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REFLECTIONS

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WINDGATE
WEALTH MANAGEMENT
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ARE HIGHER RATES FROM THE FEDERAL RESERVE A CONCERN?

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Even as the Federal Reserve went ahead with June's quarter-point interest rate hike, the rally in long-term Treasuries refuses to budge. Despite the Federal Reserve raising short-term rates, long-term yields remain near record lows (with bond prices, which move inversely to yields, sitting at record highs). This raises a question investors have been facing for the past several years: should the Fed be raising short-term rates and should investors still be confident with long-term bonds?

On June 14th, the target range of the Fed Funds Rate – which banks charge each other for overnight lending – increased to 1-1.25%. This was the fourth interest rate hike since December 2015. Yields on 10-year Treasuries dropped to the year's lowest at 2.15% that day, before modestly climbing back to 2.30%. Is the Fed's move to keep inflation in check turning out to be too much of a good thing?

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Lower expected inflation theoretically leads to demand for lower yields, which is reflected in the present bond market. Also, until there is better clarity on fiscal policies, many investors could be seeking the "safety" of fixed-income, thereby keeping down Treasury yields (as bond prices rise with demand).

Donald Trump's pro-growth promises supercharged investor optimism on economic growth and inflation, leading to Treasury yields soaring in the weeks immediately following the November election. However, between a policy proposal and its implementation, there often hangs a fuzzy timeline, the reality is potentially tempering post-election euphoria. With Trump's proposed tax overhaul shrouded in uncertainties, and details on the trillion-dollar infrastructure project still pending, investors are probably on a "wait-and-see" mode for fiscal stimulus expectations as of right now.

Despite the Federal Reserve raising short-term rates, long-term yields remain near record lows.

The actual inflation figures are not helping to change this either. The year-over-year Core PCE Inflation (personal consumption expenditures excluding food and energy) has remained below the Fed's target of 2% every month this year. Wage growth is still sluggish – contributing to slow job gains. The Fed's monetary tightening amid the less-than-phenomenal price and wage growth rates and uncertainties around fiscal stimulus are possibly toning down the inflation outlook for investors.

In a bid to rein in chances of overheating, many may be wondering if the Fed is getting too ahead for the economy's good? While the policy rate hike is lifting yields of short-term maturities, the rally in long-term Treasuries is pushing down the latter-end of the Treasury yield curve. The spread between 2-and-30-year Treasuries has dropped to a near record low of 150 basis points as of this writing. The flattening of the yield curve often sparks slowdown concerns since many recessions followed a negatively-sloped curve.

ARE HIGHER RATES FROM THE FEDERAL RESERVE A CONCERN? (CONTINUED)

The yield curve flattening is far from portending a downturn yet. After almost a decade of near-zero short-term interest rates intended to keep the U.S. economy from a recession, the Fed is finally 'normalizing' rates on the back of an apparent 'full employment' in the nation. The tightening has moved up the interbank overnight rate to 1% this year. If the Fed didn't raise rates yet, it would not have enough room to lower them for stimulating the economy if the need arises in the future.

Moreover, despite its drag in recent months, inflation may be inching up closer to the Fed's target cap of 2% by the year's end.

The Fed's improving optimism on the economy led to its policy rate hike last month. But, investors may still be wary of government policy uncertainties, and many of them have probably become less confident about inflation. Nevertheless, the fundamentals are way too healthy to warrant an economy-wide downturn, at least for the near-term. Plus, the yield curve is still upward sloping.

What's more, the upward momentum in bond prices is not without a decent rally in equity markets – proving that fundamentals hold their own, even amid 'noisy' headlines or policy uncertainties. Corporate earnings registered a solid performance in recent quarters, and the outlook for the coming quarters looks to be robust as well. The bottom line is that we remain unfazed by the Fed's recent actions. We will, however, continue to watch the Fed's actions closely.

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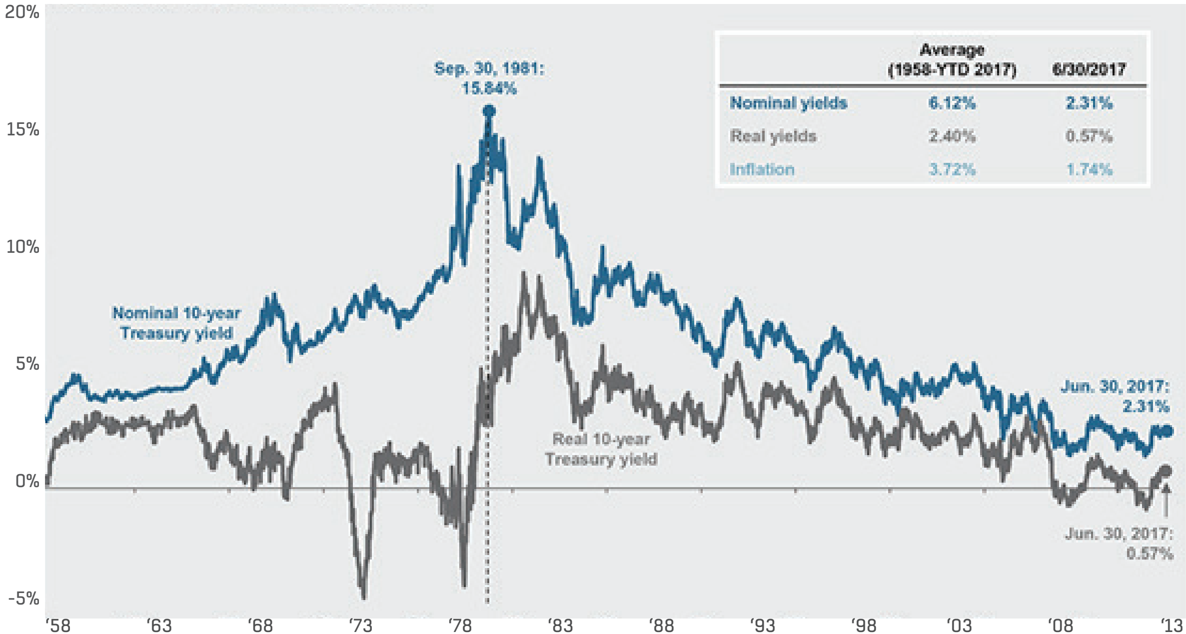
INTEREST RATES NEAR HISTORIC LOWS

Nominal And Real 10-Year Treasury Yields.



Source: BLS, Federal Reserve, J.P. Morgan Asset Management.
Real 10-year Treasury yields are calculated as the daily Treasury yield less year-over-year core CPI inflation for that month except for June 2017, where real yields are calculated by subtracting out May 2017 year-over-year core inflation.

FAFSA MYTHS BUSTED: HOW AFFLUENT FAMILIES MIGHT STILL QUALIFY FOR AID

Sean Condon CFP®
Financial Planner

Parents of incoming high school seniors take note: financial aid registration for the 2018-19 college school year begins October 1. If you are planning on skipping the FAFSA because you think your child won't qualify, think again. Filling out the FAFSA (Free Application for Federal Student Aid) may feel like taking the SAT, but without completing it, students aren't eligible for federal student loans, and some schools won't award merit scholarships or even allow students to apply for campus employment.

And what's more, there is a chance you can save money on college after all. If you'd like to understand how your income and assets may work against you when you apply for aid, here's the truth on four commonly held financial aid myths.

MYTH #1 We Earn Too Much To Qualify For Student Aid

Financial aid is determined by a simple formula that subtracts a student's expected family contribution (EFC) from a college's total cost of admission (Cost of Attendance – EFC = Financial Need). If your EFC is less than the cost of attendance – including tuition, fees, room & board, books, travel and personal expenses – then the student qualifies for aid.

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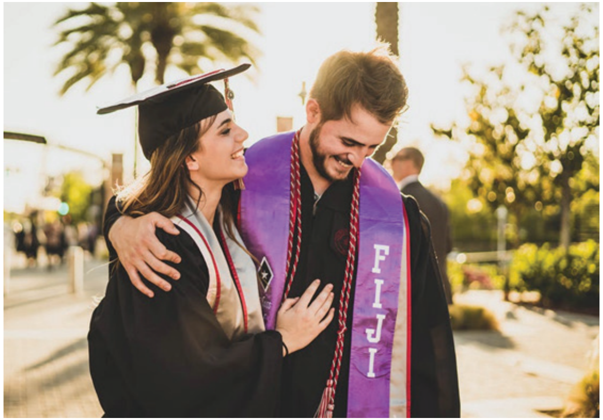
The EFC measures what a family should be able to pay for one year of college, based on income, assets, household size, and number of children attending college. If you have AGI of about $90,000 or higher, the EFC formula requires you to contribute 47% of your net income.



One silver lining of the sky-rocketing costs of education are that as cost of attendance increases, families with a higher EFC can still qualify for aid. Remember that Financial Need = Cost of Attendance – EFC. Surprisingly, with the most expensive colleges now charging over $65,000 a year, parents who earn over $200,000 may still qualify. Here's how: under the formula, the EFC is for the total family contribution, not per child. Even with an EFC as high as $100,000 (from income of $200,000), after a 50/50 split, the EFC is $50,000 for each child, less than the average cost of many elite schools.

MYTH #2 Our Assets Disqualify Us From Aid

Surprised to learn you might still quality for aid with a six-figure salary, you now rightly ask: what about my assets? In fact, major sources of parent assets are sheltered from the EFC. Retirement assets, such as 401(k)s and IRAs are not included, and neither is home equity (home equity is included in the College Scholarship Service Profile (CSS), a separate FAFSA-like formula used by several schools).

Your reportable assets, include cash savings, 529 plans, and any investments not in retirement accounts. This number is then reduced by a savings allowance based on age, up to a maximum of $30,000 for parents who are close to retirement. Finally, 5.64% of reportable assets are added to the EFC. Based on the FAFSA formula, a parent with a $1,000,000 IRA and $100,000 in cash and taxable investments would be expected to contribute less than $5,000 of assets.

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Assets owned by the student are also considered for the EFC, and they are treated less favorably. Students do not get a savings allowance, and they are expected to contribute 20% of reportable assets.

Notably, 529 plans and Coverdell IRAs are considered parents' assets and get the favorable treatment (savings allowance + 5.64% contribution) even though they are owned by the student.

MYTH #3 It Doesn't Matter Who Owns the 529 Plan

529 plans are considered a parent's assets for FAFSA purposes, regardless if they are owned by a child or a parent. But what about generous grandparents? After all, grandparents who want to help fund college can also reduce their estate tax liability by gifting into a college savings plan. They can contribute up to $14,000 a year (or five years' worth, $70,000 in the first year) into a child's 529 plan with no gift tax consequences. Yet be warned, if not done carefully this can adversely impact the grandchild's ability to qualify for aid.

Grandparent-owned 529 plans are not counted as assets for the EFC. Yet, when it's time to pay tuition, anything taken from the plan is treated as income to the student! This is a big negative for a student trying to qualify for financial aid.

Fortunately, new rules for the 2016-17 academic year and beyond have helped ease this quandary. The new rules shift which tax years are relevant when looking at income for financial aid. Income from the prior-prior year is what is now considered; for those applying for aid for the 2018-19 year, it is 2016 income that gets measured (previously income from the preceding year was relevant). This means that grandparent 529's can bypass aid formulas entirely, but only if they are liquidated during the student's last two years of college, or graduate school, where it will have no impact on income based on the prior-prior year look-backs.

MYTH #4 Those Who Don't Qualify Have no Good Options

Smart college funding strategies can still save parents money even if they do earn too much to qualify for financial aid. To do so, high-earning parents need to shift their focus from financial aid to tax savings. Remember, the elite-school tuition isn't just $65,000 a year, it's $65,000 after-tax. For those in the 33% bracket, for example, this means the real annual cost would be $97,000!

> **It is possible to save $5-10K in taxes per year for high-earners using the right tax savings techniques.**

Fortunately, there are strategies that can reduce the cost of college bill by minimizing the tax bill, often dubbed as tax-aid, or giving yourself a tax-scholarship. Shifting assets into a child's name before being liquidated can be a very effective way to reduce taxes. Consider gifting appreciated assets to a child to be sold at their capital gains rate (potentially 0%) as opposed to your own (as high as 23.8%). Children who are kept off their parent's return and deemed to be supporting themselves can also qualify for the American Opportunity Tax Credit, up to $2,500 per year for those with income below $180,000. In some situations, it is possible to save $5-10,000 in taxes per year for high-earners using the right tax savings techniques.

WINDGATE for Charity

We have formally launched Windgate for Charity because of the inspiring work done by charity organizations dedicated to improving the lives of others. In addition, we support many unique organizations by partnering with our employees and our clients as they follow their passions to make an impact. We look forward to continuing our support of exceptional organizations and sharing with you more of their stories.

Windgate Wealth Management is committed to giving back to the communities in which we live and work. We aim to make an impact by investing our resources – financial contributions, employee volunteering and mentoring – to support outstanding charities such as you see below.

Little Angels/Markland in Elgin, Illinois

Little Angels is a loving home for children and young adults with severe disabilities and complex medical needs.

Feed My Starving Children

Feed My Starving Children strives to eliminate starvation in children throughout the world by helping to instill compassion in people to hear and respond to the cries of those in need.

Team Fox for Parkinson's Research

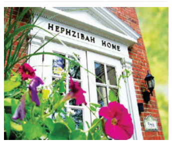
Team Fox is the grassroots community fundraising program at The Michael J. Fox Foundation. Each year, thousands of Team Fox members worldwide turn their passions and interests into unique fundraising events and athletic feats.

Holocaust Museum & Education Center

The mission of the Holocaust Museum and Education Center is best expressed in their founding principle: Remember the Past, Transform the Future.

Udavum Karangal, Helping Hands

Udavum Karangal (Helping Hands) is a registered, non-governmental, non-religious and non-profit social service organization established in 1983, with the sole objective of serving people in need.   The center provides individualized services, treatment, care, rehabilitation and education



Hephzibah Children's Association

Hephzibah provides safety and care to society's most vulnerable children since 1897.

North Mayfair Improvement

North Mayfair Improvement Association, formed in 1929, and represents neighbors working together to keep the community a safe, beautiful and exceptional place to live and raise families.

The University of Chicago Medicine

The University of Chicago Medicine Kovler Diabetes Center has innovative diabetes research and patient care. Kovler Diabetes Center provides holistic treatment, care and education that empowers patients to effectively manage diabetes for a lifetime.

WINDGATE WEALTH FIVE STAR AWARD WINNER

We are the proud recipient of the Five Star Wealth Manager Award for the third consecutive year. The Five Star Wealth Manager Award is committed to identifying and qualifying a select group of advisors who have a strong commitment to their clients and service, quality of their practice and professional accomplishments. More than 3,700 financial advisors in the Chicagoland area were considered for the award, which is presented to less than 500 wealth managers who show high standards for business growth and client satisfaction.

Five Star Professional employed a rigorous research process to identify the Five Star Wealth Manager award winners in the Chicago area. Award-winning professionals were carefully selected from among thousands of wealth managers for their knowledge, service, and experience. Award winners represent an exclusive group of wealth managers who have demonstrated excellence in their field by satisfying 10 objective selection criteria.

Watch for us in the October issue of *Chicago Magazine*.

In order to consider a broad population of high quality wealth managers and investment professionals, award candidates are identified by one of three sources: firm nomination, peer nomination or prequalification based on industry standing. Self-nominations are not accepted.

Although this list is a useful tool for anyone looking for help in managing their financial world or implementing aspects of their strategies, it should not be considered exhaustive. Undoubtedly, there are many excellent professionals who, for one reason or another, are not on this year's lists.

The Five Star Wealth Manager award, administered by Crescendo Business Services. LLC (dba five Star Professional), is based on 10 objective criteria Eligibility criteria - required: 1. Credentialed as a registered investment adviser or a registered investment adviser representative; 2. Active as a credentialed professional in the financial services industry for a minimum of 5 years; 3. Favorable regulatory and complaint history review. (As defined by Five Star Professional, the wealth manager has not: A. Been subject to a regulatory action that resulted in a license being suspended or revoked, or payment of a fine; B. Had more than a total of three customer complaints filed against them settled or pending] with any regulatory authority or five Star Professional's consumer complaint process. Unfavorable feedback may have been discovered through a check of complaints registered with a regulatory authority or complaints registered through Five Star Professional's consumer complaint process; feedback may not be representative of any one client's experience; C. Individually contributed to a financial settlement of a customer complaint filed with a regulatory authority; D. Filed for personal bankruptcy; E. Been convicted of a felony); 4. Fulfilled their firm review based on internal standards; 5. Accepting new clients. Evaluation criteria - considered: 6. One-year client retention rate; 7. Five-year client retention rate; 8. Non-institutional discretionary and/or non-discretionary client assets administered; 9. Number of client households served; 10. Education and professional designations. Wealth Managers do not pay a fee to be considered or placed on the final list of Five Star Wealth Managers. Award does not evaluate quality of services provided to clients. Once awarded, wealth managers may purchase additional profile ad space or promotional products. The Five Star award is not indicative of the wealth manager's future performance. Wealth managers may or may not use discretion in their practice and therefore may not manage their client's assets. The inclusion of a wealth manager on the Five Star Wealth Manager list should not be construed as an endorsement of the wealth manager by Five Star Professional or this publication. Working with a Five Star Wealth Manager or any wealth manager is no guarantee as to future investment success, nor is there any guarantee that the selected wealth managers will be awarded this accomplishment by Five Star Professional in the future. Five Star Professional is not an advisor firm, and the content of this article should not be considered financial advice. For more information on the Five Star Wealth Manager award program, research and selection criteria, go to www.fivestarprofessional.com/research.

QUOTES ON MONEY, WORK AND HUMOR

Money can buy happiness, but words are free. Here are a few of our favorite quotes regarding money, work and humor.

- "The safest way to double your money is to fold it over and put it in your pocket." - Kin Hubbard
- "Money is not the most important thing in the world. Love is. Fortunately, I love money." - Jackie Mason
- "Invest in yourself. Your career is the engine of your wealth." – Paul Clitheroe
- "A bargain is something you can't use at a price you can't resist."- Franklin Jones
- "The four most dangerous words in investing are: 'this time it's different.'" - John Templeton
- "The aim is to make money, not to be right." - Ned Davis

- "Once I was doing a sponsored walk. In the end I managed to raise so much money, I could afford a taxi." - Jimmy Carr

- "Look to the future, because that is where you'll spend the rest of your life." - George Burns

"Actually, I couldn't care less what they do about capital gains."

Any opinions expressed in this article are general in nature and cannot be guaranteed to be suitable for every individual. Individual needs and situations vary. Talk to your financial advisor to help you consider what options might be right for you.

The information provided herein represents the opinion of Windgate Wealth Management and is not intended to be a forecast of future events, a guarantee of future results, nor investment advice. The information is neither a recommendation to buy or sell a security or invest in a specific sector. Past performance is not indicative of future results.

Perritt Capital Management, Inc. is the registered investment advisor for Windgate Wealth Management accounts.

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