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“Nothing is more responsible for the good old days than a bad memory.”

*Franklin P. Adams,
Columnist*

Yes, We Are Making Progress

Whatever your world view or political leanings, chances are your sense of where we are as a nation has been tilting south these days. Part of the problem is that civic discourse has become toxic. While many Americans continue to rant, often from the relative safety of social media posts, most of us have retreated towards a state of numbness. It's easier that way.

With so much vitriol piercing our daily news feeds, it's worth remembering that if we choose to view events on a broader timeline—one that extends past mid-term election cycles—then things aren't truly falling apart. On the contrary, the world in many ways is getting better, not worse. We touched on this contrarian notion in a recent [blog post](#), noting that many cities and towns across our country, scuffling through most of the post-recession recovery, have

been exploring innovative ways to improve, and even flourish.

Before we continue our case for optimism, we should note that the current pervasive gloomy tone is not exclusive to the U.S. Most of the world feels the same way, albeit with their own set of grievances.

In a recent [YouGov survey](#), China proved to be the most optimistic country by far, with 31% of respondents believing the world is getting better. Australia and Sweden were a distant second and third, with 18% and 14%, respectively, seeing positive progress. France was the crankiest country, with a mere 1% of respondents believing things were getting better. Germany and Great Britain were right behind at 2%. The U.S. was only slightly less gloomy at 6%.

While it's true that we live in

an age of political dysfunction, global terrorism, and an increase in autocratic rule, there remains much to be hopeful about. A recent article in [Our World in Data](#) encouraged readers to look back not a week or a year, but many decades to gauge whether the world is in fact gaining ground. As the data suggests, we are making enormous strides for the better by almost any measure.

For example, the number of people living in poverty—defined as a daily income of \$1.90 per day (adjusted for different countries and other factors)—dropped to less than 10% of the global population as recently as 2015. Yes, this number is still too high, but it's far better than it was in 1930, when 33% of the world lived in poverty. Increased productivity and economic growth over the last 30 years have been

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Roth Strategies Under the New Tax Law

There were rumblings that new tax legislation would severely curtail or even put the kibosh on Roth IRAs. No worries. Instead, Congress has made Roths arguably more attractive for many taxpayers. But before we get into specifics, here's a quick primer on the advantages of having a Roth.

First and foremost, any money you place in a Roth grows tax-free, and unlike traditional IRAs, you don't have to take minimum distributions starting at age 70 ½. Your beneficiaries can inherit your Roth tax-free as well, though they will be subject to required minimum distributions. While your contribu-

tion to a Roth (limited to \$5,500 a year, or \$6,500 if you're 50 or older) doesn't come with the nifty tax deduction available with a traditional IRA, the power of tax-free compounding trumps the tax deduction under most any scenario.

The new tax law impacts

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Churning at the Top

“Nobody knows which individual companies will rise from obscurity, or become the next Pacific Vegetable Oil.”

Index investing is boring, right? This seems especially true with the large cap indexes like the S&P 500, which includes big permanent, stable titans of the global economy. Not much changes from year to year, decade to decade.

Or does it? In actual fact, the S&P 500 added and deleted three stocks last year—Advanced Micro Devices, Raymond James, Inc. and Alexandria Real Estate Equities were included, replacing Urban Outfitters, Frontier Communications and First Solar—and this was a fairly normal year.

These small incremental changes can add up over time. Imagine if you had fallen asleep in 1955 owning equal shares of each company in the Fortune 500 (the S&P index didn't exist then) and awakened last year, whereupon you immediately checked your holdings. You'd be startled to realize that only 60 companies on today's list were among the 500 companies on the 1955

one. Some were merged away, some fell down in the ranks, and many name brands of the time—like Armstrong Rubber, Cone Mills, Hines Lumber, Pacific Vegetable Oil and Riegel Textile—are distant memories.

The point here is that, long term, there is nothing especially stable about the hierarchy of large companies in the U.S. or global economy. We don't know which will be the major corporate titans of tomorrow's economy, just like nobody back in the 1950s could have predicted Facebook, Twitter, Apple Computer or Microsoft. This is exactly why we buy index funds or diversified portfolios. Nobody knows which individual companies will rise from obscurity, or become the next Pacific Vegetable Oil.

For fun, we looked back to see some of the names listed in the original S&P 500 index, which it debuted in 1957. Here are a few names that, well, aren't included in this closely followed index today: General Cigars, McCalls, Royal Crown Cola, RCA, Cream of Wheat, Montgomery Ward and Studebaker Packard and Magnavox.

Progress...

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hugely important factors.

Global literacy has also improved over the years. In 1820, the article notes that just one in 10 people over age 15 were literate. Today, more than 85% of the world population is literate. Rates are even higher for young people.

Global health and mortality rates continue to improve as well. Modern medicine has helped, but so have improved diets and the discovery of germ theory in the second half of the 19th century, which led to the development of antibiotics and vaccines. Today, the child mortality rate (defined as dying in the first five years of life) has dropped to 4.3%, a tenfold improvement over the last two centuries.

Finally, the world has benefited enormously from gains in political freedom. The article notes that throughout the 19th century, more than a third of the population lived in colonial regimes, and almost everyone else was under autocratic rule. The share of the population living under democratic rule is up sharply today, in large part due to the fall of the Soviet Union. As for those under autocratic rule, four out of five live in one country—China.

Health, wealth, literacy, freedom—the world continues to improve in all of these dimensions, but the information is hidden beneath the day-to-day shouting delivered by our daily news feed.

On a personal note, I recently had the privilege to travel in two countries that by most measures are

“getting better”: Cambodia and Vietnam. Getting better, of course is a relative term. In 2016, the average per capita GDP was \$1,070 in Cambodia and \$1,770 in Vietnam. It was \$52,194 in the U.S. However, GDP *growth* in Cambodia and Vietnam was above 6%, far outpacing the U.S.

Yet, with a per capita GDP at 9% of the world average, Cambodia is decidedly impoverished. And it shows. On my drive north from Phnom Penh to Siem Reap, I was amazed at how many pop-up vendors lined the thinly-trafficked roadsides, selling whatever goods they had to offer—socks, bananas, cigarettes, soda bottles filled with gas, you name it. I suspect many were struggling to move beyond the \$1.90 poverty line, but their resourcefulness and determination were admirable.

Joined by a local photographer guide in Phnom Penh one evening, I visited a shantytown along an abandoned railroad line with new skyscrapers glimmering in the near distance. On this warm evening, kids were playing marbles in the dirt and kick-the-can along the tracks, while older folks played music on broken guitars or played cards. Dinners cooked in pots nearby. The joy and sense of community were a sight to behold. We were thrilled to be allowed into the world of these people, who welcomed our photos of young kids, teens, and adults living their daily lives. Most fun of all was sharing pictures from the back of our cameras, which elicited laughs from young and old alike.

We revisited this community several mornings later with a slightly larger photography group, only to find a much more sedate and largely vacated place. We quickly realized that almost everyone was at work. Many residents here farm cockles and sell them from carts as they travel through Phnom Penh. (I later learned that the cockles go bad after one day, and their sale may soon be governed by much-needed safety regulations. Unfortunately, this poor community is ill-equipped to meet the proposed refrigeration or ice storage requirement.)

In this community, young kids, as well as adults, often work, pulled from school at an early age to help in the family business. I found it both ironic and sad that kids who show a collective happiness not always displayed in our own country are likely headed for the wrong side of the poverty and literacy divide. Even so, their collective joy lingers in my memories.

With that in mind, I took notice of a [World Happiness Report](#), which uses data from the Gallup World Poll in an attempt to gauge what it takes to be happy. For questions like “Does your day include laughter?” over 70% of Cambodians responded favorably, which did not surprise me one bit. In fact, their laughter rate equaled that of the U.S. Interestingly, less than 65% of the neighboring and more prosperous Vietnamese responded favorably to daily happiness questions.

With that, here’s to daily laughter and a world that is slowly and quietly getting better.

Finding
Clarity
in
the
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Conlon & Dart LLC
720 Olive Way
Suite 1850
Seattle, WA 98101

Phone: 888-777-4015
Fax: 206-728-1255
info@conlondart.com

www.conlondart.com



Roth...

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Roth investing in several subtle ways. On the downside, after the 2017 tax year, you will no longer be able to reverse a Roth conversion that didn't pencil out or lost money after the conversion. Under the old law, you could convert and invest \$10,000 in January and reverse or cancel your Roth conversion if the \$10,000 turned to \$8,000 (under the law, you would be taxed on the \$10,000) before the tax filing deadline. That was a nice way to game the market, but relatively few taxpayers took advantage of this quirk in the tax code.

Beyond that, Roths have come out just fine, if not better, for certain taxpayers. The main reason is that the majority of middle class taxpayers will find that their marginal tax rates for 2018 through 2025 will be down slightly from previous years. In 2026, however, marginal rates will revert to the old, higher rates—unless Congress acts to make the tax law permanent by that time. In theory, triggering a Roth conversion within the lower-tax period will benefit you once rates rise in 2026.

Another change that benefits Roths: there are fewer but wider tax brackets under the new law, giving you more leeway when it comes to doing a conversion that

won't push you into a higher marginal bracket.

But you still have to pay attention to them. A single taxpayer making \$95k in 2018 would land in the 24% marginal tax bracket (income between \$82,500 and \$157,500). In this instance, making a one-time \$100k Roth conversion in a single tax year would push much of the conversion into the 32% marginal bracket. A better approach might be to spread the conversion over two or more years to keep adjusted gross income firmly inside the 24% marginal tax bracket.

Despite the tax-free treatment, Roth IRAs aren't for everyone. If you feel your marginal tax rate will fall significantly during retirement, you may be better off funding a traditional deductible IRA and staying away from a Roth conversion. On the other hand, if you think your marginal rate will remain the same or increase when you retire (at least, if the current tax law holds up), then you should consider a Roth.

Some of this decision-making process is specific to your individual circumstances, but another part is a guessing game about where Congress will go with tax policy. On that front, your guess is as good as ours.

- Mitch Conlon

STAT BANK

3.2 ...Number of months of inventory of existing homes for sale in December 2017, the lowest total ever recorded.

(National Association of Realtors)

107 ...Number of months of current economic expansion in the US, the second longest expansion on record dating back to 1854.

(National Bureau of Economic Research)

37 ...Percentage of American adults under the age of 35 who are invested in stocks today, down from 55% in 2002.

(Gallup)

50.6 ...Percentage gain for the S&P 500 index over its best 5 trading days in the last 10 years, more than the 50.1% gained by the other 2,513 trading days combined.

(BTN Research)

65 ...Percentage of American workers who believe that even if they continue working until age 65 they will not accumulate enough savings to meet their retirement needs.

(Transamerica Center for Retirement Studies)

5.5 ...Annual percentage increase in the cost of tuition, fees, room and board for public in-state college education over the last thirty years.

(College Board)

3.8 ...Percentage annual growth of US economy from 1987-1989. Since then, the domestic economy has grown by at least 3.8% only one time, and that was back in 2004.

(Department of Commerce)

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