Gifts That Keep Giving
Ideas for every age and budget.

Tax Bill Takeaways
What to know now. Page 34

Mortgage No More
Does it pay to pay off your home loan early? Page 20
Dear Client,

As the holidays roll around, so too does gift-giving season. Those looking to bestow presents of lasting value will find ideas for all ages beginning on page 26.

The end of the year is also a great time to reassess your tax situation—especially in light of the recently enacted Tax Cuts and Jobs Acts—and so elsewhere in this issue you’ll find a guide to the new legislation’s biggest benefits and drawbacks (page 34), three ways to gift tax-efficiently during your lifetime (page 11) and strategies for managing the required minimum distributions the IRS mandates from traditional tax-deferred retirement accounts beginning at age 70½ (page 38).

If you have questions about any of the ideas and strategies included in this issue, I encourage you to reach out to us at 877-297-1126. We welcome every opportunity to help you plan for a brighter tomorrow. Thank you for being a Schwab client.

Sincerely,

Terri Kallsen
Executive Vice President
Schwab Investor Services
Welcome to Season 2 of Schwab's Choiceology™ podcast.

A key to investing success.
By Walt Bettinger

The stock market's run-up has left investors exposed ...
By Jeffrey Kleintop

... in more ways than one.
By Anthony Davidow

Does it pay to pay off your mortgage early?

A new way to trade an uptrend.

Personalized Portfolio Builder; Schwab Bank Pledged Asset Line; wealth management; cash solutions.

What goes down must come up.
By Charles R. Schwab

Ideas for every age and budget.

Five ways to defray the considerable costs.

Your guide to the new legislation's biggest benefits and drawbacks.

How to manage the mandated withdrawals from your retirement accounts.

Winter 2018

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Listen Up!

Choiceology™, an original podcast from Charles Schwab, exposes the psychological traps that lead to expensive mistakes. In Season 2, decision scientist and Wharton professor Katy Milkman helps listeners identify concrete and practical ways to make better decisions in their own lives—with help from guests like Nobel Prize–winning behavioral economist Richard Thaler, MacArthur “genius grant” recipient Angela Duckworth and other renowned experts. Listen and subscribe for free at schwab.com/podcast.
CEO’s NOTE

Keep Calm, Carry On

Sticking to your plan—through bad times and good—is key to investing success.

It’s hard to believe it’s been a decade since Lehman Brothers filed for Chapter 11—still the largest bankruptcy in U.S. history and one that triggered a swift and steep decline in the market. From September 2008 through February 2009, the S&P 500® Index fell more than 40%.

The ensuing years have seen the longest bull market ever, but many investors still feel a sense of trepidation. That’s why we’re such big proponents of our 7 Investing Principles, which apply in good times and bad.

Take investing principle No. 1: “Establish a financial plan based on your goals.” According to our 2018 Modern Wealth Index survey of 1,000 investors, 78% of those who created a financial plan before or immediately following the Great Recession reported more savings than those without a plan, and 60% felt more confident in their ability to weather another recession.

Of course, having a financial plan helps only if you stick to it—even when markets are surging. If you let your winners run for too long, you may end up overexposed when stocks eventually come back down to earth. For example, a hypothetical portfolio of 60% stocks and 40% bonds in March 2009 would have drifted to 83% stocks and 17% bonds by June 2018 if it had been left unattended. Regularly rebalancing your portfolio—a.k.a. principle No. 6—can help keep your level of risk within comfortable limits.

For many people, investing is an exercise in patience and fortitude. If you ever need help keeping your head when the going gets tough, give us a call or stop by your local branch. We’re here to help.

Sincerely,

Walt Bettinger
President & CEO

See page 47 for important information.

(1118-8V2V)
A trusted partnership.

A corporate trustee provides financial expertise, unbiased decision making, and fiscal responsibility for the full duration of a trust. At Charles Schwab Trust Company, our promise to you and your family is to:

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• Wisely invest your trust’s assets to benefit the next generation and beyond
• Provide services with a competitive fee structure you expect from Schwab

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Own your tomorrow.
We’ve all heard the advice: As you near retirement, pare back on equities and add cash and fixed income to your portfolio. But does it follow that you should be out of stocks altogether by the time you retire?

Not necessarily. “In fact, it may make sense for today’s retirees to keep as much as 60% of their investment assets in equities, especially in their first decade of retirement,” says Rob Williams, managing director of income planning at the Schwab Center for Financial Research.
The rationale behind such a stock-heavy portfolio has to do with life expectancy. Those who stop working at age 65, for example, may need to stretch their savings for 20 years or more, and stocks can help offset the risk of outliving your savings.

Consider two simulations run by analysts at the Schwab Center for Financial Research. In the first, they took a hypothetical portfolio of $1 million made up of 60% equities and 40% cash and fixed income and withdrew 5.9% annually for 20 years. In three-quarters of the 1,000 trials, the portfolio’s balance after 20 years was greater than $0—meaning the portfolio had a 75% chance of lasting 20 years.

In the second simulation, the $1 million hypothetical portfolio was made up of 20% equities and 80% cash and fixed income. In this scenario, analysts could withdraw only 5.4% if they were to maintain a 75% chance of the portfolio lasting 20 years.

In other words, the math favors the bold—albeit with greater risk and a wider range of possible outcomes.

“While it’s true that, on average, you can do better with a more-aggressive portfolio, you could also run out of funds sooner due to increased volatility,” Rob observes.

That’s one reason it can be wise to maintain a near-term reserve of two to four years’ worth of living expenses—thereby lessening the likelihood you’ll need to liquidate equities during a downturn.

See page 47 for important information. The projections or other information generated by Monte Carlo analysis regarding the likelihood of various investment outcomes are hypothetical in nature, do not reflect actual investment results and are not guarantees of future results.

Beyond saving for a child’s education, what can parents and grandparents do to help the next generation establish a financially secure future? One approach is to create a retirement time capsule, in which you invest early on the child’s behalf and leave the money to grow for up to half a century.

Here’s how it works: After the child has started her or his first job, the parent or grandparent makes a gift to the child that can be used to fund a Roth IRA. (Note that the contribution can’t exceed the child’s earned income and is subject to the other Roth limitations.)

One or more annual contributions could accumulate into a tidy sum by the time the child retires (see “Many happy returns,” right), and withdrawals anytime after age 59½ are penalty- and tax-free. Given the power of compound interest, it’s a relatively affordable way to help young people secure their retirement while discouraging them from tapping the funds prematurely.

See page 47 for important information. The projections or other information generated by Monte Carlo analysis regarding the likelihood of various investment outcomes are hypothetical in nature, do not reflect actual investment results and are not guarantees of future results.

(1118-801J)
Many happy returns
How yearly contributions to a Roth IRA on behalf of a loved one just starting out would fare if left untouched until retirement.

Portfolio value at age 60: $53,369

Age 22
$5,500

Age 22–23
$11,000

Age 22–24
$16,500

Age 22–25
$22,000

Age 22–26
$27,500

Age 22–27
$33,000

Age 22–28
$38,500

Age 22–29
$44,000

Age 22–28
$300,949

Age 22–26 $227,832

Age 22–25 $187,951

Age 22–24 $145,678

Age 22–23 $100,868

Age 22 $53,369

Let’s Talk
Need help funding an IRA on behalf of a loved one? Call your Schwab financial consultant today.

See page 47 for important information. (1118-8PH9)

Chart is hypothetical, for illustrative purposes only and assumes a 6% annual rate of return.
Behind the Curve

Does an inverted yield curve portend a recession?

The interest rates on short-term debt—think 2-year Treasury bills—are typically lower than those on longer-term bonds. That’s because the latter must compensate investors for the relatively increased risk that rates will rise during the longer life of the investment. This phenomenon is expressed by what is known as the yield curve, with interest rates stepping up as bond terms lengthen—a la the teal line in the chart at right.

“However, when the Federal Reserve repeatedly raises rates, as it’s been doing for the past two years, the normally upward-sloping yield curve may flatten out or even invert,” explains Kathy Jones, chief fixed income strategist at the Schwab Center for Financial Research. “And that makes many people nervous, because an inverted yield curve has preceded every modern recession.”

Although the Treasury yield curve has flattened considerably during the past eight years (as illustrated by the orange and pink lines, above), it hasn’t yet inverted, which happens when short-term yields actually exceed longer-term ones. However, even if that does occur, it doesn’t automatically augur a recession. In fact, the yield curve has sent a number of false signals, Kathy says—most recently in June 1998, when no recession came to pass despite the curve’s brief inversion.

What’s more, the time between an inversion and a recession is far from consistent—ranging from as few as nine months to as many as 24—even when they do correlate.¹

“The yield curve is something to keep an eye on, to be sure,” Kathy says. “But if other economic indicators are strong, it’s not worth losing sleep over.”


See page 47 for important information.

(1118-8JMA)

Stay up to date on the yield curve and other market forces at schwab.com/insights.
Gray Area

How to help keep vulnerable seniors from getting taken to the bank.

As retirees age, they become increasingly susceptible to schemes aimed at separating them from their hard-earned savings. More than a third of seniors lose money to exploitation over any given five-year period, according to a 2015 report by True Link Financial. And Allianz’s 2016 Safeguarding Our Seniors Study estimates the average loss is some $36,000.

Caregivers and close family members are often in the best position to pick up on potential threats—assuming they know what to look for. Here are five ways to help the susceptible steer clear of trouble.

- **Listen**: Pay attention to how aging loved ones talk about their finances. If they indicate they’re confused by their finances, their money seems to be disappearing or they’re being approached by suspicious individuals, it might be time to intervene.

- **Look**: Keep an eye out for changes in behavior or spending habits, as these could indicate your loved one is being scammed or otherwise taken advantage of.

- **Discuss**: Loved ones may be less forthcoming if they feel cornered or embarrassed, so talk in terms that leave them feeling supported rather than blamed.

- **Anticipate**: Most financial institutions have additional security measures they can activate to help protect the potentially vulnerable.

- **Alert**: The sooner you take steps to halt losses and recoup lost funds—which can include notifying law enforcement, Adult Protective Services and the Federal Trade Commission to report specific scams—the greater your likelihood of success.

A financial advisor is also potentially useful for spotting changes in financial behavior, says Joyce Couillard, a senior team manager in charge of fraud investigations at Schwab Financial Crimes Risk Management. “The nice thing about institutions like ours is that we’re well-positioned to pick up on abnormal or suspicious activity,” she says. “Family plays a key role, but it’s good to know there’s someone else in your corner.”

See page 47 for important information.
(1118-8G8B)
Filter out the noise. Focus on the facts.

American Funds beat their Lipper peer indexes in 94% of 20-year periods.*

Now available on Schwab.
Find us at schwab.com/americanfunds

Investments are not FDIC-insured, nor are they deposits of or guaranteed by a bank or any other entity, so they may lose value. Investors should carefully consider investment objectives, risk, charges, and expenses. This and other important information is contained in the fund prospectuses and summary prospectuses, which can be obtained from a financial professional and should be read carefully before investing. For details, please contact your financial professional.

*Equity funds have beaten their Lipper peer indexes in 92% of 10-year periods and 99% of 20-year periods. Fixed income funds have beaten their Lipper indexes in 77% of 10-year periods and 80% of 20-year periods. Based on Class F-2 share results for rolling periods through December 31, 2017. Periods covered are the shorter of the fund’s lifetime or since the comparable Lipper index inception date (except Capital Income Builder and SMALLCAP World Fund, for which the Lipper average was used).

Securities offered through American Funds Distributors, Inc.
Heaven Can Wait

Gift giving during your lifetime can be beneficial in more ways than one. Acts of generosity while you’re alive allow you to witness the benefits firsthand, says Kim Frank, an Orlando, Florida–based wealth strategist at Schwab. “That way, your gift can be enjoyed right away—and there are often tax advantages as well.”
If the inheritance your heirs receive is subject to the estate tax, for example, they may not receive all you’d hoped for. “Gifts given during your lifetime can grow in value in the hands of the recipient, rather than yours,” explains Hayden Adams, CPA and director of tax and financial planning at the Schwab Center for Financial Research, “which can help reduce the overall size of your taxable estate.”

Cash
Consider the annual gift-tax exemption. In 2018, individuals can give up to $15,000 per person ($30,000 for married couples) to an unlimited number of people without incurring federal estate or gift taxes. (Even this is a bit of a false limit, since anything in excess of that amount merely counts against your lifetime exemption of $11.18 million per individual or $22.36 million per married couple.)

“This is perhaps the easiest way to dispose of assets,” says Kim, whose clients frequently give money directly to their children or to a 529 college savings plan for a grandchild. “And if you choose to contribute to a 529, you can bundle five years’ worth of gift-tax exemptions into a single contribution.”

In addition to the annual gift-tax exemption, you may contribute an unlimited amount without tax consequences to:

- The medical bills of another individual.
- The tuition bills of another individual.
- A qualified charitable organization of your choosing.

In the first two instances, funds must go directly to the institution rather than the patient or student, lest they be subject to the annual gift-tax exemption.

Stock
The price you paid for a stock—that is, its cost basis—determines how much in capital-gains taxes you might owe when you sell. When you give a stock during your lifetime, the recipient’s cost basis is the same as yours. But when you pass on stock as part of your estate, the cost basis generally resets to the value of the stock at the time of your death, greatly minimizing the taxable gains for your heirs.

The reverse logic holds true when it comes to charitable giving. “If you plan to give appreciated stock to charity, it may make sense to do so during your lifetime so that you can capture the greatest possible deduction while also sidestepping any capital gains,” Kim says.

Gifting appreciated assets to a DAF can be especially advantageous. You can make grants to qualified charities at your convenience and, because you’ve transferred ownership to the DAF, you pay no capital-gains tax when the assets are sold.

Real estate
As with stocks, gifting appreciated real estate to an individual during your lifetime means passing on your cost basis to the recipient, which could result in a hefty tax bill should he or she sell the property.

Donating real estate to a charity, by comparison, often allows you to take a deduction equal to the fair market value (based on a qualified appraisal) and avoid the capital gains you might have realized from selling the property.

As with appreciated investment assets, gifts of real estate to a DAF can sidestep capital-gains taxes while maintaining maximum flexibility as to when and to whom you donate the proceeds.

Your giving plan
Of course, as any philanthropically minded person can attest, giving is about more than just the potential tax advantages.

“Yes, you want to be smart from a tax perspective,” says Kim, who suggests consulting a tax professional to consider how best to maximize your giving. “But knowing that you’ve helped a loved one or a charity you’re passionate about can be hugely rewarding in and of itself.”

“Gifts given during your lifetime can grow in value in the hands of the recipient, rather than yours, which can help reduce the overall size of your taxable estate.”
Thinking Long Term?
Consider an investment manager who does the same.

Sometimes, the best investments come with patience. But you have to know where to find them and which are worth waiting for. That’s how MFS® actively invests for the long term — looking for returns over time, rather than just here and now.

Put 90 years of active management expertise to work toward your long-term goals.

To view a list of MFS funds that are available without a transaction fee or load through the Schwab Mutual Fund OneSource® service, please visit www.schwab.com/MFS

Our domestic equity funds were in the top half of their Lipper classification:

79%
over the 10-year period

1 Source: Lipper as of 6/30/18, based on Class A shares at NAV and Class A assets.
Keep in mind that a high relative ranking does not always mean the fund achieved a positive return during the period. Lipper rankings do not take into account sales charges and are based on historical total returns, which are not indicative of future results.
Past performance is no guarantee of future results. Keep in mind that all investments, including mutual funds, carry a certain amount of risk, including the possible loss of the principal amount invested.

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Numbers tell only half the story.

Strategic investing takes us beyond the numbers. That’s why over 350 of our experts go out in the field to examine investment opportunities firsthand; like mobile payment adoption in new markets around the world. Our rigorous approach helps us select and manage investments for our funds.

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Request a prospectus or summary prospectus at Schwab.com/OneSource; each includes investment objectives, risks, fees, expenses, and other information that you should read and consider carefully before investing.

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T. Rowe Price Investment Services, Inc., Distributor.
Hold Your Horses

What a tightening monetary policy might mean for your portfolio.

By Kathy Jones
It’s been nearly three years since the Federal Reserve began unwinding its zero-interest-rate policy by raising the federal funds rate (the interest rate U.S. banks charge other banks on overnight loans, which helps dictate short-term interest rates for the rest of us). Since then, the Fed has raised the federal funds rate more than a half-dozen times. Now, the question shifts to when the rate hikes might end.

The Fed’s long-term target for the federal funds rate is from 2.75% to 3%. However, in June the Fed’s rate-setting body indicated that rates might peak in the range of 3.25% to 3.5% in 2020 before declining to its long-term target. Although there’s no telling precisely where rates might land, there are several factors investors might want to consider as rates continue to rise.

**Heightened credit risk**

As monetary policy tightens, you’ll need to pay closer attention to credit risk in your fixed income portfolio, especially where corporate and high-yield bonds are concerned. That’s because issuers of bonds with variable interest rates will have to pay more to meet their obligations as rates reset.

Even fixed-rate borrowers may feel the sting, as lending standards often grow stricter as the cost of credit rises. That means fewer options for companies to refinance existing debt, increasing their odds of default.

In an environment of elevated credit risk, Schwab favors bonds at the upper end of the quality spectrum. If you hold or purchase bonds of lesser quality, make sure your potential upside is commensurate with your increased risk.

**Higher yields with less risk**

If you’re looking for safety, Treasuries are generally your best bet. Short-term Treasuries’ real yields—their stated yields minus inflation—are finally in positive territory after spending almost a decade underwater (see “The return of the T-bill,” below). Now investors can again turn to Treasuries for income that, not too long ago, would have required more risk.

**Narrowing spreads**

When the Fed tightens its monetary policy, the difference between short- and long-term rates tends to narrow—meaning there’s less incentive to tie up your money for longer periods.

To mitigate the effects of rising rates, we favor keeping the average duration in bond portfolios in the short-to-intermediate range. That doesn’t mean shunning all long-term bonds but rather keeping the average duration toward the shorter end of the spectrum.

As we approach the end of rate increases for this economic cycle, it’s becoming increasingly tempting to start to add duration to portfolios. Not so fast. Until we see spreads between short- and long-term debt widen again, we suggest sticking with short- and intermediate-term debt.

**The return of the T-bill**

Real yields are finally in positive territory.

![Graph showing yield spread between short- and long-term debt from 2008 to 2018.](chart)

Source: Schwab Center for Financial Research with data from Bloomberg. Real yields are represented by 12-month Treasury bills minus inflation, as measured by the core Personal Consumption Expenditures Index (excluding energy and food). Data as of 08/31/2018 (yields) and 07/31/2018 (inflation).
Part 1: Domestic vs. International

By Jeffrey Kleintop

Domestic equities have significantly outpaced their international counterparts for the past four years. For those who haven’t regularly revisited their asset allocations, this otherwise welcome trend in U.S. markets may have left them underexposed to equities from abroad (see “Dangerous drift,” next page).

Given the breadth and depth of international markets, where’s an investor looking to shift money out of the U.S. stock market to turn?

Old World values

Over the past 10 years, eurozone stocks have returned a compound annual growth rate of just 1.3%, underperforming every other region except Japan. However, there’s reason to believe that the headlines concerning the eurozone might be worse than the reality on the ground for four reasons:

Last year’s 2.4% increase in gross domestic product (GDP) was the strongest rate of expansion since 2007. True, stocks pulled back when growth took a step back earlier this year, but the causes—bad weather and a supply chain stretched to the breaking point—appeared to be temporary.

If core inflation (excluding energy and food) remains muted, the European Central Bank is not expected to raise interest rates until the second half of 2019—meaning businesses and consumers will continue to benefit from low borrowing costs. Fresh fiscal stimulus may also be in the offing: Several major European countries have instituted or are considering tax cuts.

Key victories for more-moderate establishment candidates have slowed if not reversed the populist trend on the continent. French voters
overwhelmingly voted for Emmanuel Macron over staunch nationalist Marine Le Pen in the country’s presidential election in 2017, and German voters handed Angela Merkel a fourth term as chancellor earlier this year. What’s more, European Union leaders recently reached consensus on migration,4 taking some of the steam out of an issue that has threatened to undermine the economic bloc.

While many are rightfully concerned about a full-blown trade war between the U.S. and its major trading partners, the talks haven’t yet translated into binding trade policies. And although companies in both markets garner 16% to 17% of their revenues from the other, the vast majority of trade that occurs in the region is among those within the economic bloc.

Proceed with caution

There are still longer-term trends that investors should watch to keep from going overboard on eurozone equities—including low to no growth in the workforce and a steady reliance on slow-growth industries, such as materials and telecommunications.

That said, those looking to rebalance their portfolios could benefit from the eurozone’s more-positive trends by reinvesting some of their U.S. gains in European equities.

While as U.S. equities have outpaced those from abroad in recent years (see “Part 1,” previous page), so too have certain equity types fared better than others within the U.S. stock market.

Fueling much of the market’s gains over the past decade, for example, are so-called growth stocks (think Alphabet, Amazon and Apple). Although such stocks generally pay low or no dividends, investors are often willing to pay a premium for their exceptionally bright prospects.

Value stocks, on the other hand, tend to trade at a discount relative to their book value, cash flow and/or price-to-earnings ratio (think AT&T, Coca-Cola and ExxonMobil). Such stocks tend to pay higher dividends, in part because their growth prospects aren’t nearly so rosy.

Historically, growth stocks have performed well during periods of modest economic expansion and low interest rates (as in recent years), whereas value stocks have excelled during periods of steady economic expansion and rising interest rates (such as the one we appear to be entering now). So, after a decade of go-go growth stocks, is the pendulum ready to swing back in value’s favor?

Mind the gap

Looking back at the last cycle of interest-rate hikes, value stocks did in fact significantly outperform growth stocks. From June 2003 through June 2006, the Russell 1000 Value Index returned nearly 56%—as compared with roughly 30% for its growth counterpart.1

Jeffrey Kleintop is a senior vice president and chief global investment strategist at Charles Schwab & Co., Inc.

See page 47 for important information.

1 International investments involve additional risks, which include differences in financial accounting standards, currency fluctuations, geopolitical risk, foreign taxes and regulations, and the potential for illiquid markets. Investing in emerging markets may accentuate these risks. (1118-8817)

Part 2: Growth vs. Value

By Anthony Davidow

Search for growth, value and fundamental funds at schwab.com/fundscreener.
That said, there are two reasons why simply swapping out growth stocks or funds with their value-oriented cousins may not be the right move:

1. **Blurred lines:** The distinction between growth and value stocks is far less pronounced than it once was. Tech companies, for instance, are often labeled as growth stocks; however, many are no longer the scrappy upstarts of yesterday but rather established, dividend-paying companies with healthy balance sheets and strong earnings. By the same token, companies once defined as traditional value plays are investing in new technologies and capitalizing on new growth opportunities.

2. **Timing:** Even professional investment managers find it difficult to successfully time the market. If you reallocate resources from growth to value stocks too soon, for example, you risk missing out on gains you might otherwise have captured.

**Mixing it up**

That’s not to say investors should sit tight. The strong performance of growth stocks in recent years may mean they now comprise an outsized share of some portfolios. (Indeed, the performance gap between the Russell 1000 Growth Index and Russell 1000 Value Index is greater today than at any time since 2008—see “The growth decade,” right.) Investors in this situation might consider selling some of those growth stocks, if only to bring their portfolios back in line with their target asset allocations.

Another approach would be to combine traditional index funds, which screen and weight securities according to their market capitalization, with fundamental index funds, which screen and weight securities based on metrics such as sales, cash flow, and dividends and buybacks. Employing both strategies can deepen your diversification.

After all, growth stocks may or may not continue their winning streak, but it’s always a good idea to be positioned for a sudden sea change—and to rebalance if your portfolio has strayed too far from its target allocations.

**The growth decade**

The divergence between the Russell 1000 Growth Index and Russell 1000 Value Index is greater than at any time since 2008.

Source: Schwab Center for Financial Research and Morningstar. Data from 06/01/2003 through 06/01/2006.

See page 47 for important information. The investment strategies mentioned here may not be suitable for everyone. Each investor needs to review an investment strategy for his or her own particular situation before making any investment decision. Examples provided are for illustrative purposes only and not intended to be reflective of results you can expect to achieve. Diversification and rebalancing strategies do not ensure a profit and do not protect against losses in declining markets. Rebalancing may cause investors to incur transaction costs and, when rebalancing a non-retirement account, taxable events can be created that may affect your tax liability. (1118-8LXT)
Does It Pay to Pay Off Your Mortgage Early?

Even for those lucky enough to be in this position, the decision isn’t always an obvious one.

Are you able to pay off your mortgage with cash on hand?  

Do your other liabilities, such as credit card debt, carry higher interest rates?  

Is your mortgage interest deductible?  

Could you boost the amount you pay each month?  

Because interest deductions significantly reduce the net cost of a mortgage, it might make sense to maintain the loan and put extra money to use elsewhere.

Ilustration by Luis Mendo

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1 Because the standard deduction is $12,000 for individuals and $24,000 for married couples filing jointly, your combined deductions, including homes purchased after 12/15/2017. | 2Bankrate.com, as of 09/05/2018. | 3According to a forecast by Charles Schwab Investment Advisory, Inc.
Recent changes to tax law may make itemizing deductions less appealing to some households. To learn more, turn to “Tax Bill Takeaways,” page 34.

Are you carrying the mortgage debt in part to put money toward savings? Yes

In September the average 30-year fixed mortgage rate was 4.4%, while long-term equity return estimates stood at 6.5%. If you do decide to invest the lump sum rather than pay off your mortgage, remember that investing entails risk and pocketing the difference is far from certain.

Congratulations—it may indeed pay to pay off your mortgage. However, you might still want to review your long-term plan with a financial advisor to be doubly sure it’s the best option for your situation.

Before you deplete excess savings, Schwab suggests setting aside enough cash to cover three to six months’ worth of essential living expenses.

Do you think you could earn more from investing the lump sum than you’d pay in interest over the remaining life of the mortgage? No

Yes

Paying additional principal with each payment or making extra payments can substantially shorten the life of a loan and reduce the total amount of interest paid.

Until your mortgage is paid off in full, be sure to include it in your retirement planning.

Carrying mortgage debt in order to prioritize retirement savings is often a prudent strategy.

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mortgage interest, must exceed that amount in order to itemize. Interest on mortgages larger than $750,000 is no longer even partially deductible at the federal level for the period from 2018 through 2027. Return estimates are for U.S. large-capitalization stocks only.
Put the real power of Asia in your portfolio.

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very trader knows the adage “the trend is your friend.” In other words, you have a higher probability of success if you go with the market’s flow rather than fight it.

However, buying breakout stocks, or those experiencing a sharp upward movement in price, would seem to go against another adage—“buy low, sell high”—even when the trend fully supports further appreciation.

So, what’s a trader to do? I often encourage newer traders to consider an alternative strategy: the pullback trade.

How to spot a pullback
As its name suggests, a pullback is a stock’s short-term move in the opposite direction of the longer-term trend—which can offer an opportunity to join an uptrend at a relatively advantageous price (see “Anatomy of a pullback trade,” next page).

Of course, you’ll first need to determine whether the price drop is a pullback rather than an outright reversal. You can never know for sure, but here are a few flags I look for when scouting for pullbacks:

1. **Volume:** You want to see a drop in trading volume when the price pulls back. If instead volume picks up, it could be an indication that sellers are gaining power and that the price will continue dropping.

2. **News:** I also double-check to make sure that earnings or other significant news isn’t in the offing. Such announcements can cause a dip that isn’t an anomaly but rather is based on real-world events.

3. **Support:** Most important, I will look to see what happened during the previous trading days. I like to see the stock pull back to a logical level of support—like an old low or the moving average—where buyers are likely to find the price attractive. A stock that falls below these levels is at greater risk of continuing to drop.

Finally, you want to be sure the stock resumes its uptrend, or begins trading above the previous day’s high, before...
you make your move. Waiting for the stock to re-achieve that mark has saved me more times than I can count.

How to trade a pullback
Once these conditions are present, it’s time to enter the trade. If you’re constantly monitoring the market, then you can buy the stock at its market price as soon as it exceeds the prior day’s high.

But if, like me, you’re not sitting in front of your screen all day, you may want to place a stop-limit order. For example, let’s say you’re interested in buying a stock with a previous day’s high of $37.50. You could place an order to buy shares at a $37.60 stop and a $37.85 limit. If the stock opens lower than $37.60, you won’t own the shares until it reaches that number. However, if the stock opens higher than your limit, you won’t be stuck with a bunch of shares at a price that could make it tough to turn a profit.

When to exit a pullback
For a stock to keep trending higher, it has to make ever-higher lows along the way. So when the price dips below the prior low established during the pullback, there’s a greater chance the uptrend may be over. Placing a stop order to sell the stock just under the low of the current pullback is a good way to minimize your downside.

If the stock resumes its uptrend, I generally have two targets:

- The first is the previous high before the pullback, as old highs are often a ceiling the market can be reluctant to breach. At this point, I’ll often sell some of my position in an attempt to take a small profit and raise my stop to my initial entry point on the remainder.

- The second is based on what is called a measured move, or the distance between the most recent low and the most recent high prior to the current pullback. If you add that amount to the low of the current pullback, that target price should net you a tidy profit were the stock to resume its uptrend.

In any case, I usually won’t exit my full position at that second target. Success in trading is about minimizing your losses and maximizing your gains, and you may want to give yourself room to capture an even bigger move.

Familiarity breeds confidence
Pullback trading is more art than science. Stock screeners can help—by identifying candidates that have recently pulled back to their 20-day moving average, for instance.

In any event, pullback trading can be a great strategy for dipping your toe in the water. And the more experience you gain from researching and executing such trades, the more comfortable you’ll feel braving the rapids.

Lee Bohl, CMT, is trading services manager at Charles Schwab & Co., Inc.

See page 47 for important information. ● There is no guarantee that execution of a stop order will be at or near the stop price. ● Investing involves risk including loss of principal. ● Schwab does not recommend the use of technical analysis as a sole means of investment research. ● Past performance is no guarantee of future results. (1118-8UFT)
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Learn more at schwab.com/cards or call 866-912-8258.
Americans spend an average of $1,000 during the gift-giving season, according to the National Retail Federation. While there’s nothing wrong with the proverbial tie or toy, there are also financial gifts that can literally keep on giving in the form of stocks, bonds, books, cash, college savings accounts and even real estate. Here are options for everyone on your list—from small gestures to more-substantial offerings.
FIGURES INDICATE FOR WHOM GIFT IS MOST APPROPRIATE

- **Child**
- **Teenager**
- **Young adult**
- **Adult**
- **Senior**

HOLIDAY GIFT GUIDE

**Savings accounts**

A simple savings account is a gateway to teaching kids critical financial lessons—from wealth accumulation to the power of compound interest. Helping them compare statements from month to month can be its own lesson in financial literacy.

- **Learn about the Schwab Bank High Yield Investor Savings® Account at schwab.com/savings.**

**Coins**

If you want to give a gift of cash that's also a collector's item, you might consider annual and special-edition coins from the United States Mint, the Royal Canadian Mint, the United Kingdom's Royal Mint and others. Cash in this form may or may not appreciate over time, but its tactile, treasure-chest appeal can't be beat.

**College savings accounts**

Such accounts can help children and grandchildren graduate from college with little to no debt burden—an important consideration as total student debt in the U.S. surpasses the $1.5 trillion mark. Specifically:

- **529 college savings plans** provide federal tax-free growth and tax-free withdrawals for qualified expenses (including K–12 tuition in some states). Some states even offer tax credits or deductions for contributions to their 529 plans.

- **Coverdell Education Savings Accounts** provide federal tax-free growth and tax-free withdrawals for qualified expenses (including not just tuition but also school supplies, uniforms, and even room and board). To contribute to such an account, your modified adjusted gross income must be less than $110,000 ($220,000 for married couples) and total account contributions must not exceed $2,000 per beneficiary in 2018. Contributions to Coverdells are not tax-deductible.

- **Compare college savings accounts at schwab.com/college.**

**Savings bonds**

A classic gift for children, savings bonds are a great way to teach discipline and patience in investing. There are two main options:

- **EE bonds** earn a fixed rate of interest for up to 30 years, making them attractive during periods of low inflation or even deflation.

- **I bonds** earn a fixed rate of interest—plus an additional inflation-adjusted rate that is revisited semiannually, which can help protect young investors if inflation increases.

Gains from all savings bonds are exempt from state and local income taxes—and may be free from federal taxes when the bonds are used for qualified higher-education expenses. Savings bonds are no longer sold at financial institutions but can be purchased online at treasurydirect.gov. Paper I bonds can be bought only with a refund from a federal tax return. The minimum purchase is $25 for electronic EE and I bonds and $50 for paper I bonds.

**Bonds and stocks**

Individual fixed income and equity investments are an opportunity to educate the next generation of investors. Of course, there's no telling whether the bond or stock you give will rise or fall in value, but what such gifts can offer is a first-hand lesson in the market's inner workings.

Alternatively, shares in an exchange-traded fund (ETF) or mutual fund provide access to a broad basket of securities that can begin to teach the considerable benefits of diversification.

In order to gift investment assets to a minor, you must first establish a custodial brokerage account on her or his behalf. There are two types of custodial accounts: a UGMA (Uniform Gifts to Minors Act) or UTMA (Uniform Transfers to Minors Act).

The two account types are largely the same, though contributions to UGMA accounts are limited to cash, insurance policies and securities (such as stocks, bonds or mutual funds), whereas you can contribute virtually any kind of asset to a UTMA account, including real estate.

The availability of the two account types varies by state, as does the age at which the beneficiary may take control (typically 18 or 21). Contributions to both account types are considered “irrevocable”—meaning they belong to the beneficiary and cannot be reclaimed.

**Learn about the Schwab One® Custodial Account at schwab.com/custodial.**

**Retirement savings**

Family and friends can indirectly contribute to the Individual Retirement Account (IRA) of another person, though the recipient must have earned income equal to or greater than the contribution and must make the deposit herself or himself. In 2018, the contribution limit is $5,500.
That said, parents can establish and fund a custodial IRA for a child, assuming he or she has earned income equal to or greater than the contribution. Of the two main IRAs—traditional and Roth—the latter might make more sense for children, who are unlikely to meet the Roth IRA income limitations and whose long investment horizons make the tax-free withdrawals in retirement all the more beneficial (see “Leave It to Beaver,” page 6).

Learn about the Schwab Custodial IRA at schwab.com/custodial IRA.

Real estate

“A shortage of available homes has driven up prices—particularly among starter homes that tend to fall within first-time buyers’ budgets,” reports CNN Money. Those with the resources to help a loved one with a down payment are subject to the annual $15,000 gift-tax-exemption limit ($30,000 for married couples); anything over those amounts counts against your lifetime gift-tax exemption of $11.18 million per individual or $22.36 million per married couple.

Robert Aruldoss, a senior financial planning analyst at the Schwab Center for Financial Research, recommends five books for all ages.

A Chair for My Mother by Vera B. Williams
This Caldecott Honor picture book tells the story of a young girl, her mother and grandmother pooling their coins for a chair the whole family can enjoy.

The Richest Man in Babylon by George S. Clason
This 1926 classic provides insight into seven basic principles on saving and investing through the lens of ancient and abiding parables.

How to Think About Money by Jonathan Clements
This former Wall Street Journal personal-finance columnist provides a road map for success with his cohesive approach to financial decisions big and small.

The Savage Truth on Money by Terry Savage
Another former financial journalist lays out the basics for acquiring and managing money—including purchasing insurance, putting kids through college, and setting yourself up for a successful retirement and beyond.

The Charles Schwab Guide to Finances After Fifty by Carrie Schwab-Pomerantz and Joanne Cuthbertson
Don’t take our word for it. “Ms. Schwab-Pomerantz supplies comprehensive advice on almost everything from what to do with a 401(k) when you leave a job to how to maximize Social Security and Medicare benefits once you retire. The book is well worth your time, whether you are over 50 or just see the big 5-0 looming,” wrote The New York Times in its 2014 review.

Kim Laughton, president of Schwab Charitable.

You can contribute cash (or even an old car) to a qualified charity in someone else’s name and still capture the tax deduction, assuming you itemize. “Gift givers appreciate the fact that they can donate to a worthy cause and potentially reduce their tax liability in the bargain,” says Kim Laughton, president of Schwab Charitable.

You can similarly donate appreciated bonds, stocks or shares of an ETF or index mutual fund. Not only will you avoid taxes on any gains but you can deduct the full market value of the gift.*

Clients who want to instill the charitable spirit in their children may want to consider donating to a charity of their kids’ choosing in lieu of one or more holiday presents. “Establishing a charitable tradition, especially around the holidays, is a great way to remind our children what the season is really about,” Kim says.

Learn about Schwab Charitable at schwabcharitable.org.

*Charitable deductions are generally limited to between 20% and 50% of your adjusted gross income, depending on the type of asset and the type of organization to which it is contributed.

1The maximum contribution to a Coverdell Education Savings Account begins to phase out at a modified adjusted gross income of $95,000 ($190,000 for married couples filing jointly) and phases out entirely at a modified adjusted gross income of $110,000 ($220,000 for married couples filing jointly). 2Account holder must be at least age 59½ and have owned the account for at least five years. 3Kathryn Vasel, “The Struggle Is Real for Millennial Homebuyers,” 04/03/2017.
How widely available benefits can help defray the considerable cost of welcoming a child.
If it weren’t for her day job, Anna Sinatra wouldn’t have three sons.

“Before helping any client with a financial plan, I first have them step back from their finances and think about where they want to be and what they’d regret not doing,” says Anna, a Schwab wealth strategist based in Phoenix.

In taking this approach to their own financial planning three years ago, Anna and her husband quickly realized they were eager to grow their family beyond their then 4-year-old biological son. However, when the Sinatras began researching adoption options, they were shocked by the cost. Of adoptions finalized in the past two years, domestic newborn adoptions cost an average of $40,000—and international adoptions even more—according to Adoptive Families, an online resource for navigating the adoption process and its aftermath.

“We almost didn’t pursue it because it just seemed too expensive,” Anna says. “What we didn’t realize at the time is how many benefits and resources there are to help with the expense of adopting a child.”

Sources of assistance

In fact, the cost of adoption can vary widely, depending on a child’s age, health, nationality and other factors. Although some adoption fees are standard, “every adoption is subject to its own unique circumstances, which makes it difficult to know up front precisely what your expenses will be—although some agencies put a cap on their costs, which can help tremendously,” Anna says.

Fortunately, there are a number of adoption benefits that can offset some—if not all—of the costs, says Hayden Adams, CPA and director of tax and financial planning at the Schwab Center for Financial Research. For example, many nonprofit adoption agencies base their fees on a prospective parent’s income—the less you make, the less you’ll pay (see “Making the grade,” opposite page). And numerous private foundations offer grants or loans to support adoption (see “Who can help,” below).

Philanthropic resources aside, there are two major benefits that can be used simultaneously to help defray the cost of adoption:

[1] Employer assistance: Many companies support parents by providing a lump-sum payment for qualified adoption expenses. Such benefits often renew annually—meaning if the process takes even a day more than a year, you may be eligible for the benefit not once but twice—and are not considered income by the IRS (up to $13,810 per child in 2018).

[2] Tax credit: The IRS provides a federal tax credit of up to $13,810 per child in 2018 for qualified adoption expenses not covered by your employer, including attorney fees, court costs and even travel expenses (though not for those related to the adoption of stepchildren). Any credit in excess of your tax liability may be carried forward for up to five years. “In general, tax credits are better than deductions, so this is a great benefit that can meaningfully reduce the cost for many people,” Hayden says.1

Members of the military may also be reimbursed for up to $2,000 in qualified adoption expenses per adopted child per calendar year. Certain states also offer tax credits to adoptive parents, though the benefits are sometimes restricted to those adopting from that state’s foster-care system.

Adoption is only the beginning

Although considerable, the up-front costs are a one-time hit. Parenthood, on the other hand, is an ongoing expense.

Robert Aruldoss, a senior financial planning analyst at the Schwab Center for Financial Research, worked with several adoptive couples early in his career. In such cases, he turned to what he calls “Financial Planning for New Parents 101,” whose syllabus includes:

Who can help

Numerous nonprofits provide grants to adoptive parents—though eligibility requirements vary, so be sure to do your homework. Here are just a few examples of such organizations:

A Child Waits provides financial assistance to qualified U.S. citizens who are pursuing an international adoption, regardless of marital status, race or religion. (achildwaits.org)

Gift of Adoption provides grants to U.S. citizens who have an approved and current home study from a licensed and accredited adoption agency. (giftofadoption.org)

Help Us Adopt grants up to $15,000 toward domestic, foster, international or special-needs adoptions. (helpusadopt.org)

National Adoption Foundation provides financial assistance to agency, international, private and special-needs adoptions. (fundyouradoption.org)

1The adoption income exclusion and tax credit are indexed to inflation and can change annually. In 2018, the credit is reduced for those with income over $207,140 and is phased out completely for those with income over $247,140.
Know someone who’s considering adoption? Share this article to help them think through the financial aspects of welcoming a new child.

• Changing beneficiary designations.
• Establishing or replenishing emergency funds.
• Purchasing or increasing life insurance.
• Saving for college.
• Updating wills and trust documents.

“Adoption is a major life event and thus an ideal time for parents to revisit their overarching financial plan and establish or update an estate plan,” Robert says (see “Your adoption checklist,” right).

Beyond finances

That said, Anna knows from personal experience that the emotional dynamics of adoption transcend mere financial considerations. “Given the level of uncertainty surrounding almost every aspect of adoption, it’s critical for prospective parents to have a solid understanding of not only what’s involved but also the hurdles that are likely to arise—and to have a solid support system to help them through any rough patches,” she says.

Today, Anna enthusiastically describes her household as “controlled chaos” since the arrival of her son’s now 2-year-old adopted twin brothers. “It’s everything we wanted, and I deeply encourage people not to let sticker shock—or a lack of information—deter them from pursuing their dreams.”

That said, your assets and income will be assessed to ensure you have the resources to raise a child—which inevitably requires not just pay stubs and tax returns but also bank, investment and mortgage statements.

“It’s a bit like an audit, but with a much higher purpose,” says Anna Sinatra, a Schwab wealth strategist based in Phoenix.

Making the grade

You don’t have to be wealthy to adopt.

In fact, there are seldom income requirements for domestic adoptions. For international adoptions, U.S. Citizenship and Immigration Services mandates only that a household’s income be at least 125% of the U.S. poverty level.

That said, your assets and income will be assessed to ensure you have the resources to raise a child—which inevitably requires not just pay stubs and tax returns but also bank, investment and mortgage statements.

See page 47 for important information.

Charles Schwab & Co., Inc. (“Schwab”), does not endorse the third-party organizations referenced herein. Schwab is not responsible for the content of any third-party websites and makes no representations regarding the accuracy or completeness of such sites.

Check employer benefits, including adoption-expense reimbursement, childcare subsidies and medical coverage.

Understand tax benefits, from federal and state adoption credits to the federal child tax credit.

Revise your household budget to account for child-related costs.

Reassess your longer-term financial plans to take into consideration college and other child-rearing costs.

Update your beneficiaries to reflect your changed family circumstances.

Re-examine your life insurance policies to ensure adequate coverage.

Revise or establish an estate plan.

YOUR ADOPTION CHECKLIST

Actions to consider before—and after—adoption.

PASS IT ON

Know someone who's considering adoption? Share this article to help them think through the financial aspects of welcoming a new child.
The tax law increased the standard deduction from $6,350 to $12,000 for single filers and from $12,700 to $24,000 for married couples filing jointly. As a result:

- Those who typically take the standard deduction should see a decrease in their tax bill for 2018.
- Those whose itemized deductions are normally less than the new standard deduction should also see a smaller tax bill this year.
- Those whose itemized deductions exceed the new standard deduction are still free to itemize—though far fewer are expected to do so going forward, Hayden says.
Income-tax rates and brackets

Those married and filing jointly will likely see their 2018 tax bills decrease for two reasons:

- Tax rates were lowered for five of the seven income brackets.
- Tax brackets have also shifted—meaning in many cases more income will be taxed at a lower rate.

For example, if you’re married and filing jointly, your first $19,050 in taxable income is still taxed at 10%; however, your next $58,349 is taxed at 12% rather than 15%. And not only is the next bracket 22% rather than 25%, but the bracket itself has expanded to include your next $87,599 in income rather than your next $78,749.

Some single filers, in contrast, didn’t fare nearly so well (see “Singled out,” right).

Singled out
Married couples filing jointly should see their tax bill decline, while higher-earning single filers may well pay more.

Married couples filing jointly

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<th>2018</th>
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<td>28%</td>
</tr>
<tr>
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<td>35%</td>
<td>32%</td>
</tr>
<tr>
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<td>35%</td>
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</table>

Single filers

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</tr>
<tr>
<td>$424,951-426,700</td>
<td>35%</td>
<td>35%</td>
</tr>
</tbody>
</table>
The AMT was originally intended to prevent high-income earners from taking unfair advantage of tax deductions and loopholes. In practice, it requires taxpayers to calculate their tax liabilities twice—once under the regular tax rules and again under the AMT rules—and pay the higher of the two.

In order to shield lower- and middle-income earners from being unfairly affected by the AMT, the IRS allows a set amount of income to be exempted from AMT calculations. In 2017, the exemption was $54,300 for single filers and $84,500 for married couples filing jointly. Under the new law, those figures have been increased to $70,300 and $109,400, respectively.

What’s more, the income limits at which the above exemptions phase out were dramatically increased in 2018—to $500,000 for single filers (from $120,700 in 2017) and $1 million for married couples filing jointly (from $160,900 in 2017). As a result, far fewer taxpayers are expected to be subject to the AMT going forward.

And, unlike the regular tax system, the AMT has only two tax rates: 26% and 28%. In 2018, the 26% rate applies to the first $95,750 in taxable income for single filers (compared with $93,900 in 2017) and the first $191,500 in taxable income for married couples filing jointly (compared with $187,800 in 2017). The 28% rate applies to any income above those amounts.

Not only has the new law doubled the child tax credit—to $2,000 per child—but also more taxpayers will qualify for it, because the level of income at which the benefit phases out has been increased from $75,000 to $200,000 for single filers and from $110,000 to $400,000 for married couples filing jointly. (See “What’s the difference between a credit and a deduction, anyway?” opposite page.)

So-called college savings plans aren’t just for college anymore. That’s because under the new law parents can withdraw up to $10,000 per student per year from a 529 to pay for primary or secondary education—with two caveats: The funds must be used for tuition only, and not all states permit such 529 plan spending, so be sure to check your state’s rules before withdrawing any funds.

“Even if you can use 529 funds for K–12 tuition, that doesn’t mean you should,” Hayden cautions. “One advantage of 529s is their long-term potential for tax-free gains—to say nothing of saving for college itself—and both can be compromised if you begin drawing down the funds early.”

The new tax law didn’t affect tax-deferred retirement accounts directly, but it may have increased the appeal of converting holdings in your tax-deferred IRA to a Roth IRA, whose withdrawals are entirely tax-free* and are exempt from the required minimum distributions mandated by the IRS beginning at age 70½.

“Individual income-tax rates might never be this low again in our lifetimes,” says Bob Barth, a Schwab wealth strategist. “If you’re thinking about converting, it might make more sense to do so in the next few years, while tax rates are still relatively low.”

*Provided the account holder is over age 59½ and has held the account for five years or more.
What’s the difference between a credit and a deduction, anyway?

- **A tax deduction** indirectly reduces the amount of taxes owed by lowering your taxable income—and so is worth the same percentage as your effective tax rate. For example, if you claim a $100 deduction and your effective tax rate is 28%, you would shave $28 off your bill.
- **A tax credit**, on the other hand, provides a dollar-for-dollar reduction of your income-tax liability. For example, a couple that owes $10,000 in taxes and has one child would see that liability cut to $8,000 after applying the newly doubled child tax credit of $2,000 (see No. 3). “It would take $7,143 in itemized deductions to realize the same level of reduction,” Hayden says, assuming the same effective tax rate as the example above.

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**No. 7 😞 Charitable giving**

Charitable donations are still deductible, so long as you itemize your deductions, which far fewer taxpayers are expected to do now that the standard deduction has increased (see No. 1). Be that as it may, there remain ways to preserve the benefit if you’re strategic about your giving.

One approach is to concentrate your giving into a single year, particularly if you’re near the threshold for itemized deductions. Kim Laughton, president of Schwab Charitable, notes that a donor-advised fund (DAF) is particularly well-suited to this purpose. “DAFs allow the account holder to donate a lump sum in the current year—and potentially include the gift among her or his itemized deductions—while parceling out the money to qualified charities over time,” she says.

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**No. 8 😊 Estate taxes**

Like the standard deduction, the estate-tax exemption was also doubled under the new law—to $11.18 million for single filers and $22.36 million for married couples.

“Most people assume they won’t be hit with estate taxes, given the new higher limits,” says Marianne Hayes, a CPA and wealth strategist with Schwab Private Client. “The increase is scheduled to expire after 2025, however, so I encourage wealthier clients to anticipate what their estate plans might look like should the exemption come back down.”

Certain types of trusts can provide flexibility in the event of future exemption reductions. A Disclaimer Trust, for example, allows a surviving spouse to renounce ownership of all or a portion of the decedent’s estate, which is then transferred to the trust, without being taxed. However, Marianne cautions clients to discuss the ins and outs of any such strategy with an attorney and/or tax advisor before making a final decision.

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**No. 9 😞 Deductions**

And now for the bad news: Some taxpayers who itemize could end up paying more in taxes due to new deduction limitations. For example, the new law:

- Limits the deduction for state and local taxes—including property taxes—to $10,000. Taxpayers in high-tax states in particular may feel the sting (we’re looking at you, California, New Jersey and New York).
- Allows you to deduct the interest only on the first $750,000 of your mortgage debt. (For primary homes purchased before December 15, 2017, you can continue to deduct interest on up to $1 million of mortgage debt.)
- Eliminates the mortgage-interest deduction on home-equity loans, unless they are used to buy, build or substantially improve the home that secures the loan.

As with most financial considerations, a little bit of foresight can yield substantial savings.

“Don’t wait until the year is over before discussing your tax situation with a professional,” Hayden says. “You want to be doing everything you can do now to maximize your deductions well ahead of filing season.”

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See page 47 for important information. ● This information is not intended to be a substitute for specific individualized tax, legal or investment planning advice. Where specific advice is necessary or appropriate, Schwab recommends consultation with a qualified tax advisor, CPA, financial planner or investment manager. (1118-8YVS)
The IRS
Made Me Do It

How to manage the mandated withdrawals from your tax-deferred retirement accounts.
Many people who save money in traditional 401(k)s, Individual Retirement Accounts (IRAs) or other tax-deferred investment vehicles do so assuming their income-tax rate in retirement will be lower than that of their working years. “The whole premise behind tax deferral is we’re going to have to pay income tax on this money eventually,” says Susan Bober, a Schwab wealth strategist in Indianapolis. “We just want it to be less in retirement than what we’d pay during our working years.”

However, it’s not unusual for retirees to find themselves in the same or an even higher tax bracket in retirement. How so? “Many people tap accumulated wealth outside their IRAs,” explains Kathy Cashatt, a Schwab senior financial planner in Phoenix. “When you add that income to Social Security and the required minimum distributions (RMDs) the IRS mandates from tax-deferred retirement accounts starting at age 70½, you can land in an unexpectedly high tax bracket.”

Fortunately, a number of strategies can help reduce the impact of RMDs.

First hurdles

The IRS calculates RMDs by taking the sum total of all your tax-deferred retirement accounts at the end of each year and dividing it by a number based on life expectancy and other factors (see “A step-by-step guide to calculating your RMD,” right). The denominator gets smaller and smaller as your age increases, meaning your distributions get larger and larger. For example, the denominator starts at 27.4 for those age 70½, or about $3,650 for every $100,000 in savings, and declines to a low of 1.9 for those age 115 or older, or about $52,630 for every $100,000 in savings (see “Take that,” opposite page).

Many IRA custodians will notify account holders of their RMDs each January (though the IRS holds the account owner ultimately responsible for getting the calculations right). Schwab offers an online calculator at schwab.com/RMDcalculator to help investors estimate annual distributions. The cost of miscalculating or failing to withdraw the full amount is steep: The IRS charges a 50% penalty on any withdrawals required but not taken.

In many ways, the first year of RMDs can be the toughest. That’s because your initial distribution isn’t due until April 1 of the year after you turn 70½—even though your second RMD is due on December 31 of that same year. Two sizable, taxable withdrawals in the same tax year can more easily bump savers into a higher bracket, so it’s often best to take your initial distribution during the first calendar year in which it’s mandated. (Even after that initial hump, IRA holders should remain vigilant, because your remaining balances will continue to fluctuate—and with them your RMDs.)

Exploring your options

Option 1: One approach is to begin withdrawing funds from tax-deferred accounts at age 59½—generally your earliest opportunity without incurring a 10% penalty—although not so much that you edge yourself into a higher tax bracket. This strategy can reduce the overall size of your tax-deferred accounts, and with them your RMDs once you turn 70½. Such withdrawals can also help make it possible to defer claiming your Social Security benefit, which increases 8% for every year you wait to collect beyond your full retirement age (up to age 70, after which there is no incremental benefit).

Option 2: A second strategy is to convert holdings in your traditional IRA to a Roth IRA, which is exempt from RMDs. There are several situations in which such a conversion may make sense:

☐ You believe you’ll be in a higher bracket when you eventually withdraw the money.
☐ You want to manage or reduce distributions after age 70½.
☐ You want to leave your heirs an income-tax-free asset, as Roth withdrawals aren’t subject to income tax, assuming you’ve held the account for at least five years.

“If you have a sizable income in retirement or don’t need the IRA money for living expenses, a Roth conversion could be a good
Take that
Required minimum distributions from tax-deferred retirement accounts increase as you age.

- Annual RMD per $100,000 in savings

A Roth IRA conversion can be especially advantageous during your initial years of retirement, when RMDs haven’t yet kicked in and you’re most likely to be in a lower tax bracket vis-à-vis your working years.

Option 3: Once you reach 70½, a third option to reduce or entirely satisfy your RMDs opens up: a qualified charitable distribution (QCD), in which funds are transferred directly from an IRA to a qualified charitable organization. QCDs count toward RMDs but are not taxable, and an individual, whether married or single, can donate up to $100,000 a year from her or his own IRA—with several important caveats:

- Your IRA custodian must transfer the funds directly—and only to a 501(c)(3) organization (donor-advised funds aren’t eligible).
- You can’t claim the QCD as a charitable deduction, though neither does the distribution count as taxable income.

Putting the puzzle together

The Tax Cuts and Jobs Act doesn’t alter the rules governing RMDs. That said, the tax brackets and standard deductions have changed, so “it’s best to consult with a certified public accountant or qualified tax advisor who can help you navigate the intricacies of the new tax law,” Susan says.

“From multiple tax-deferred accounts to Social Security to other potential sources of income, there are a number of moving pieces,” Kathy says. “So it’s never too early to start planning.”

See page 47 for important information. • This information does not constitute and is not intended to be a substitute for specific individualized tax, legal, or investment planning advice. Where specific advice is necessary or appropriate, Schwab recommends consultation with a qualified tax advisor, CPA, financial planner or investment manager. (1118-8KNF)
With thousands of fund choices available, building a diversified portfolio can be challenging. Schwab’s new Personalized Portfolio Builder simplifies the selection process by helping you find the mutual funds or ETFs that meet your needs.

**How does it work?**
The tool helps you create a portfolio of funds using Schwab’s asset-allocation models. These models help you determine an appropriate allocation across various asset classes, based on your financial goals, risk tolerance and time horizon.

**How do I get started?**
Log in to schwab.com/portfoliobuilder to build a portfolio in five easy steps:

1. **Step 1** Choose the account in which you want to build your portfolio.
2. **Step 2** Select your fund preference. You can build an all-mutual-fund portfolio—and choose taxable-bond funds or municipal-bond funds—or an all-ETF portfolio.
3. **Step 3** Select your risk tolerance, ranging from conservative to aggressive.
4. **Step 4** Specify your initial investment. There is no minimum, but we suggest at least $5,000 to ensure proper diversification.
5. **Step 5** Choose from a selection of funds within each asset class and click “Trade” to complete your portfolio.
Create a customized portfolio of mutual funds or exchange-traded funds (ETFs) in just a few clicks.

I want an exchange traded fund portfolio with moderate risk. I’d like to initially invest $5,000.00.

How are funds selected for the Personalized Portfolio Builder?

U.S. Large Cap Funds

Comparison of Funds & View Standardized Performance

A B C D E

Fund A Fund B Fund C Fund D Fund E

0.03 0.25 0.12 0.04 0.06

$0.00 $0.00 $0.00 $0.00 $0.00

$69.00 $34.47 $35.72 $249.06 $113.62

Annual Expense Ratio: 0.03% 0.25% 0.12% 0.04% 0.06%

Investment Amount: $0.00 $0.00 $0.00 $0.00 $0.00

Last Price: $50.50 $54.28 $53.69 $54.01 $54.57

Number of Shares: 0 0 0 0 0

Selected Allocation: 0% 0% 0% 0% 0%

Enter an investment amount in the funds below to change.

How are funds selected for the Personalized Portfolio Builder?

See page 47 for important information.

* Investors should consider carefully information contained in the prospectus or, if available, the summary prospectus, including investment objectives, risks, charges and expenses. You can request a prospectus by calling Schwab at 800-435-4000. Please read the prospectus carefully before investing.

* When using the Personalized Portfolio Builder, be aware that Schwab is not analyzing your investment portfolio; your individual circumstances; or considering or recommending what you should buy, hold or sell in your account.

* This is an example of a screen you might see when using the Personalized Portfolio Builder tool. This is for illustrative purposes only and does not depict actual funds or results. (1117-761M)

Get started now at schwab.com/portfoliobuilder.

Questions? Call us at 888-484-5340.
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- Make payments or pay off your PAL from your Schwab Bank or Schwab brokerage accounts.

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**NEXT STEPS**
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Your Financial Consultant* is a dedicated resource and your central point of contact.

At Schwab, we believe that sound financial advice can change people's lives for the better. That advice can start with your Financial Consultant. Their job is to work with you to create a plan to help you meet your goals—and help you stay on track or adjust your plan should your needs change. Along the way, they can answer a whole range of questions and give you guidance when, where and how you want it.

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They can also connect you with specialists to discuss long-term care insurance or annuities.
• Explain where your money is invested, how your investments are performing and how much it's costing you.
• Help weather market volatility by creating a plan that works for your goals and risk tolerance, and offering advice and support.
• Help plan for wealth transfer by connecting you to estate-planning specialists or corporate trustee services.
• Help you plan for other goals, including college, charitable giving and more.

Contact your Financial Consultant today
Your dedicated Financial Consultant can:
• Partner with you and work with you on your terms.
• Provide advice that's relevant, understandable, and actionable.
• Give you a broad range of investment options from leading asset managers across the industry—not just Schwab's.
• Be open and honest about what you pay for services and the thinking behind their advice.
• Offer great value so you have more money to invest.

Your Financial Consultant can meet with you in person, over the phone or by video chat. Get in touch today to start working on a holistic plan tailored to your unique needs and goals.

*Please note that there are certain eligibility requirements for working with a dedicated Financial Consultant.

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The MSCI EAFE Index captures large- and mid-cap representation across developed-market countries around the world, excluding the U.S. and Canada. With 926 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country. ● The MSCI EMU Index captures large- and mid-cap representation across the 10 developed-market countries in the Economic and Monetary Union of the European Union (EMU). With 249 constituents, the index covers approximately 85% of the free float-adjusted market capitalization of theEMU. ● The MSCI USA Index is designed to measure the performance of the large- and mid-cap segments of the U.S. market. With 626 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in the U.S. ● Russell indexes are market-capitalization weighted and subsets of the Russell 3000® Index, which contains the largest 3,000 companies incorporated in the United States and represents approximately 98% of the investable U.S. equity market. The Russell 1000® Growth Index contains those Russell 1000 securities with a greater-than-average growth orientation. The Russell 1000® Value Index contains those Russell 1000 securities with a less-than-average growth orientation. ● The S&P 500® Index is a market-capitalization-weighted index comprising 500 widely traded stocks chosen for market size, liquidity and industry-group representation.

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I’ve been in this business for well over 50 years and have seen my fair share of challenging markets. Those experiences have been top of mind lately as I’ve looked back on the decade since the start of the financial crisis.

Crashes are always hard to stomach, but I’ve learned to take heart from the fact that they don’t last forever. Historically, even the most bearish of markets have eventually turned into bulls.

The 2008 crisis is a case in point. U.S. stocks fell more than 40% in a matter of months, and for many it felt like the bottom would never arrive. But of course, it did. Indeed, had an investor in the S&P 500® Index simply held fast, her or his portfolio would have regained all that lost ground in around three years.

And look where we are now: Between the start of the crisis and early September 2018, the S&P 500 delivered a cumulative return of roughly 150%.¹ Every market cycle is unique, but the abiding lesson I’ve learned from each is this: Focusing on the long term—and staying invested even when markets get rough—is almost invariably the right course of action.

Charles R. Schwab
Founder & Chairman

¹Schwab Center for Financial Research and Bloomberg. Data from 09/12/2008 to 09/07/2018.

See page 47 for important information. (1118-8EGH)
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**You may be eligible for a closing cost discount up to $750** when you close on a home purchase loan using the Mortgage First preapproval program offered by Schwab Bank's home loan provider, Quicken Loans®.

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