SYMPHONY
FINANCIAL SERVICES, INC.

# Market Commentary
# August 6, 2018

## Dear Investors:

Capital gains tax reform comes with a big price tag: $100 billion over 10 years.

A capital gain is any increase in the value of an asset, such as an investment, a home, land, etc., between its purchase and its sale. The amount of a gain is determined by subtracting the purchase price from the sale price.

Last week, the White House proposed capital gains be adjusted or 'indexed' for inflation before they are taxed. Princeton Professor Alan Blinder explained the idea in *The Wall Street Journal*:

> "Why index gains? Suppose you own a stock for many years, during which time overall prices have doubled because of inflation. Over the holding period, the value of your stock also has doubled. When you sell, the proceeds have precisely the same purchasing power as the original purchase. There's no gain, no loss. But under current tax law, you owe taxes on the phantom 'gain.' Worse, if your stock went up by less than the cumulative inflation, you'll still get taxed despite your loss. This is unfair and dysfunctional."

While the suggestion is appealing to many investors, it's not without controversy. For example, the White House suggested the Treasury Department change the tax code without Congressional approval by modifying enforcement regulations. However, the legislative branch – Congress – is constitutionally responsible for tax law.

In addition, adjusting capital gains for inflation without doing the same for interest expense and depreciation may allow some taxpayers to be able to generate significant losses on paper. Current tax law includes provisions that limit this kind of tax strategy, but indexing capital gains would reopen the door, reported the *Tax Policy Center*.

Another consideration is the impact of the change on the deficit and the national debt. The *Congressional Budget Office* estimates suggest 2017 tax reform will increase "…the total projected deficit over the 2018-2028 period by about $1.9 trillion." Adjusting capital gains for inflation could increase the shortfall by about $100 billion over a decade, reported Naomi Jagoda for *The Hill*.

| Data as of 8/3/18 | 1-Week | Y-T-D | 1-Year | 3-Year | 5-Year | 10-Year |
|---|---|---|---|---|---|---|
| Standard & Poor's 500 (Domestic Stocks) | 0.8% | 6.2% | 14.9% | 10.6% | 10.7% | 8.6% |
| Dow Jones Global ex-U.S. | -1.4 | -4.1 | 2.0 | 3.7 | 3.0 | 1.2 |
| 10-year Treasury Note (Yield Only) | 3.0 | NA | 2.2 | 2.2 | 2.6 | 4.0 |
| Gold (per ounce) | -0.6 | -6.2 | -4.1 | 3.7 | -1.4 | 3.0 |
| Bloomberg Commodity Index | 0.1 | -3.7 | 1.9 | -2.1 | -7.5 | -8.1 |
| DJ Equity All REIT Total Return Index | 3.2 | 3.2 | 6.2 | 8.0 | 9.4 | 8.3 |

S&P 500, Dow Jones Global ex-US, Gold, Bloomberg Commodity Index returns exclude reinvested dividends (gold does not pay a dividend) and the three-, five-, and 10-year returns are annualized; the DJ Equity All REIT Total Return Index does include reinvested dividends and the three-, five-, and 10-year returns are annualized; and the 10-year Treasury Note is simply the yield at the close of the day on each of the historical time periods.
Sources: Yahoo! Finance, Barron's, djindexes.com, London Bullion Market Association.
Past performance is no guarantee of future results. Indices are unmanaged and cannot be invested into directly. N/A means not applicable.

**THE MILLENNIAL WAY.** From social media to housing options to banking, every generation has had its own preferences. Today, millennials (individuals between the ages of 18 and 34) are having a profound influence on lifestyle and culture. Here are three trends to watch:

1. **Millennials are moving to smaller cities.** "Mid- or second-tier cities, loosely defined as those under a million people that aren't regional powerhouses like Austin or Seattle, are increasingly seen as not just places to find a lower cost of living, easier commute, and closer connections with family, but also a more approachable, neighborhood-oriented version of the urban lifestyle that sent many to the larger cities in the first place," reported Patrick Sisson for *Curbed.com.*

2. **Millennials like point-of-sale loans.** Point-of-sale loans are catching on. *The Economist* reported, "Consumers who might previously have financed big-ticket purchases such as furniture, electronics, or home-improvement projects with a credit card are now opting to borrow at the checkout, often with an initial 0 percent interest rate. These short-term credit products were once the domain of big banks…[and] store-branded credit cards. Now tech startups are entering the market with innovative techniques for underwriting and approving potential borrowers, often in seconds."

3. **Millennials tend to prefer healthier lifestyles**. "For millennials, wellness is a daily, active pursuit. They're exercising more, eating smarter, and smoking less than previous generations. They're using apps to track training data and online information to find the healthiest foods. And, this is one space where they're willing to spend money on compelling brands," reported *Goldman Sachs*.

## Weekly Focus – Think About It

"The changes in our life must come from the impossibility to live otherwise than according to the demands of our conscience, not from our mental resolution to try a new form of life."

*--Leo Tolstoy, Russian writer*

Best regards,

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P.S. Please feel free to forward this commentary to family, friends, or colleagues. If you would like us to add them to the list, please reply to this email with their email address and we will ask for their permission to be added.

* Past performance does not guarantee future results. Investing involves risk, including loss of principal.
* You cannot invest directly in an index.
* Stock investing involves risk including loss of principal.
* Consult your financial professional before making any investment decision.

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