The January 2018 AAII Journal is Now Available Online.

Feature Article »

Polar Opposite: MAGNET Complex Goes From Bottom to Top in 2017

by Wayne A. Thorp, CFA

Our annual review of the AAII screening strategies finds MAGNET Complex on top after being the worst performer in 2016.

Portfolio Strategies »

Insights on Using the 4% Withdrawal Rule From Its Creator

by William Bengen

Bill Bengen explains why he now suggests a 4.5% withdrawal rate and what the biggest threat to his withdrawal strategy is.

Stock Strategies »

The Essence of the Benjamin Graham Approach

by Ben Branch

A cut-to-the chase synopsis of Graham's rules, which were based on buying stocks trading with a margin of safety.

AAII Model Portfolios »

Model Shadow Stock Portfolio: Implementing the New Four-Year Sell Rule

by James B. Cloonan

A new time limit on portfolio holdings triggered the removal of four stocks that no longer qualify and have lackluster long-term returns.

Level3 Passive Portfolio »

Altering the ETF Weightings in the Level3 Passive Portfolio

by James B. Cloonan

The three stock index ETFs are now being assigned equal weights, with a lower weighting assigned to the real estate ETF.

Departments »

- **Briefly Noted**
  Current news items of interest to individual investors.
  - 52-Week Highs Perform Better Than Record Highs
  - For Mutual Funds, Competition Doesn't Mean Lower Fees
  - Proxy Adviser's Gender and Shareholder Meetings Guidelines
  - Executives Misconstrue Employees' Investment Preferences
- Letters to the Editor
  Comments on AAII founder Jim Cloonan's legacy, active vs. passive investing and Thaler's endowment effect.

Editor’s Note:

Charles Rotblut, CFA
AAII Journal Editor

This will be a year of milestones.

AAII will turn 40 years old. For the first time in our history, founder and chairman James Cloonan won’t be at the helm. He’s scheduled to retire at the end of this month. Our director of educational programs, Arlene Zamudio, will go into semi-retirement. Arlene has worked closely with our local chapter leaders to keep their programs vibrant. She is also the person who has kept our Investor Conference running smoothly for many years. We’ll all miss seeing Jim and Arlene at the office.

We’ll introduce a new premium online newsletter based on a stock strategy I’ve been developing. Unlike with a traditional newsletter, subscribers will have access to the brand new analytical tools used for managing the portfolio. Depending on when you read this, you may have already heard about it or will be hearing more about it soon.

An AAII podcast will be forthcoming. I can’t give you an exact date, but it’s on our to-do list for 2018. Stay tuned.

Beyond AAII, there will likely be tax reform. I say likely, because I am writing this just before the House of Representatives and the Senate are scheduled to vote. The reconciled bill was released a few days before this issue was scheduled to go the printer. Given possible last-minute tweaks, I didn’t want to rush out a revised tax guide in this issue.

It will also take time for the Internal Revenue Service (IRS) to publish new guidance and numbers. This delay will impact not only tax guides and software but paychecks as well. In mid-December, the IRS issued a statement saying it would issue initial withholding guidance in January, resulting in paychecks being adjusted “as early as February.” From both an individual and corporate tax planning perspective, it would have been much better if this bill had been passed during the summer with additional funding given to the IRS to help the agency incorporate the law’s changes.

In terms of updating our tax guide, we'll look at the actual bill and rely on tax experts as much as we can, but it will be a process. I realize timely information is important, but I'd rather be a bit slower and more accurate, than fast and less accurate. My plan is to update the guide online first and then include the revisions in the March *AAII Journal.* (Our annual mutual fund guide will be in next month's issue.) We'll post entries to the AAII Blog whenever we get a tax change uploaded; keep an eye on http://blog.aaii.com/category/tax-planning for updates.

Based on what I've seen so far in the legislation, there are a few things I can share. Individual tax rates will be lower, the standard deduction will be higher and the personal exemption will be eliminated. Depending on your income and your expenses, your ability to itemize will change. Investors will continue to be able to choose which lot of stocks they sell. (You must tell your broker before transacting, however.)

In addition, Roth IRA recharacteriziations are no longer allowed. Once you convert assets to a Roth IRA, you cannot undo it. Chained CPI (consumer price index) will now be used for inflation adjustments. This is a slower measure of inflation. It impacts everything from tax brackets (bad news for those near the breakpoints) to deductions to retirement savings contribution limits.

Current projections suggest that the majority of individual taxpayers will get a tax cut. I suggest allocating any tax savings to paying down debt and/or increasing savings (assuming you have the financial flexibility to do so). Many of the individual tax breaks are temporary. The tax bill is projected to add to both the deficit and the debt. Plus, you're already used to not having the money available to spend, anyway.

In terms of saving, I would prioritize Roth IRAs, Roth 401(k)s and health savings accounts (HSA) for those of you who are eligible to do so. If you're retired, consider tax-advantaged investments. The logic is that the odds of tax rates being reduced further are much lower now than they were a year ago.

Wishing you a healthy and prosperous new year,

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