

PROFESSIONAL FINANCIAL SERVICES, INC.

“DESIGNING AND PROTECTING WEALTH”

ONE PLAN AT A TIME

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Mr. Robert E. Tucker
10913 Lawyers Road
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Dear Bob:

I hope your holiday season was a special time with family and friends. Here's a 2017 wrap up and some thoughts going forward for 2018.

Referrals

I want to make a special mention of and give a profound thank you to all who have referred me in this last year. It is always appreciated, and please know I make every effort to be helpful and useful to those you refer, regardless of whether or not we end up doing business together.

New Designation

In November I prepared for and then passed the examination to achieve a new designation. I am now an Accredited Investment Fiduciary (AIF).

You may be aware of the actions of U.S. Department of Labor, which now requires that financial advisors who receive compensation must be categorized as “Fiduciaries”. Essentially this means advisors are held to a “higher standard” than in the past. The higher standard is that advisors must always act in the best interests of the client – not themselves.

For me and how I conduct business, absolutely nothing has changed. I have always made evaluations and recommendations in what I believe has always been first and foremost in the best interest of the client.

I do believe it's important for me to demonstrate this ongoing commitment by obtaining this designation as an Accredited Investment Fiduciary. So far, only a small percentage of advisors have made the effort to obtain it.

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Why am I telling you about all of this? Well, for two reasons. First, I'm proud of obtaining the AIF designation, and second, when you have occasion to refer me to important family members, colleagues, and friends, it would be helpful to mention it to them. Hopefully, it's just one more way to be set apart from the rank and file advisor.

What to expect in 2018?

Let's begin with the market predictions for 2017 by many pundits. Wow, did they get it wrong !!! Equity markets were expected to post very modest gains in 2017. Instead the Dow, NASDAQ and the S&P had extraordinary gains, reaching new highs, and as a result, almost everyone's stock/stock fund accounts have had significant growth in 2017.

What should we expect in 2018? Notwithstanding a bull market that's continued for nearly 9 years, many analysts believe the bull market will continue for the immediate future. Clearly, there are many factors that may either (1) help to assure a positive outcome or alternatively, (2) cause the "bubble" to burst. Tax reform, infrastructure initiatives, health care, global events, and military challenges are all factors that may dictate the outcome.

However, the famous Sir John Templeton once said, "Bull markets are born on pessimism, grow on skepticism, mature on optimism, and die on euphoria." My belief is America is squarely in the domain of optimism. So, for the short term I am cautiously optimistic. However, I want to repeat prior admonitions.

Be sure to have adequate cash reserves to sustain your financial security for an absolute minimum of 6 months but preferably a year. One danger of market volatility is one's own fear. If there is a downturn, you want to be positioned to be able to choose to exit equity markets – not be forced to do so because of cash flow needs or to react in a panic to market corrections.

Second, do not be seduced by Dow, NASDAQ and S&P returns. I have NO clients who are 100% invested in equities. That's no accident. Many, if not most, are invested in mixtures of equities (stocks), fixed income (bonds) and cash. When equity markets surge, having a mixture of these types of assets inevitably results in one of two outcomes. When equity markets are "hot", having a mixture of stocks, bonds and cash will result in a smaller degree of gains, but in down equity markets, there will be less loss in overall values.

Clearly, younger individuals can and should have a higher percentage of total investments in equity markets, and older clients should have a lesser amount in equities. The ideal allocation in each broad asset class depends on a variety of factors. As a result, there is (in my opinion) no "one size fits all" recommendation. Every client is different in multiple ways, and as a result, one's asset class mixture must be customized to the individual client.

I know I've said all of this in the past and in multiple ways. These are concepts that I believe are some of the most important ones in planning for financial security.

Highlights of some of the Income Tax Changes for 2018

For some – a WOW! For many – not so much. Here are just a few of the significant changes:

1. There are still 7 brackets for tax rates based on levels of income. Some went down others actually went up
2. For those using the Standard Deduction, it doubled to \$24,000 for married taxpayers, and it is slightly higher for taxpayers age 65 and over. However, using the standard deduction means you are not itemizing deductible expenses.
3. There are no more personal exemptions. They are eliminated.
4. For those who do itemize deductions and do not use the standard deduction, the home mortgage interest is limited to interest payments on \$750,000 of debt – no longer a million dollars of debt.
5. Through 2025 home equity loan interest is no longer deductible!
6. The deduction for state and local income taxes and property taxes is now limited to a total of \$10,000 for married taxpayers.
7. Charitable contributions of cash to public charities are deductible up to 60% of adjusted gross income.
8. All miscellaneous itemized deductions subject to the 2% floor under prior law are now repealed. Gone.
9. 529 College accounts can now be used for up to \$10,000 a year for expenses for elementary and secondary schools.

These are merely highlights and clearly you should consult with appropriate tax counsel regarding your specific situation and what you should expect.

Insurance

On occasion I discover some clients don't realize we also focus a lot of attention on insurance planning. If you think of a pyramid, consider the foundation. Nothing works without a secure foundation.

Using this concept, I believe risk management is the foundation of all financial planning. Frequently, there are significant needs for Life Insurance, Disability Income Insurance, and for Long Term Care Insurance. Care must also be taken to have the right coverage for cars, houses, and of course, umbrella liability insurance.

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Consider this. All the investment planning in the world may mean very little to your family if you die prematurely. Disability almost always results in a large loss of earned income, and assets may be quickly exhausted - the same assets one was relying on for retirement security. With the cost of Long Term Care services – nursing home, assisted living and/or home health care currently at about \$10,000/month and based on the fact it is minimally covered by Medicare and/or health insurance, it won't take long to severely deplete assets and impact not only your security but the resources available to your loved ones.

NO plan for financial security should ignore these contingencies. Doing so, is like trying to build a pyramid by starting at the top. We are willing, able, and skilled in addressing these issues with you.

Estate Planning

Call it “distribution planning”. What do you want to have happen to your assets and possessions when you die? Who gets what? When do they get it? How do they get it – lump sum or over time? Assets or income or both? Who will handle your estate? Who will manage your assets for the benefit of your survivors?

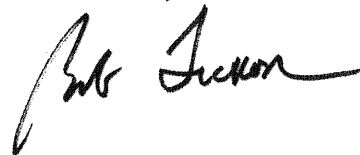
Okay, you have a Will and maybe a Trust. Please take the time to find them, read them, and make sure they are still what you want. One day you will no longer have the opportunity. When will that be? A day, week, month, decade, 40 years? Who knows? That's why it's important to stay current. None of us know when time will run out. If your documents need a review, I'll be happy to discuss them with you.

Conclusion

I know this is a long letter. It does briefly identify critical planning issues, and remind and reinforce the importance of taking action when necessary.

My commitment is to you, and I thank you for giving me the privilege to assist you. Please call me at any time you feel I can be of help. Let's continue to build your financial security together. Have a happy and safe 2018. I look forward to seeing you soon.

All the best,



Robert E. Tucker, CLU
Chartered Financial Consultant

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