further look at the PE Ratio for individual market sectors and non-USA markets. As the great market guru Jimmy Buffet said, "it's 5:00 o'clock somewhere".

Managing client portfolios essentially means managing "risk". So we keep things pretty simple - a high PE Ratio generally means more downside risk and vice versa. Not very exciting, but over many decades, **this is the best market valuation tool we have ever found.** Our portfolio strategy remains the same:

- Focus on asset allocation vs. individual "bets"
- Include blue chip stocks that pay dividends
- Stick with short term bonds and inflation-protected bonds
- Include non-USA stocks, preferred stocks, and high yield bonds

You can’t escape the daily barrage of political news (sorry). But as investors, we can avoid the mistake of making investment decisions based on politics. **Politics matter. But profits matter more!**

Thank you for allowing us to serve you, Dan, John, Nancy, Angela, Dave, Jen, Amanda, Marc and Carol.

See disclaimer on final page

Grandparents Can Help Bridge the College Cost Gap

Assets in 529 plans reached $266.2 billion, spread over 12.7 million accounts, as of the second quarter of 2016.

Source: College Savings Plans Network, 529 Report: An Exclusive Mid-Year Review of 529 Plan Activity, September 2016

Note: *Investors should consider the investment objectives, risks, charges, and expenses associated with 529 plans before investing, along with each plan's specific investment options, underlying investments, and investment company. More information can be found in the plan's official disclosure statements and prospectus, which should be read carefully before investing. As with any investment, there are generally fees and expenses associated with participation in a 529 plan. There is also the risk that your underlying investments may lose money or not perform well enough to cover college costs as anticipated. Finally, be aware that your ability to take advantage of any 529 plan state tax benefits may be contingent on your enrollment in your own state's 529 plan.*

For many families, a college education is a significant financial burden that is increasingly hard to meet with savings, current income, and a manageable amount of loans. For some, the ace in the hole might be grandparents, whose added funds can help bridge the gap. If you're a grandparent who would like to help fund your grandchild's college education, here are some strategies.

529 college savings plan

A 529 college savings plan is one of the best vehicles for multigenerational college funding. 529 plans are offered by states and managed by financial institutions. Grandparents can open a 529 account on their own — either with their own state's plan or another state's plan — and name their grandchild as beneficiary (one grandchild per account), or they can contribute to an existing 529 account that has already been established for that grandchild (for example, by a parent).

Once a 529 account is open, grandparents can contribute as much or as little as they want, subject to the individual plan's lifetime limits, which are typically $300,000 and up. Grandparents can set up automatic monthly contributions or they can gift a larger lump sum — a scenario where 529 plans really shine.

Contributions to a 529 plan accumulate tax deferred (which means no taxes are due on any earnings made along the way), and earnings are completely tax-free at the federal level (and typically at the state level) if account funds are used to pay the beneficiary's qualified education expenses. (However, the earnings portion of any withdrawal used for a non-education purpose is subject to income tax and a 10% penalty.)

Under rules unique to 529 plans, individuals can make a lump-sum gift of up to $70,000 ($140,000 for joint gifts by a married couple) and avoid federal gift tax by making a special election on their tax return to treat the gift as if it were made in equal installments over a five-year period. After five years, another lump-sum gift can be made using the same technique. This strategy offers two advantages: The money is considered removed from the grandparents' estate (unless a grandparent were to die during the five-year period, in which case a portion of the gift would be recaptured), but grandparents still retain control over their contribution and can withdraw part or all of it for an unexpected financial need (the earnings portion of such a withdrawal would be subject to income tax and a 10% penalty, though).

What happens at college time if a grandchild gets a scholarship? Grandparents can seamlessly change the beneficiary of the 529 account to another grandchild, or they can make a penalty-free withdrawal from the account up to the amount of the scholarship (though they would still owe income tax on the earnings portion of this withdrawal).

Finally, a word about financial aid. Under current federal financial aid rules, a grandparent-owned 529 account is not counted as a parent or student asset, but *withdrawals* from a grandparent-owned 529 account are counted as student income in the following academic year, which can decrease the grandchild's eligibility for financial aid in that year by up to 50%. By contrast, parent-owned 529 accounts are counted as parent assets up front, but withdrawals are not counted as student income — a more favorable treatment.

Outright cash gifts

Another option for grandparents is to make an outright gift of cash or securities to their grandchild or his or her parent. To help reduce any potential gift tax implications, grandparents should keep their gift under the annual federal gift tax exclusion amount — $14,000 for individual gifts or $28,000 for joint gifts. Otherwise, a larger gift may be subject to federal gift tax and, for a gift made to a grandchild, federal generation-skipping transfer tax, which is a tax on gifts made to a person who is more than one generation below you.

An outright cash gift to a grandchild or a grandchild's parent will be considered an asset for financial aid purposes. Under the federal aid formula, students must contribute 20% of their assets each year toward college costs, and parents must contribute 5.6% of their assets.

Pay tuition directly to the college

For grandparents who are considering making an outright cash gift, another option is to bypass grandchildren and pay the college directly. Under federal law, tuition payments made directly to a college aren't considered taxable gifts, no matter how large the payment. This rule is beneficial considering that tuition at many private colleges is now over $40,000 per year. Only tuition qualifies for this federal gift tax exclusion; room and board aren't eligible.

Aside from the benefit of being able to make larger tax-free gifts, paying tuition directly to the college ensures that your money will be used for education purposes. However, a direct tuition payment might prompt a college to reduce any potential grant award in your grandchild's financial aid package, so make sure to ask the college about the financial aid impact of your gift.

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Over the past 10 years, the amount of borrowing increased 78% under the unsubsidized Stafford Loan program, 26% under the Parent PLUS Loan program, and a whopping 262% under the Grad PLUS Loan program.

Source: College Board, Trends in Student Aid 2016, Table 1

Table: Federal Student Loans for College

Many families rely on federal student loans to help pay for college. This table describes features of the most common federal loans.

	Direct Unsubsidized Stafford Loan	Direct Subsidized Stafford Loan	Perkins Loan	Direct PLUS Loan (Parent/Grad)
Description	A federal student loan available to students regardless of financial need	A federal student loan available only to students with demonstrated financial need	A federal student loan available only to students with the greatest financial need	A federal loan available to parents and graduate students with good credit histories regardless of financial need
Eligibility	Undergraduate and graduate students enrolled at least half-time	Undergraduate students enrolled at least half-time	Undergraduate and graduate students (can be enrolled less than half-time)	Parents of undergraduate students enrolled at least half-time, and graduate and professional students
Funds dispersed by	Federal government	Federal government	College	Federal government
Borrower	Student	Student	Student	Parent or graduate/ professional student
Based on financial need?	No	Yes	Yes	No
Interest rate for loans disbursed in academic year 2016/2017	3.76% fixed for undergraduates; 5.31% fixed for graduate students	3.76% fixed	5% fixed	6.31% fixed
Interest subsidized?	No	Yes[1]	Yes[1]	No
Grace period	6 months	6 months	Generally 9 months	6 months
Loan limits for academic year 2016/2017	Dependent undergraduates: 1st year \$5,500 (\$3,500 subsidized), 2nd year \$6,500 (\$4,500 subsidized), 3rd to 5th year \$7,500/year (\$5,500 subsidized), \$31,000 maximum Independent undergraduates and dependent undergraduates whose parents don't qualify for a PLUS Loan: 1st year \$9,500 (\$3,500 subsidized), 2nd year \$10,500 (\$4,500 subsidized), 3rd to 5th year \$12,500/year (\$5,500/year subsidized), \$57,500 maximum Graduate students: \$20,500 per year, \$138,500 maximum including undergraduate loans		Undergraduates: \$5,500/year \$27,500 limit Graduate students: \$8,000/year \$60,000 limit (including undergraduate loans)	Total cost of education, minus any other financial aid received

[1] The federal government pays the interest on the loan while the student is in school at least half-time, in a grace period, or in a deferment period.

Quaker Trusted Financial Advisors Wealth Management, LLC

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You should be receiving statements at least quarterly from TD Ameritrade. If you are not receiving these statements, or you need another copy of a statement, please call us and we will provide one to you. Clients are encouraged to review the information on the statements, especially the amount of fees deducted, and compare that information with any information provided by Quaker Wealth Management, LLC. If there are any questions or discrepancies, please contact us as soon as possible.

Do I need to file a gift tax return?

If you transfer money or property to anyone in any year without receiving something of at least equal value in return, you may need to file a federal gift tax return (Form 709) by the April tax filing deadline. If you live in one of the few states that also impose a gift tax, you may need to file a separate gift tax return with your state as well.

Not all gifts, however, are treated the same. Some gifts aren't taxable and generally don't require a gift tax return. These exceptions include:

- Gifts to your spouse that qualify for the marital deduction
- Gifts to charities that qualify for the charitable deduction (Filing is not required as long as you transfer your entire interest in the property to qualifying charities. However, if you are required to file a return to report gifts to noncharitable beneficiaries, all charitable gifts must be reported as well.)
- Qualified amounts paid on someone else's behalf directly to an educational institution for tuition or to a provider for medical care
- Annual exclusion gifts totaling $14,000 or less for the year to any one individual (However, you must file a return to split gifts with your spouse if you want all gifts made by either spouse during the year treated as made one-half by each spouse — enabling you and your spouse to effectively use each other's annual exclusion.)

If your gift isn't exempt from taxation, you'll need to file a gift tax return. But that doesn't mean you have to pay gift tax. Generally, each taxpayer is allowed to make taxable gifts totaling $5,490,000 (in 2017, up from $5,450,000 in 2016) over his or her lifetime before paying any gift tax. Filing the gift tax return helps the IRS keep a running tab on the taxable gifts you have made and the amount of the lifetime exclusion you have used.

If you made a gift of property that's hard to value (e.g., real estate), you may want to report the gift, even if you're not required to do so, in order to establish the gift's taxable value. If you do, the IRS generally has only three years to challenge the gift's value. If you don't report the gift, the IRS can dispute the value of your gift at any time in the future.