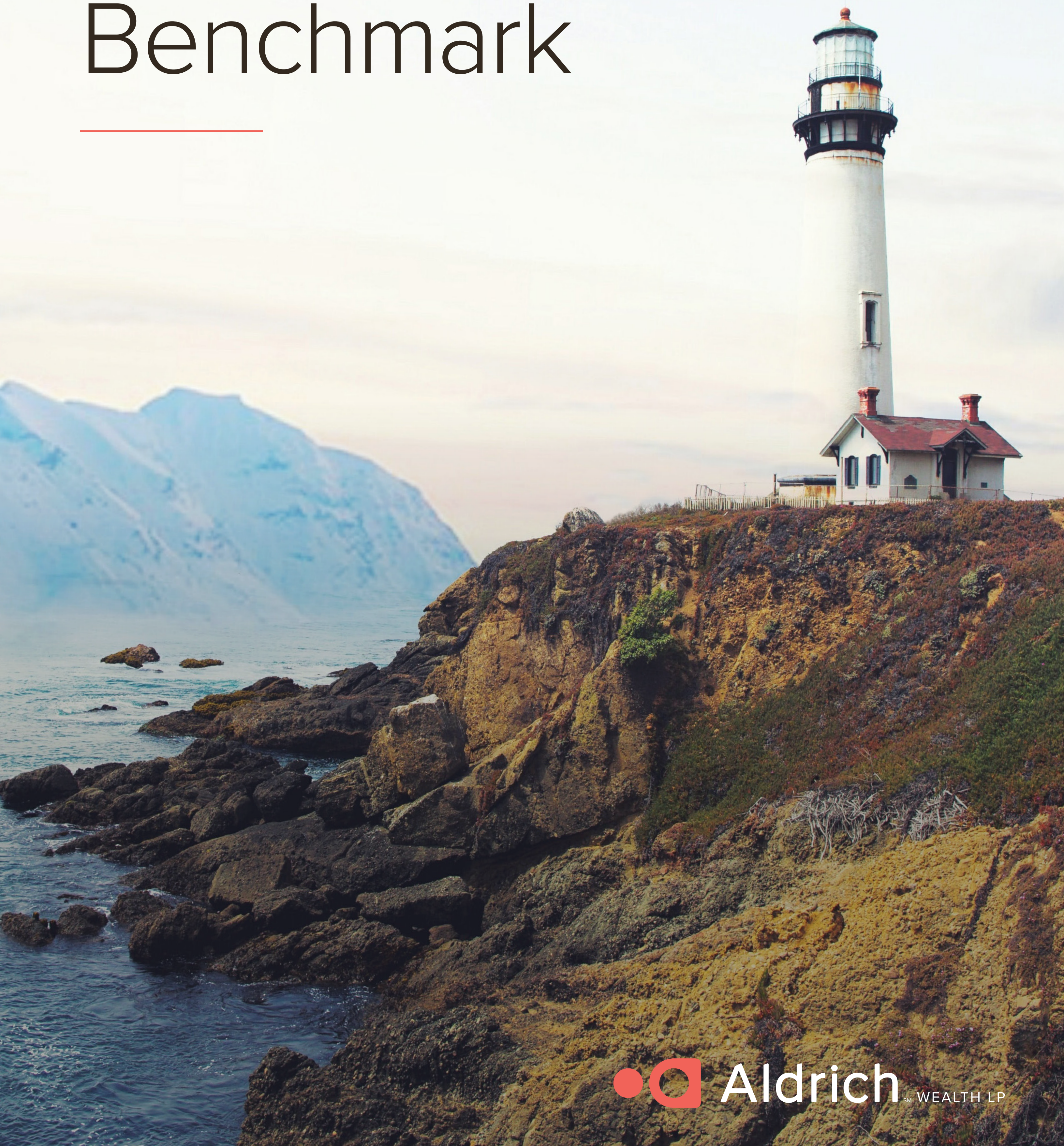
SECOND QUARTER 2019

Beyond the Benchmark



Aldrich WEALTH LP

About Aldrich Wealth LP

At Aldrich Wealth, we partner with you on your financial journey by assuming the role of personal financial advocate. We help you identify your financial needs and goals, while also developing a sound strategy that will enable you to realize your dreams. We guide you through risk assessment, development of strategies, and ultimate implementation of the plan we craft together. This will allow you to focus more energy on living a great life.

OUR PEOPLE

Our advisors have an average of more than 10 years of experience in wealth management, financial planning and tax planning. Although each client's goals are unique, with our decades of experience, there is a good chance that we have helped another client through some of the same complexities in their personal financial life.

OUR APPROACH

At Aldrich Wealth, we recognize that investment performance is only one piece of a comprehensive strategy. We take a team-based approach to serving clients. For our clients, we include investment advisors, financial planners and tax professionals to provide a holistic view of each situation.

OUR STORY

Aldrich Wealth was founded in 1998 as an affiliate of parent company Aldrich CPAs + Advisors. After working with business owners for decades, we noticed a trend in our accounting firm clients selling their businesses and asking for assistance in investing the proceeds. With a great passion for meeting client needs, the foundation of the wealth business was created by the guiding principles and people of Aldrich.

QUARTERLY MARKET SNAPSHOT

	VALUE	CORE	GROWTH
Large	3.84%	4.30%	4.64%
Medium	3.19%	4.13%	5.40%
Small	1.37%	2.10%	2.75%

This matrix illustrates U.S. equity benchmarks provided by Russell with the exception of Large Core, which is the S&P 500 Index.

	VALUE	CORE	GROWTH
Global	2.29%	3.61%	4.90%
Non US	1.54%	3.68%	5.73%
EM	0.97%	0.61%	0.26%

This matrix illustrates international equity benchmarks provided by MSCI.

	SHORT	INTER	LONG
Gov	1.46%	2.99%	6.00%
Corp	1.55%	4.48%	7.23%
Hi-Yield	1.56%	2.57%	6.56%

This matrix illustrates the fixed income benchmarks provided by Barclays and B of A Merrill Lynch.

Market Commentary

Executive Summary

Equity markets continued their upward ascent as a dovish tone from the Federal Reserve and trade topics dominated investment discussions. All told, domestic equity markets, as measured by the S&P 500 Index, added 4.3% for the quarter. The broad index has increased 18.5% this year, marking its best first-half gain since 1997. Non-U.S. markets, as measured by the MSCI EAFE Index, added 3.7%, led by strength across Europe as the U.S. dollar weakened. Emerging markets, as measured by the MSCI Emerging Markets Index, increased 0.6% as the trade spat between the U.S. and China weighed heavily across much of Asia. The Fed kept rates unchanged and began to set the stage for a possible rate cut in response to a slow of economic data and decrease of inflationary pressure. The yield on the benchmark 10-year Treasury fell sharply from 2.41% at the end of trading the previous quarter to 2.00% at quarter-end.

Domestic Equities

The performance across domestic markets was indiscriminate, as every sector except Energy produced positive results. Large cap stocks outpaced small cap stocks while growth bested value. Financials, Materials and Technology performed best while the Energy, Healthcare and Real Estate sectors lagged. S&P 500 Index companies posted an earnings decline of approximately -0.3% in the first quarter with over 70% of the companies exceeding low earnings expectations. The decline in earnings is projected to be short-term with earnings estimates turning positive by year-end.

International Equities

A sharp drop in May for developed non-U.S. markets was sandwiched between gains in April and June. European Central Bank (ECB) President Mario Draghi hinted at further monetary policy easing if inflation remains low. During the period, Britain's Theresa May announced her resignation as Prime Minister after failing to reach an agreement to leave the European Union. Political unrest overseas continued to dampen investor sentiment and returns relative to the U.S. Emerging market shares lagged their developed market counterparts with a mere 0.6% increase. The Chinese market suffered a 4.0% drop in the quarter, which included a 13.1% plunge in May, their largest decline since October, amid a rekindling trade war with the U.S.

Fixed Income

Both riskier assets and government bonds posted strong gains in the quarter. The Barclays Universal Bond Index ended the second quarter up 3.1% as bond yields continued to drop. The dovish pivot from major central banks proved particularly significant with markets having grown nervous over the prospect of monetary tightening in the U.S. The 10-year Treasury yield fell 41 basis points over the quarter reaching its lowest level since late 2017. Investors sought the relative safety of investment grade bonds amid burgeoning trade rhetoric and a decline in energy prices.

CLIENT PORTAL + MOBILE APP

Online access is available to all Aldrich Wealth clients on smart phones, tablets or PCs so you can view your investment account and transactions conveniently. Initial setup is easy, ask your advisor for details.

Economy

The U.S. economy, as measured by the change in the Gross Domestic Product, increased 3.1% during the first quarter. Employment data remained broadly encouraging despite slowing in June. The unemployment rate remained stable at a 49-year low of 3.6% while average hourly earnings climbed 3.1% from a year earlier, below expectation of a 3.2% gain. Consumer and business confidence indices generally weakened, and survey data indicate business activity is slowing. The S&P CoreLogic Case-Shiller 20-city home price index in the U.S. increased 2.5% year-on-year, the smallest annual gain in house prices since August 2012.

Market Outlook

Despite a sharp pullback in May, stocks performed very well for the first six months of the year. Economic growth is poised to slow modestly, particularly among developed markets, as trade concerns are weighing on global growth. Stocks will likely need a resolution to the trade issues or a more dovish Fed in order to continue moving higher. This is particularly true in the U.S. where equity valuations are elevated compared to the rest of the globe. Tariff concerns have dampened international returns and any form of compromise would lift a dark cloud that has dampened investor sentiment. Relatively depressed valuations outside of the U.S. present a good environment for international out-performance if trade fears subside. Heightened volatility should persist as tariffs, political instability, growth concerns, and the path of interest rates will periodically influence sentiment and amplify uncertainty. Bond yields have declined in response to a more dovish Fed, but incremental price returns seem unlikely given that yields have fallen to multi-year lows. Bond markets have priced in at least one Fed rate cut and anything short of a cut will likely result in higher yields by year-end.

CONSIDERING CONVERSION TO A ROTH IRA? WHAT YOU SHOULD KNOW IN 2019

By Megan Wilsey, CPA + Elizabeth Hutchison, CPA/PFS, CDFA™

When it comes to retirement savings accounts, there is one question that our clients often ask. Should I contribute to a Roth IRA instead of a Traditional IRA? The short answer is: it depends.

Both Traditional and Roth IRAs (Individual Retirement Accounts), have their pros and cons, but both offer significant tax benefits as long as you follow certain rules on contributions and distributions.

The biggest benefit of Roth IRAs is that you grow your money tax free. Under current tax law, you can also withdraw funds tax free if you meet the holding and age requirements. What is more difficult is funding a Roth IRA due to income limitations.

Another planning opportunity to fund a Roth IRA is a Roth conversion. Because of the 2017 Tax Cuts and Jobs Act and other economic factors, 2019 is an opportune time to rethink your retirement strategy. It's time to consider whether a Roth conversion makes sense for you.

ROTH IRA VS. TRADITIONAL IRA

There are a plethora of rules, nuances, and exceptions that are in the fine print of IRAs. Let's work through a couple baseline concepts before you approach a conversion strategy.

- A Roth IRA is funded with after-tax dollars, while a Traditional IRA can be funded with either pre-tax or after-tax contributions.
- Required minimum distributions from the IRA are a component of a Traditional IRA once the account holder turns 70 ½ years old. Roth IRAs do not have any required minimum distributions. This is one way Roth IRAs offer more flexibility for estate planning purposes.
- Assets grow tax-deferred in a Traditional IRA, but once distributions are made, they are taxed as ordinary income. No additional tax is due on Roth IRA distributions.

A Roth IRA conversion is a great planning tool. Before we dive into the specifics, let's take a look at a simple example:

Bob is single, lives a frugal life, and has enough liquid funds to live happily for quite some time. He has accumulated $1,500,000 in his Traditional IRA account by the time he reaches 70 ½ years old with pre-tax contributions. By April 1 of the following year, the IRS mandates that Bob must withdraw a required minimum distribution, or RMD, of approximately $55,000[1]. Although Bob doesn't need the money right now, he must withdraw it or potentially face a hefty 50% penalty. Bob will then owe tax at ordinary income rates on money that he would have preferred to keep invested.

If Bob had planned ahead and seen this tax bill looming, he could have been able to convert some, or all, of his Traditional IRA assets to a Roth IRA. This would give him more control over the timing of his tax liability.

MECHANICS OF A ROTH IRA CONVERSION

Taxes are generally paid in the year of a conversion. This includes taxes on converted assets[2] and taxes on appreciation of converted assets[3].

One of the great things about a Roth conversion is that no matter your age or income, it is a planning opportunity. Although people in their 20's and 30's may not be thinking about retirement, a Roth conversion could be an excellent way to get a leg-up in the long run. It is also a great tool for estate planning. The party who receives the Roth IRA can enjoy the same benefits as the original beneficiary.

The key to a Roth conversion is timing it to maximize benefits and reduce taxes paid. It is crucial to weigh the short-term cost limitations, and long-term benefits prior to making a decision. Having the cash outside the retirement account to pay the taxes is important. Filing in a low tax year, or years, can also make the conversion more tax efficient.

UPDATE ON CURRENT LEGISLATION

The biggest change to the Roth IRA rules as a result of the 2017 Tax Cuts and Jobs Act was eliminating the option to re-characterize conversions. Before 2018, taxpayers had an option to "roll back" a conversion if the decision was made before filing their tax return. Because a Roth IRA conversion is now irrevocable, this places increased emphasis on planning the timing of the conversion.

For example, for some, it might be best to hold off until closer to year-end to do a conversion in case an unexpected bonus pops up in December and pushes them into a higher tax bracket. For others, it may make sense to do a partial conversion during a time of the year when the stock market is at a low, thereby reducing the fair market value of the assets on which you will have to pay current tax.

We also recommend maximizing lower brackets in specific years to reduce the overall cost of the conversion. This is called bracket management and means that smaller Roth IRA conversions could take place over several years to meet the conversion goal.

WE'RE HERE TO HELP

You are not alone if you think that navigating the rules and timing of a Roth conversion seems a bit tricky. We recommend consulting with your advisor who will walk you through your individualized options. We are here to identify ways to maximize potential benefits as they relate to your overall financial future.

MEGAN WILSEY, CPA

Tax Manager

Megan takes a humanistic approach to client service, ensuring that she has a deep understanding of the individual nature of each of her clients, as well as their short and long term goals. As part of our Private Client Services team, Megan assists high-net worth clients with a wide range of tax-related needs. She works closely with clients and provides insight into tax planning strategies that best align with their overall financial situations.

ELIZABETH HUTCHISON CPA/PFS, CDFA™

Senior Tax Manager

Elizabeth goes beyond compliance and is a problem solver and strategic tax planner. Her expertise allows her to help clients navigate the complex nature of tax laws. With her most recent designation as a Certified Divorce Financial Analyst, she has the ability to help her clients understand their financial picture during significant life changes.

All tax advice and tax related work is performed by Aldrich CPAs and Advisors LLP, an affiliate of the Aldrich Group.

[1] Assumes a distribution factor of 27.4 using the IRS Uniform Lifetime Table (Appendix B of Publication 590-B, dated Jan 24, 2019).
[2] To the extent that contributions were made with pre-tax dollars.
[3] Based on the fair market value as of the conversion date and to the extent that contributions were made with after-tax dollars.

Financial Planning at Every Stage of Life: A Q&A with Abbey Rollins

Financial planning gives people the tools to make smart financial decisions about their lives, their money, and their legacies. Abbey Rollins helps individuals, families and business owners create plans based on their goals, their distinct life circumstances, and projections regarding their assets and income. In this interview, Abbey explains how she guides her clients as they develop their savings strategies, pursue debt reduction intelligently, maximize tax efficiency, protect their assets, and optimize their investment portfolios.

How does goal setting factor into financial planning?

You need to have a clear sense of the end game if you're going to chart the course to get you there. That's why it's so important to create a vision for the future and identify the goals to be achieved along the way. If building a plan for a couple, both parties need to weigh in, even if one person plays the lead role in handling the finances. We need to make sure that everyone is on the same page and working toward the same objectives.

Let's talk about the typical issues that arise at various stages of one's life. What are the top concerns for young adults just starting their careers?

Recent college graduates tend to have student loans, car payments, and credit card debt. We'll want to look at consolidating their debt at the lowest possible interest rates with payment schedules that they can afford. We'll also talk about which debts to retire first when there's room to make more than the minimum payment.

Debt reduction should be balanced against the need for savings. Compound interest on tax-deferred assets offers significant growth potential when started early in a career, especially when employers offer to match employee contributions to company-sponsored retirement plans. While recent grads may feel as though they can't contribute much, even a small amount sets the stage for long-term gains and gets them in the habit of saving.

What changes when young professionals marry and start their families?

While the income side of the equation improves with two wage earners — expenses tend to rise considerably. A home mortgage joins monthly payments on student loans, car loans, and/or credit cards. When children enter the picture, child care expenses (or the temporary loss of one salary) may enter into the equation. So a rebalance between spending and saving may occur. At a minimum, it's important to continue to take advantage of matching funds through an employer retirement plan. Fortunately, if people started saving early on, they'll likely be able to reduce savings during this period, while still staying on track for retirement.

Couples tend to get serious about estate planning once they have children. They want to identify the person(s) who would care for their children should something happen to them. They also need to think about the financial resources to address their children's care. We'll have a conversation about life insurance and disability insurance to take care of the unpleasant "what ifs."

While college may seem like a distant reality, the economics of higher education call for an early start to planning. An early reality check can illuminate the path (and the sacrifices) to reach an educational goal as well as open up a discussion of alternatives. Ideally, this exploration happens before the household gets stretched thin with other financial obligations.

Fast forward 15-20 years. How has the financial plan taken shape?

As the kids reach college age, the goal is that household savings have kept pace with the increase in cost for tuition, books, supplies, and living expenses. If an unfavorable gap exists, it may be time to reset expectations. Paying for college should not come at the expense of saving for retirement or from taking an early withdrawal from existing retirement assets.

With higher income during these years, tax management becomes a priority as it's likely that these individuals are settling into the highest tax bracket of their lifetime. Pre-tax contributions to retirement accounts (e.g. traditional IRA, 401K) make sense as a means of reducing the current tax liability. We also look for tax efficiencies when selecting which assets to place in taxable vs tax-deferred accounts.

At this stage, the financial plan looks ahead toward retirement and the resource requirements to meet future needs. It considers income streams from pensions or real estate, available investment assets and also identifies the preferred timing for collecting social security.

We make sure the right kinds and levels of insurance are in place to protect assets and sustain income should adverse conditions arise, such as litigation liability, disability, death and potential future long-term care needs. And we recommend updating the overall estate plan to make sure that it reflects current circumstances.

How does financial planning benefit retirees?

For retirees, we take a close look at various "buckets" of spending – i.e. day-to-day expenses, one-time expenses (e.g. home repair/remodeling, automobile purchase), and discretionary travel and entertainment. We identify which income streams cover which expenses. As needed, we lay out the plan for tapping assets with an eye toward withdrawing funds in a tax-efficient manner.

We continue to monitor the investment portfolio to ensure that it's appropriately balanced and generating a competitive rate of return. If market conditions have an adverse impact on valuation, we re-evaluate goals to see where and how planned expenditures might need to be adjusted. And, of course, we look to maintain the proper levels of insurance.

Estate plans come into focus at this stage of life, especially when retirement includes relocation to another state. All legal documents need to reflect the laws of the primary state of residence. The will and/or trust should be updated to include all of the appropriate beneficiary designations, including potential charitable bequests. If monies will be held in trust until children reach a designated age, then a suitable trustee must be named to assume a fiduciary responsibility.

How often should a financial plan be updated?

Ideally, we'd like to review each custom-designed plan every three years to account for material changes in the past year (e.g., personal, employment, financial markets, and tax law), adjustments in priorities or goals, and developments on the horizon. Major transitions may require some effort to re-orient the plan around emerging needs at this stage of life. Hopefully, it's a welcome process that encourages the right kinds of conversations and leads to a lifestyle in which the only surprises are pleasant ones.

ABBEY ROLLINS, CFP®

Director of Financial Planning

In her capacity as a Senior Wealth Manager and Director of Financial Planning, Abbey provides guidance to high net worth families, executives and business owners. Individuals in these categories face unique challenges in structuring their savings strategy, maximizing tax efficiency, strategically protecting their wealth and implementing an optimal portfolio allocation. Abbey enjoys working with these clients to create a plan that will achieve their goals.

HOW QUALIFIED OPPORTUNITY ZONES CAN SAVE YOU MONEY

By Jonathan McGuire, CPA

What are Qualified Opportunity Zones?

The Tax Cuts and Jobs Act's primary objective is to spur economic growth by creating more jobs, cutting taxes and providing an avenue towards targeted areas ripe for economic development. The Qualified Opportunity Zone (QOZ) is part of the new tax reform legislation which incentivizes investment in a struggling economic area through preferential income tax treatments. Each state's government can elect to create zones in designated low-income communities. QOZ are designed to not only benefit the investor but also benefit these communities.

Why invest in Qualified Opportunity Zones?

The Opportunity Zones program offers three tax benefits for investing in low-income communities through a Qualified Opportunity Fund:

1. A temporary deferral of capital gains reinvested in an Opportunity Fund. The deferred gain must be recognized on the earlier of the date on which the opportunity zone investment is disposed of or December 31, 2026.
2. A step-up in basis for capital gains reinvested in an Opportunity Fund. The basis is increased by 10% if the investment in the Opportunity Fund is held by the taxpayer for at least 5 years and by an additional 5% if held for at least 7 years, thereby excluding up to 15% of the original gain from taxation.
3. A permanent exclusion of capital gains from the sale of an investment in an Opportunity Fund if held for at least 10 years. This exclusion only applies to gains accrued after the investment in an Opportunity Fund.

How do I invest in a Qualified Opportunity Fund?

To receive these tax benefits you must invest in a Qualified Opportunity Fund (QOF). The QOF must maintain 90% of its assets in a QOZ to qualify as a

Qualified Opportunity Fund. A QOF is a self-designated fund by the trade or business operating the fund. These funds must be set up as either partnerships or corporations for the purpose of investing in QOZ property. These assets must be acquired after December 31, 2017, and have originated with the business or be substantially improved from the existing asset base. To be substantially improved, assets purchased must have an equal amount of dollars spent to improve the property. For example, an asset purchased for $100 used, must have an additional $100 spent to improve the asset.

How do I get started?

Now that you are ready to invest in a Qualified Opportunity Fund, help low-income communities and save some money, contact us to talk with one of our many tax planning and investment specialists.

JONATHAN MCGUIRE, CPA

Tax Manager - Real Estate

Jonathan McGuire has more than eight years of experience providing strategic tax planning and compliance expertise to private middle-market clients. He has a deep focus as a real estate accountant, working with investors, developers, realtors, property managers, and other professional service providers in real estate. He works with a wide range of property types ranging from single and multi-family residential to commercial properties. Jonathan specializes in repair regulations and the effects they have on those who own real estate. He also helps clients defer capital gains taxes using qualified opportunity zones and qualified opportunity funds.

Aldrich Wealth LP Recognized by Four National Wealth Management Rankings

Aldrich Wealth LP is pleased to be recognized by multiple publications in their annual rankings of wealth management firms across the US. **Financial Advisor (FA) magazine named Aldrich Wealth 29th on its Top 50 Fastest-Growing Firms[1]** list. The firm was also honored in the **Top 200 of the FA Annual Registered Investment Advisor (RIA) Rankings[1]**. Results were derived from year over year AUM comparison of figures provided by the RIA.

In the same month, **Accounting Today recognized Aldrich Wealth as the 24th largest wealth management firm affiliated with an accounting firm[2]** based on assets under management. This was the 13th annual Assets Under Management ranking, including more than 150 firms that provided information to the publication. Additionally, the firm was named a **2019 Top 300 RIA by 2019 Financial Times[3]** for the third year. Aldrich Wealth is one of only two advisors from the Pacific Northwest to receive this recognition.

FT 300 Ranking June 2019

Aldrich Wealth joined the Aldrich Group of Companies for Action Day

At Aldrich, we integrate philanthropy into the fabric of our business. It's who we are at the core of our organization, which is why we encourage opportunities to stay involved in the local community. Annually, we sponsor the Aldrich Action Day where each of our geographic locations volunteers together at a designated nonprofit.

Aldrich Wealth Advisors pictured from left to right: Abbey Rollins (Left) , Heather Wonderly (Center) , Scott Barchus (Top right), Stephen Nelson (Bottom right)

Aldrich Locations

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ESCONDIDO
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PASADENA
626.397.4600

PORTLAND
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SALEM
503.585.7774

SAN DIEGO
619.810.4940

About Aldrich Wealth

Aldrich Wealth LP is an investment advisor registered with the U.S. Securities and Exchange Commission. Aldrich Wealth provides wealth management services where it is appropriately registered or exempt from registration and only after clients have entered into an Investment Advisory Agreement confirming the terms of the client relationship, and have been provided a copy of Aldrich Wealth ADV Part 2A brochure document. The information contained in this document is provided for informational purposes only, is not complete, and does not contain material information about making investments in securities including important disclosures and risk factors. Under no circumstances does the information in this document represent a recommendation to buy or sell stocks, bonds, mutual funds, exchange traded funds (ETF's), other securities or investment products.

Financial Advisor Magazine Top Registered Investment Advisor[1]

To be eligible for the ranking, firms must be independent registered investment advisors and file their own ADV statement with the SEC and provide financial planning and related services to individual clients. Firms must have at least $100 million in assets under management as of December 31, 2018 to be included in our print edition of Financial Advisor Magazine. Results were derived from year over year AUM comparison of figures provided by the RIA

Accounting Today Top 150 Firms by AUM[2]

The Accounting Today "Wealth Magnets" Top Firms by AUM is an independent listing produced annually by Accounting Today and SourceMedia (June 2019). The list is based on data gathered from CPA wealth management and financial planning firms, broker-dealers, and Accounting Today research. The ranking is based on each firm's reported or researched amount of assets under management as of the end of the previous calendar year or later, and does not evaluate the quality of services provided to clients; nor is it indicative of a firm's future performance. Neither the firms nor their employees pay a fee to Accounting Today in exchange for inclusion in the Wealth Magnets ranking.

Financial Times Top 300 Financial Advisors[3]

The Financial Times 300 Top Registered Investment Advisers is an independent listing produced annually by the Financial Times (June 2019). The FT 300 is based on data gathered from RIA firms, regulatory disclosures, and the FT's research. The listing reflected each practice's performance in six primary areas: assets under management, asset growth, compliance record, years in existence, credentials and online accessibility. This award does not evaluate the quality of services provided to clients and is not indicative of the practice's future performance. Neither the RIA firms nor their employees pay a fee to The Financial Times in exchange for inclusion in the FT 300.

The technical information in this newsletter is necessarily brief. No final conclusion on these topics should be drawn without further review and consultation. Please be advised that, based on current IRS rules and standards, the information contained herein is not intended to be used, nor can it be used, for the avoidance of any tax penalty assessed by the IRS.

Aldrich℠ WEALTH LP

Alaska | California | Oregon | Washington

wealthadvisors.com