



# Qtr Notes

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## Disaster Tax Relief:

Hurricane Irma has been officially designated as a Major Disaster, which triggers certain forms of tax relief for Florida taxpayers. We strongly recommend you speak with your CPA to confirm how these tax rules affect you, as we can't provide tax advice.

Extensions have been granted to certain items, including quarterly estimated tax payments and individual return extensions from 2016. Consult your tax advisor for specific dates and qualifying circumstances.

Companies looking to help their employees have a unique tax benefit to consider: Section 139(a) of the tax code, Qualified Disaster Relief Payments, allows employers to assist with employees' disaster-related personal expenses not reimbursed via insurance or otherwise. Qualifying payments are deductible to the company and not included in the gross income of the recipient individual. Again, be sure to consult a tax expert.

Lastly, the IRS has made it easier to make an early withdrawal from your 401(k) or 403(b). Bear in mind, however, that taxes and penalties still apply for pre-retirement distributions.

## Lessons Learned from the Hurricanes

About this time last year, we had what we thought was a test of our hurricane readiness. Hurricane Matthew formed into the first Category 5 Atlantic storm in nine years. South Florida took some precautions, but the extent of most people's hurricane preparations was to buy some water and an extra pack of batteries, and top off the cars with gas.

Matthew drew a bead on South Florida as a Category 4 storm, and then stayed just far enough offshore to avoid a direct Florida hit. The winds barely elevated enough to take down a few dead palm fronds.

Lesson learned: none. What better warning to get us actually prepared for the next "Big One"? We had a whole year to get those trees trimmed, generators serviced, propane tanks filled, shutters lubricated, chainsaws repaired, and evacuation plans organized. But few people did anything to prepare for the next storm.

This year, the real impact of Irma caught everybody off guard, even those who thought they were well prepared. Advance warnings were taken more seriously, but most preparations were inadequate, and evacuation routes dwindled as Irma threatened to swallow the entire state. A few days of expected inconvenience became a two-week saga of madness. For those who stayed, the streets were a mess, and power, gas, ice and emotions were challenged by the end of each day. For those who evacuated, it seemed that Irma followed them from city to city, driving them farther and farther away from home. Puerto Rico then suffered the direct hit from Hurricane Maria, only a week after Irma.

The parallels to today's investment portfolio are striking. It's been nearly ten years since the last big storm in the markets: the Financial Crisis of 2008. While we all think we remember the pain, investors have probably become all too comfortable and complacent with juicy market

Index	9/30/2017	YTD
Dow Industrials	22,405.09	13.4%
S&P 500 Index	2,519.36	12.5%
Russell 2000	1,490.86	9.9%
MSCI EAFE	1,973.80	17.2%
Global Bond Index	479.57	6.3%
10-Year Treasury yld	2.33%	

returns. The economy seems to be healthy, but have investment risks really dissipated?

As a firm, we've practiced diversification and rebalancing along the way, but even these efforts will be challenged when the next correction hits. Until it happens, we won't know how bad it will be or where the center will hit, and recovering from a disaster never goes smoothly, even when you are prepared. Even a diversified portfolio will be shaken, but the roof shouldn't fly off and the recovery process should be bearable.

We are currently evaluating our recovery process after Irma, and making improvements for the next time. It was a very uneasy feeling not to have reliable office communications for a day or two, and even longer at home.

We encourage you to do the same for both storm and financial readiness. We hope the next major correction is some way off, but while the skies are still clear, let's have a discussion to review your portfolio and get you as ready as you can be.

## Fair Weather for the Economy

What does storm preparedness look like for your portfolio?

Thanks to modern technology, we have some degree of advance warning for hurricanes, although no power on earth can give a full and accurate forecast. With the markets, we have even less clarity: we can watch for foul weather and prepare carefully, but no beacon or model

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## Safety in Numbers: Credit Freezes

Credit reporting giant Equifax admitted in early September that a massive data breach had compromised the data of almost 150 million people. What was stolen and why, and what are your risks?

Victims of the Equifax breach are at particular risk of Social Security benefits theft, identity theft, tax refund fraud, and bogus credit schemes. In this last type of crime, your data is used to open new credit accounts in your name. The thieves then use that credit for short but massive spending sprees, often buying luxury goods for quick resale. The victim of the theft is left with ruined credit and a long, bitter fight to clean up the mess.

Setting credit freezes now can save grief and loss. A separate freeze must be placed for each person and with each company (Equifax, Experian, and TransUnion). Placing a freeze at Equifax will also protect you from Social Security benefits fraud.

In most states, including Florida, companies are allowed to charge for credit freezes, typically \$10 or more per person per company, unless you are already a victim of identity theft. Equifax is currently waiving this fee. In some states, the fees are also waived if you are over 65 years of age.

## Fair Economic Weather

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allows us to predict the storms of the markets. The probability of a correction – an afternoon shower or evening thunderstorm – is always high, since these are common events. A more significant event, like a recession or a hurricane, is not currently on the radar, but the risk is real and must not be ignored.

Today, skies remain clear, with unemployment at its lowest rate in more than 15 years. Wages have seen some growth, and corporations like Target, which recently announced firmwide raises, will hopefully help workers catch up on their lost purchasing power after years of stagnant wages. In spite of slower car sales, US manufacturing is proving resilient in maintaining overall production.

Just last week the White House finally released its tax reform priorities, including a simplified tax code, AMT and estate tax repeal, and lower tax rates. Details have yet to be negotiated, and any package actually implemented must inevitably go through extensive revision.

Optimism has increased globally. We're seeing increased stability and growth across South America, Australia, Europe and the Far East. The only slowdown we've seen recently is in Mexico, whose manufacturing sector has been hurt by falling auto production and whose cities must now work to rebuild after the recent destructive earthquakes.

Nothing in plain sight suggests a recession is imminent. We are concerned that rising stock prices reflect excessive expectations, given the realities of today's global economy. Higher valuations today suggest that future returns could be lower. We are pleased with the performance of the stock markets and our portfolios this year, but caution that returns in future years may be more limited. To plan and prepare, we continue to review and rebalance portfolios and have been shaving profits off the most expensive assets.

## Best Practices for Insurance Claims

Many Floridians experienced the wrath of Hurricane Irma as the storm ran up the entire state, leaving a trail of damage and debris. As we navigate the cleanup process and start repairs, many homeowners and businesses are faced with the task of making an insurance claim. We would like to believe that all insurance companies handle

claims with the insured's best interest in mind, but unfortunately, this is simply not always the case.

The claims process can be riddled with pitfalls for the unaware, but some assistance is available to policyholders. In Florida, the Department of Financial Services licenses public insurance adjusters, who can aid and support claimants through the filing and settlement process. These professional adjusters represent the insured's interest when negotiating the claim, typically charging 10% of the settlement. (For non-storm claims, the fees can be higher.) Many property insurance attorneys also provide services to assist with claims from start to finish. They typically charge higher fees, but can handle more complex claims that might involve litigation.

For the more aware, it's possible (but not always recommended) to handle the claim on your own. If you choose to process your own claim, here are a few guidelines to consider:

- Report your claim as soon as possible.
- Take photographs of the damage and keep all receipts for expenses incurred.
- Be prepared to submit a recorded statement.
- Carefully review the Sworn Statement of Proof of Loss.
- Remain patient: the insurance company has 90 days to give you a decision on your claim.

## Good News on Tax Refund Fraud

One of the crimes that often follow identity theft is tax refund fraud, topping \$240 million in 2016. Although the IRS can issue a PIN code to verify your identity when you file, this was previously restricted to taxpayers who were already victims of identity theft – a classic case of locking the barn door after the horse has been stolen.

This has now changed: if you live in Florida, Georgia, or DC – the three areas most badly hit by identity theft – you can request a PIN from the IRS. The online process begins at [www.irs.gov/identity-theft-fraud-scams/get-an-identity-protection-pin](http://www.irs.gov/identity-theft-fraud-scams/get-an-identity-protection-pin).

Once issued, the Identity Protection PIN must be used for all subsequent filings. A new PIN will be issued to you every year, so be sure to safeguard it so you'll have it when you file.