MICHAEL G PETRONE, CFP®
Petrone Associates, Inc.
2 Research Way, 1st Floor
Princeton, NJ 08540
Tel: (609) 452-9292
Fax (609) 452-0838
Email: Michael_G_Petrone@glic.com
Web: www.petroneassociates.com

RE: Quarterly Newsletter/First Quarter 2018

Dear Clients and Colleagues:

In this newsletter, we will review the 2017 market performance and discuss the benefits of saving in a qualified retirement account versus a non-qualified account.

Trivia

We are excited to watch the Winter Olympics beginning in February. Pyeongchang, South Korea is the third Asian city to host the Winter Olympics (following Sapporo, Japan (1972) and Nagano, Japan (1998)). ***Which country has hosted the most Winter Olympics?***

2017 Market Performance[1]

	2017
S&P 500	21.83%
MSCI EAFE(Dev.Int'l)	25.03%
MSCI EM(Emer.Mrkt.)	37.28%
BarclaysUSAggIndx	3.54%

I. Qualified Retirement Plans and Accounts

By way of background, qualified retirement accounts include 401(k) and other employer sponsored retirement plans and Individual Retirement Accounts (IRA's). Typically, contributions to such accounts are not subject to income tax when made, the account grows tax deferred (without tax), and distributions in retirement (after age 59.5) are subject to ordinary income tax. Other qualified retirement accounts include Simplified Employee Pension Plans (SEP); Savings Incentive Matching Plans (SIMPLE); and Defined Benefit Pension plans.

Plan	SEP-IRA	SIMPLE IRA	401(k)	Defined Benefit
May Be Best for:	Self-employed and small, closely held businesses looking for a simple plan	Businesses seeking an easy to administer plan that permits salary deferrals	Businesses seeking plan flexibility, salary deferrals and matching contributions	Businesses looking to make large contributions on behalf of the owner

--OVER--

[1] Indices are unmanaged and one cannot invest directly in an index. Past performance is not a guarantee of future results. MSCI EAFE Index serves as a benchmark of the performance in major international equity markets as represented by 21 major MSCI indexes from Europe, Australia and Southeast Asia. MSCI EAFE Emerging Markets Index is a free float-adjusted market capitalization index designed to measure equity market performance in the global emerging markets. Barclays U.S. Aggregate Bond Index represents the US investment-grade fixed-rate bond market. S&P 500 Index is a market index generally considered representative of the stock market as a whole. The index focuses on the large-cap segment of the U.S. equities market.

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II. *Mathematically, Is It Better to Save in a Qualified Retirement Account?*

The conventional wisdom is yes but the common rationale is often based on unrealistic assumptions. For instance, the ending after-tax value in a 401(k) or IRA is usually compared to the after-tax value of a non-qualified account invested in bonds or cash. However, individuals investing for retirement will usually invest a substantial portion of the funds in stocks and long-term stock appreciation is subject to much lower tax rates than bonds or cash (capital gains versus ordinary income tax rates). Even so, when comparing a qualified retirement account (e.g., a 401(k) or IRA) to a non-qualified account invested in stocks, in most cases, the after-tax value of a 401(k) or IRA will substantially exceed that of a non-qualified account.

For example, if $18,000 was invested in a 401(k) plan for fifteen years and grew at 7%, the estimated after-tax value of the account for someone in the highest tax bracket would be $300,070.68, assuming a combined Federal and State effective income tax rate of 38%.

$18,000	x	15 years x	7%	=	$483,984.96
Minus Effective Federal & State Income Tax					x .62
					$300,070.68

Investments in non-qualified investment accounts are initially subject to income tax and any gains are subject to capital gain and dividend tax. Thus, assuming the same effective income tax rate of 38%, for comparison sake $11,160 could be invested after-tax each year ($18,000 x .62). It is estimated that 28% of stock returns are lost to dividend and capital gain tax.[2] Thus, if $11,160 was invested after-tax in a non-qualified account for fifteen years at a gross/net return of 7%/5.04% (7% minus 28%), the after-tax value of the account would be $253,716.80, substantially less than in a qualified account.

Net After-Tax Value of Qualified Account	$300,070.68
Net After-Tax Value of Non-Qualified Account	$253,716.80
Difference	$46,353.88

Contact us for an evaluation of your retirement and investment accounts.[3]

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[2] David F. Swensen, "Unconventional Success: A Fundamental Approach to Personal Investment," Free Press, 2005, at pgs. 24-25 (citing James M. Poterba, "Taxation, Risk-Taking, and Household Portfolio Behavior," NBER Working Paper Series, Working Paper 8340 (National Bureau of Economic Research, 2001), 90).

[3] This Material is intended for General Public Use. By providing this material, we are not undertaking to provide investment advice for any specific individual or situation, or to otherwise act in a fiduciary capacity. Please contact one of our financial professionals for guidance and information specific to your individual situation. Guardian, its subsidiaries, agents, and employees do not provide tax, legal, or accounting advice. Consult your tax, legal, or accounting professional regarding your individual situation. 2018-52816 Exp 10/19.