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In the first quarter of 2017, domestic stocks generally continued to perform well, with the healthcare and technology sectors leading the way.

Internationally, both developed and emerging markets outperformed as risk-on sentiment and low valuations relative to domestic counterparts drove inflows.

In the U.S., the Federal Reserve decided to raise interest rates for the second consecutive quarter and signaled that it will likely increase rates twice more in 2017.

March 2017

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Condor Capital Reviews 1st Quarter 2017

Equity markets generally performed well in the first quarter of 2017, while fixed income markets that had struggled in the previous quarter regained their footing. Persistent optimism among investors regarding macroeconomic conditions, corporate earnings growth, and political expectations of tax cuts and deregulation were all contributors to positive equity returns. In a reversal from the previous quarter, the technology and health care sectors led gains, while financial services and energy stocks lagged. Overall, the S&P 500 Index posted a 6.07% gain in the year's first quarter. Large-cap stocks posted the largest gains, followed by mid-caps and then small-caps, while growth generally outperformed value.

International stocks had a strong quarter, with both emerging and developed markets outperforming domestic equities. There were multiple catalysts for this success, including a moderating dollar and the failure of protectionist rhetoric to translate into policy, at least for the time being. Additionally, the recent run-up in U.S. stocks led some investors to the view that their international counterparts had become relatively cheap, further boosting inflows. Emerging markets equities benefitted from a risk-on attitude among investors chasing relative outperformance and were the biggest gainers in the period.

The Federal Reserve raised interest rates by 0.25% for the second consecutive quarter, potentially indicating that the central bank will follow through with its more hawkish outlook for interest rates in 2017. The March rate rise also reflected positively on the Fed's ability to telegraph its moves effectively as to not catch the market off guard, as it successfully adjusted investors' expectations for the increase in the weeks leading up to its decision. Despite the rate increase, Treasury yields remained notably flat in the quarter. The 10-year Treasury yield remained range-bound near its 2016 year-end level, reaching as high as 2.62% at one point but settling back to 2.40% by the first quarter's end.

Fixed income markets showed perseverance in the first quarter. The same risk-on sentiment that sent equities higher was noticeable to some extent in the bond market as well, as emerging market debt posted the largest gains in the period, while investors' longer-term interest rate expectations kept high-yield and short-duration debt in favor. In

a reversal from the previous quarter, municipal bond returns were positive, though the headwinds of potential tax cuts still loom for these holdings. Finally, returns for corporate and government bonds showed little divergence in the first quarter of the year, though corporate debt holdings generally outpaced their Treasury-based counterparts slightly.

Outlook – Moving forward, the shape of policy under the Trump administration is likely to continue to be a key storyline for financial markets. While a lack of action on healthcare reform highlighted the political difficulties of turning a president's agenda into concrete policy, investors remain optimistic that market-friendly reforms such as tax cuts and deregulations will be passed. Any corporate tax cut would be a tailwind for firms across the board, while the inclusion of a border adjustment tax would shift the balance of international trade towards protectionism and weigh on U.S. firms that manufacture goods overseas. Other areas of interest in the political sphere are potential infrastructure spending and deregulation, particularly in the energy and financial services sectors.

Macroeconomic trends will have a notable influence on markets in the year ahead as well. Domestic job growth has been strong and shows no signs of slowing. If the unemployment rate continues to fall and wage growth materializes, we should continue to see rising consumer confidence. Unemployment data, GDP growth, and inflation will all be closely monitored by the Federal Reserve, which has adopted a more hawkish outlook and raised interest rates in each of the last two quarters.

A generally positive first quarter of 2017 has reaffirmed our cautiously optimistic outlook for the year. Still, it remains our belief that any attempts to chase short-term gains, speculate, or time the market would be ill-advised for the vast majority of individuals. For example, financials outperformed strongly in the fourth quarter of 2016 and were generally expected to continue their surge, yet were outperformed by half a dozen sectors in the first quarter. Fixed income holdings and international markets reversed their fortunes from a quarter earlier as well. As a result, it remains our recommendation that investors maintain a diversified portfolio catering to their specific goals and risk tolerance with a long-term perspective.



Key Retirement and Tax Numbers For 2017

Every year, the Internal Revenue Service announces cost-of-living adjustments that affect contribution limits for retirement plans, thresholds for deductions and credits, and standard deduction and personal exemption amounts. Here are a few of the key adjustments for 2017.

Retirement plans

- Employees who participate in 401(k), 403(b), and most 457 plans can defer up to \$18,000 in compensation in 2017 (the same as in 2016); employees age 50 and older can defer up to an additional \$6,000 in 2017 (the same as in 2016).
- Employees participating in a SIMPLE retirement plan can defer up to \$12,500 in 2017 (the same as in 2016), and employees age 50 and older will be able to defer up to an additional \$3,000 in 2017 (the same as in 2016).

IRAs

The limit on annual contributions to an IRA remains unchanged at \$5,500 in 2017, with individuals age 50 and older able to contribute an additional \$1,000. For individuals who are covered by a workplace retirement plan, the deduction for contributions to a traditional IRA is phased out for the following modified adjusted gross income (AGI) ranges:

	2016	2017
Single/head of household	\$61,000 - \$71,000	\$62,000 - \$72,000
Married filing jointly	\$98,000 - \$118,000	\$99,000 - \$119,000
Married filing	\$0 - \$10,000	\$0 - \$10,000

The 2017 phaseout range is \$186,000 - \$196,000 (up from \$184,000 - \$194,000 in 2016) when the individual making the IRA contribution is not covered by a workplace retirement plan but is filing jointly with a spouse who is covered.

The modified AGI phaseout ranges for individuals making contributions to a Roth IRA are:

	2016	2017
Single/HOH	\$117,000 -	\$118,000 -
MFJ	\$184,000 - \$194,000	\$186,000 - \$196,000
MFS	\$0 - \$10,000	\$0 - \$10,000

Estate and gift tax

- The annual gift tax exclusion remains at \$14,000.
- The gift and estate tax basic exclusion amount for 2017 is \$5,490,000, up from \$5,450,000 in 2016.

Personal exemption

The personal exemption amount remains at \$4,050. For 2017, personal exemptions begin to phase out once AGI exceeds \$261,500 (single), \$287,650 (HOH), \$313,800 (MFJ), or \$156,900 (MFS).

These same AGI thresholds apply in determining if itemized deductions may be limited. The corresponding 2016 threshold amounts were \$259,400 (single), \$285,350 (HOH), \$311,300 (MFJ), and \$155,650 (MFS).

Standard deduction

These amounts have been adjusted as follows:

	2016	2017
Single	\$6,300	\$6,350
HOH	\$9,300	\$9,350
MFJ	\$12,600	\$12,700
MFS	\$6,300	\$6,350

The 2016 and 2017 additional standard deduction amount (age 65 or older, or blind) is \$1,550 for single/HOH or \$1,250 for all other filing statuses. Special rules apply if you can be claimed as a dependent by another taxpayer.

Alternative minimum tax (AMT)

AMT amounts have been adjusted as follows:

	2016	2017
Maximum AMT exemption amount		
Single/HOH	\$53,900	\$54,300
MFJ	\$83,800	\$84,500
MFS	\$41,900	\$42,250
Exemption phaseout threshold		
Single/HOH	\$119,700	\$120,700
MFJ	\$159,700	\$160,900
MFS	\$79,850	\$80,450
26% on AMTI* up to this amount, 28% on AMTI above this amount		
MFS	\$93,150	\$93,900
All others	\$186,300	\$187,800

*Alternative minimum taxable income



As the costs of college education continue to rise, here are some ways that grandparents can pitch in to help ease the financial burden.

Grandparents Can Help Bridge the College Cost Gap

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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Please remember to contact Condor Capital Management if there are any changes in your personal/financial situation or investment objectives for the purpose of reviewing, evaluating, or revising our previous recommendations and/or services. Please also advise us if you would like to impose, add, or modify any reasonable restrictions to our investment advisory services. A copy of our current written disclosure statement as set forth on Form ADV Part II A/B continues to remain available for your review upon request.

How Can I Prepare Financially for Stormy Weather?

Floods, tornadoes, torrential rain, lightning, and hail are common events in many parts of the country during the spring and may result in widespread damage. Severe weather often strikes with little warning, so take measures now to protect yourself and your property.

Review your insurance coverage. Make sure your homeowners and auto insurance coverage is sufficient. While standard homeowners insurance covers losses from fire, lightning, and hail, you may need to buy separate coverage for hurricanes, floods, earthquakes, and other disasters. Consult your insurer or insurance professional, who can help determine whether you have adequate coverage for the risks you face.

Create a financial emergency kit. Collect financial records and documents that may help you recover more quickly after a disaster. This kit might contain a list of key contacts and copies of important documents, including identification cards, birth and marriage certificates, insurance policies, home inventories, wills, trusts, and deeds. Make sure your kit is stored in a secure fireproof and waterproof container that is accessible and easy to carry. The Emergency Financial First Aid Kit, available online at ready.gov, offers a number of checklists and

forms that may help you prepare your own kit, as well as tips to guide you through the process.

Protect your assets. Take some commonsense precautions to safeguard your home, vehicles, and other possessions against damage. For example, to prepare for a possible power outage, you might want to install an emergency generator and a sump pump with a battery backup if you have a basement or garage that is prone to flooding. Inspect your yard and make sure you have somewhere to store loose objects (e.g., grills and patio furniture) in a hurry, cut down overhanging tree limbs, and clean your gutters and down spouts. Check your home's exterior, too, to make sure that your roof and siding are in good condition, and invest in storm windows, doors, and shutters. In addition, make sure you know how to turn off your gas, electricity, and water should an emergency arise. And if you have a garage, make sure your vehicles are parked inside when a storm is imminent.

What Are Some Tips for Creating a Home Inventory?

Imagine having to remember and describe every item in your home, especially after you've been the victim of a fire, theft, or natural disaster. Rather than relying on your memory, you may want to prepare a home inventory — a detailed record of all your personal property. This record can help substantiate an insurance claim, support a police report when items are stolen, or prove a loss to the IRS. Here are some tips to get started.

Tour your property. A simple way to complete your inventory is to make a visual record of your belongings. Take a video of the contents of each room in your home and spaces where you have items stored, such as a basement, cellar, garage, or shed. Be sure to open cabinets, closets, and drawers, and pay special attention to valuable and hard-to-replace items. You can also use the tried-and-true low-tech method of writing everything down in a notebook, or use a combination approach. Mobile inventory apps and software programs are available to guide you through the process.

Be thorough. Your home inventory should provide as many details as possible. For example, include purchase dates, estimated values, and serial and model numbers. If possible, locate receipts to support the cost of big-ticket items and attach copies of appraisals for valuables such as antiques, collectibles, and jewelry.

Keep it safe. In addition to keeping a copy of your inventory in your home where you can easily access it, store a copy elsewhere to protect it in the event that your home is damaged by a flood, fire, or other disaster. This might mean putting it in a safe deposit box, giving it to a trusted friend or family member for safekeeping, or storing it on an external storage device that you can take with you or on a cloud-based service that provides easy and secure access.

Update it periodically. When you obtain a valuable or important item, add it to your inventory as soon as possible. Review your home inventory at least once a year for accuracy. You can also share it annually with your insurance agent or representative to help determine whether your policy coverages and limits are still adequate.