20

FOUNTAIN FINANCIAL ASSOCIATES

CELEBRATING 20 YEARS *of* KEEPING PROMISES

20 Lessons in 20 Years

Vinton Fountain

In 2018, we are celebrating our 20th year as a firm. The past two decades have afforded many lessons for all of us. I thought I would share a few lessons from my experiences in hopes that we can learn together.

1. Believe in possibilities, no matter how bad it feels
2. Greed is worse than fear as it relates to mistakes, bigger consequences
3. Protecting principal is goal one
4. Sometimes the best investments are the ones you did not make
5. Time and compounding is the ninth wonder of the world
6. Communication is paramount for confidence
7. Prosperity advances in spite of ourselves
8. Simple is better, if possible
9. Measure against potential, not an arbitrary target
10. Procrastination is the primary hurdle for most
11. Trust but verify
12. Be the best, not the cheapest
13. Be a world class listener, but take action
14. If it sounds too good to be true, it is
15. Wealth takes many forms, some tangible, some intangible
16. Do not buy tulips or bitcoin
17. A great investor saves first, spends after
18. Be more strategic, less tactical
19. Use experts, no one knows it all
20. Buy the unpopular, sell the popular

Certainly, there is more to share, but these few lessons have been helpful to me and hopefully to you. The New Year brings renewal and reflection. I will close with a quote from Norman Cousins, "the capacity for hope is the most significant fact of life. It provides human beings with a sense of destination and the energy to get started". We have a tremendous future and our most sacred asset is life.

I would like to thank our clients, families, friends and colleagues for their support of our firm. From the beginning days in 1998, the concept of a different and better investment experience has been my dream. You and many others made that dream a reality that has exceeded my expectations on many levels. I have learned a great deal from you. Thank you.

Our silver anniversary affords a chance to pause and acknowledge the people that make life better each and every day. Our purpose remains to support you and your family in making wise decisions that enhance your life. I am enthusiastically looking forward to our next decade. We are here to help.

My best,

Vinton

Inside this issue:

Sunshine, Fear and Investment Manias

Chris Riley, CFP®

A new year is upon us, and now is a very great time to think about successful investing and the corresponding behavior associated with it.

"The time to repair a roof is when the sun is shining" - John F. Kennedy

President Kennedy's quote feels appropriate as we look back on what has been a very sunny year. Positive returns in nearly all risk assets accompanied by very low volatility have made for smooth sailing for investors. While we also know that the "rain" (volatility and more challenging markets) will return as it always does, we have a chance to make any necessary repairs, minor or major, today. Maybe your roof is in perfect condition or needs a few patches. Our advice is simply to take stock of where things stand today and take advantage of this opportunity to think strategically and take action. Do you feel confident and prepared? Make sure the answer to that question is a resounding "Yes".

> *"The time to repair a roof is when the sun is shining"*
>
> JOHN F. KENNEDY

There are almost always pockets of performance chasing or hot new trends at any given point in time, but most important for us as successful long- term investors is understanding why fear and speculative behavior seem to derail so many well laid-plans. In 1841, Scottish journalist Charles MacKay published "Extraordinary Delusions and the Madness Of Crowds", to document the tendencies of people to think and act in herds. These are extraordinarily illuminating and, unfortunately, entertaining tales of chicanery, greed, and naivete. Specifically recounting some of the most dangerous and economically injurious instances over the previous 300 years such as the Dutch Tulip Bubble, South Seas Bubble and Mississippi Company debacle. We may think that the Great Crash of 1929, the financial crisis of 2008, junk bonds of the '80s, and overvalued high-tech stocks of the '90s are peculiarly 20th and 21st century aberrations, but as this book highlights, the madness and confusion of crowds persists over time. Why do financially sensible people jump lemming-like into harebrained speculative frenzies -- only to jump out of windows (and investments) when their fantasies dissolve? As famous economist John Kenneth Galbraith observed: "There's nothing unique about this. It is something which happens every 20 or 30 years because that is about the length of the financial memory. It's about the length of time that it requires for a new set of suckers if you will, a new set of people capable of wonderful self-delusion to come in and imagine that they have a new and wonderful fix on the future."

We have seen plenty of bubbles large and small across all sorts of assets and will not be alarmed when that inevitability pops up again. It is often very difficult to see in advance what will actually turn into a mania, but being surprised or overreacting to them can be fatal. A well-diversified and patient investor will be rewarded, and never owning enough of any one idea to make a killing nor enough of it to risk being killed by it is, a good rule of thumb.

The investable universe will continue to grow and expand as it always has, but there are some foundational tenets of capitalism that guide us as investors. Purchasing stock offers investors a residual claim on a company's future profits, while a bond offers a promised stream of future cash flows, including the repayment of principle when it matures. Holding cash, on the other hand, does not provide an expected stream of future cash flow. One US dollar held today does not entitle you to more dollars in the future. The same logic applies to holding other 'stores of value' such as gold, foreign currencies or newer forms of 'digital' currency. Unless we can predict when one form of currency will appreciate or depreciate relative to others, we should not expect a positive return from one versus another. These observations may seem somewhat elementary, but they are primary to any grounded investment process. Keep this in mind and be wary of behavior that looks or feels speculative.

Give some thought about what's most important to you and your family, and what can be done today to prevent "emergencies" in the future. We are encouraging clients to engage and take action while the sun is out and move into this new year empowered and confident.

Keeping Promises

Implications of the First Major Tax Overhaul in 30 Years

Buck Beam

Before leaving for Christmas break, President Trump officially signed the Republican tax bill into law. The last time this country reformed its tax code, Mike Tyson became the youngest Heavyweight Champion in history, the Oprah Winfrey show had just debuted on television, and the movie “Wall Street” had not yet been released. Such sweeping reform obviously included many details and covered many issues. Here is a summary to highlight changes that will be of particular interest to our clients.

Individuals may start to see the impacts to their paychecks as early as this February, but will not likely feel the full scope of its effects until filing their 2018 tax returns in 2019. There will continue to be seven tax brackets; however, the income thresholds will be higher and the graduated tax rates will be lower. The dreaded Alternative Minimum Tax (AMT) for individuals is being curtailed while the standard deduction was doubled and the amount one can deduct for mortgage interest and state taxes was reduced. The estate tax exemption and child tax credit were also doubled. The individual mandate for health care was repealed, so Americans will no longer be forced to buy health insurance or suffer a tax penalty for not having it.

For companies, the corporate tax rate is being cut from 35% to 21%, which brings the U.S. tax rate roughly in line with the rest of the world. The AMT tax for corporations was eliminated, and to incent corporations to repatriate cash, there is a one-time time break of 15.5%. Corporations can now expense 100% of the cost of eligible property through 2022 and many small business owners may now deduct 20% of their eligible pass-through income.

For investors, tax rates on dividends and capital gains, tax lot-selling rules, and rules regarding 401k plans remain unchanged. Parents and grandparents of school-age children may be happy to hear that 529 plans were expanded to include private K-12 education costs.

Looking to financial markets, likely early beneficiaries include companies doing the majority of their business in the United States as well as smaller companies, which tend to pay higher tax rates than larger corporations. Companies in sectors such as consumer staples, consumer discretionary, telecom and financials generally have higher tax rates and thus stand to benefit more than companies in technology, energy and real estate which generally have lower tax rates. Sectors that are domestically focused and consumer-driven - industries such as telecom, media and retail – may also benefit from consumers having more money to spend. New provisions for the accelerated expensing of capital expenditures should benefit manufacturing companies.

It remains to be seen how much of the expected benefit of the tax plan is already priced into the markets, and how the tax plan will ultimately impact companies differently. In the short run, the plan will likely spur economic growth as consumers have more money to spend (consumption makes up roughly 70% of GDP). Faster growth could spur inflationary pressure and interest rate increases by the Federal Reserve would likely follow. Additionally, some economists estimate that the package could add significantly to the federal deficit, depending on how much growth the package generates. These factors will affect the economy and markets over the long run.

Predicting how all this plays out is difficult and the impact on each person’s tax return could be different. We are here to support you and your tax advisor as we continue to examine the impacts of this new legislation and the opportunities it creates for our clients.

Words Worth Repeating

“The best preparation for tomorrow is doing your best today”

H. JACKSON BROWN, JR

“I can’t change the direction of the wind, but I can adjust my sails to always reach my destination”

JIMMY DEAN

“Start by doing what’s necessary; then do what’s possible; and suddenly you are doing the impossible”

FRANCIS OF ASSISI

“Pave your own path and be fearless”

ADAM DRAPER

Looking down the Road...

Shred Event

Our popular document shredding event will take place in late April – stop by our office with your confidential information to be disposed of by a mobile shredding truck – breakfast will be served and you can have peace of mind knowing your documents will be disposed of securely! Invitation details will be forthcoming.

Coffee & Conversation and Lunch & Learn

We will have three educational events in 2018 featuring financial planning topics of interest. We will host these events in March, August and November. "Save the Date" invites will be sent so you can mark your calendars.

Fall Event

In early Fall, Fountain Financial Associates will be celebrating its 20th Anniversary, and we want to share the event with our loyal clients. We look forward to greeting you as our special guests – look out for our special event invitation later this year.

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