



Fed Shatters Conventional Economic Wisdom

Conventional economic wisdom holds that the record-low unemployment rate will cause employers to bid up wages, which then will be passed through to consumers in the form of higher prices, triggering rising inflation. However, conventional wisdom is being shattered.

Just as civilization came to understand that the world is not flat, the world just recently realized that the framework for understanding the relationship between inflation and employment, The Phillips Curve, was wrong.

While civilization generally progresses at glacial speed, this is a breakthrough in the world's understanding of economics and it has modern-world consequences.

William Phillips, a professor of economics at the London School of Economics in the 1950s, explained the inverse relationship between unemployment and wages in 1958.

When the economy grows the unemployment rate declines, driving wages and spurring higher inflation.

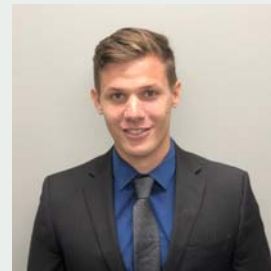
By the late 1960s, the Phillips Curve was the primary framework for forecasting inflation among central banks across the world. Now, however, in a departure from conventional economic wisdom, the Phillips Curve is being rethought by the U.S. Federal Reserve.

Jerome Powell, the chairman of the U.S. central bank, does not expect a sharp rise in inflation, even though unemployment has hit a record-low and wages are on the rise. He believes the inverse correlation between employment and wage inflation isn't as strong as it used to be, and he sets U.S. interest-rate policy.

If the Fed relied on the Phillips Curve, Mr. Powell would likely be trying to head off inflation right now by raising rates more aggressively to slow down the economy.

Spotlight On... Jonathan Tribo

Hello, my name is Jonathan Tribo and I am a tax associate at The Mosaic Financial Group. I started working at Mosaic in February of 2017 as an intern and have

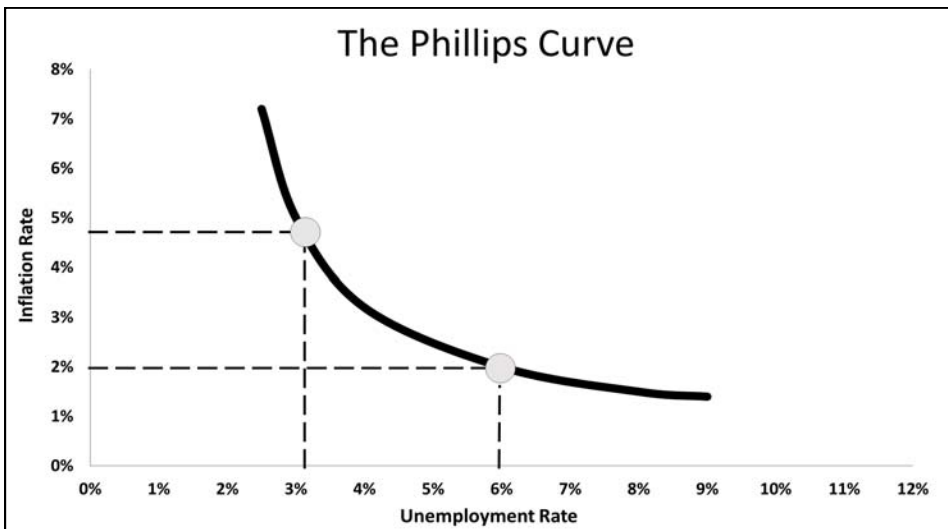


now been a fulltime employee for over a year. Working with the team at Mosaic has really developed me

as a professional and I am forever grateful for this amazing experience.

I grew up in Manhattan, a small south suburb of Chicago where I graduated from Lincoln Way Central High school. During high school, I played on the soccer, basketball, and volleyball team. After high school, I continued my education at Western Illinois University, graduating with a Bachelor of Business in Accountancy.

Outside of the office, I continue to keep myself busy. In the last year I was given the opportunity to travel to California, Florida, and Tennessee. Also, in the last year, I purchased my first home and was lucky enough to get engaged. While I have been busy with wedding planning and updating the new home, I truly value my family and friends, and I make it a necessity to spend as much of my free time with them.



(Continued on page 4)

Everything You've Learned About Interest Rates May Be Wrong

In the long arc of financial history, Americans are coming off a 50-year aberration and returning to normal interest rates.

The last 50 years represent an aberration of U.S. financial history in the context of the last 171 years. In the long arc of financial history, lessons learned over a lifetime may be wrong.

Though double-digit rates are a fear investors have dealt with for five decades, history indicates it is unlikely to occur in our future anytime soon. Beginning in the late 1960s, a 25-year period of rising interest rates was followed by a 25-year period of declining rates, completing only in recent months a 50-year cycle highly unlikely to repeat itself anytime soon.

The yield on a 10-year U.S. Treasury bond, in the grand sweep of history, averaged about 4% annually. That's normal. Mortgage rates of the 70s, 80s, or 90s were abnormal.

The "new normal" ironically is the old normal. No wonder the financial press is confused.

In late March, when the 10-year T-bond yield topped 3% for the first time since

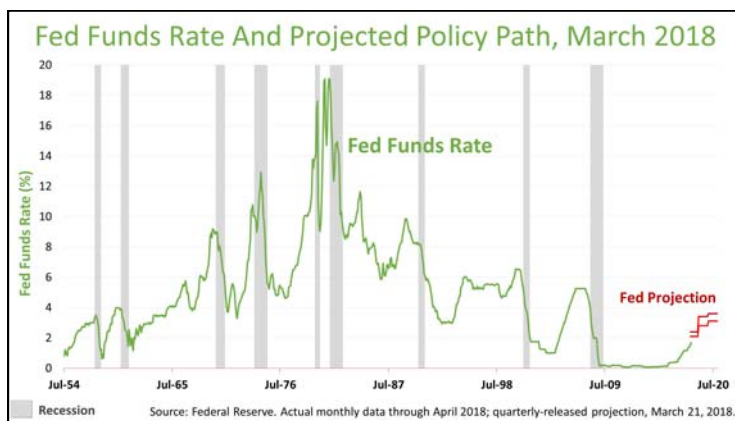


2014, it sparked a spate of headlines about the risk of rising rates. Such fears may be misplaced, using the 171-year history as a guide.

The new normal may be a 2% inflation rate and a 10-year bond yield of 4%. Headlines evoking fears that a 3% yield on 10-year T-Bonds portends

Fed could be wrong, but it's not wildly wrong and it's what you should expect. Despite your life experience and widely-held notions, interest rates over the next decade probably won't be anything like what you've experienced before.

To be clear, your experience in fixed-income investing has been framed



1980s'- or 1990s'-style inflation and a rise in interest rates are unlikely in the years ahead.

The Fed is expecting the 10-year Treasury bond to revert to the long-term mean of about 4% in 2020. Once a quarter, the Fed releases its interest rate policy, plan, and projection. Based on the Fed's plan and forecast, the Fed Funds Rate is targeted to hit 3% in January 2020. The

by an outlook based on aberrantly high rates. A reversion to the 100-plus year mean Fed Funds Rate is expected by the Fed. Thus, investing based on your experience isn't enough now; understanding the future of interest rates requires historical perspective. As a financial professional, our experience in investing is informed by the long arc of history. ●

"New and Improved" QSBS Tax Break

Maybe you're interested in investing in a new business venture that seems promising. It might even be a business you're trying to kick-start yourself. Either way, you could be in line for a special tax break for investing in "qualified small business stock," (QSBS).

If you hold onto QSBS for at least five years before selling it and you meet other tax law requirements, any profit on your investment is exempt from tax. The Protecting Americans from Tax Hikes (PATH) Act preserved this tax break permanently.

This tax exclusion for QSBS has been kicking around for a while. Prior

to 2009, you could exclude only 50% of the gain from the sale of QSBS held at least five years. That effectively reduced the 28% tax rate on QSBS profits to 14%—just one percentage point lower than the maximum long-term capital gains tax rate of 15% (and only 6 percentage points less than the higher 20% long-term capital gains rate for investors in the top tax bracket for ordinary income).

Eventually, the tax exclusion for QSBS was raised to 75%, and after September 27, 2010, it was 100%. And although it was scheduled to fall to 50% after 2014, the PATH Act preserved the full 100% exclusion,

retroactive to January 1, 2015, and made it permanent.

Now that the uncertainty is over you can comfortably invest in QSBS, knowing that you might benefit from big tax-free profits in the future if the company is successful.

But the tax exclusion isn't automatic. To qualify, six requirements must be met:

1. The stock must have been issued after August 10, 1993.
2. The stock can't have been acquired in exchange for other stock.
3. The issuing corporation must be a C corporation.
4. At least 80% of the

New Ways To Influence The Next Generation

The Tax Cuts And Jobs Act of 2018 (TCJA) gives you more good reasons to help your children, grandchildren, great nieces and nephews. Any amount you give to a 529 account that's used to pay for qualified expenses for college as well as private or religious schooling before college is deductible. With tax reform eliminating all or a large chunk of state income-tax deductions for many individuals in 2018, giving to a 529 lightens your state income-tax load while perhaps changing a life of a family member or friend and influencing their values.

If a child in your family is affected by autism, ADHD, opioids, or any other modern maladies, you have new ways to benefit from the privilege of helping children with special needs.

The average annual rate of college inflation was double the overall inflation rate for the past decade, according to College Board data, and 529 assets hit \$279 billion in 2016, according to College Savings Plan Network — up almost 160% from 10 years earlier, as parents tried to keep pace with rising college costs.

Enacted two decades ago,

corporation's assets must be used in the active conduct of a qualified trade or business.

5. Certain businesses involving real estate or personal services (for example, law, health, financial services, etc.) are excluded.

6. The corporation can't have had more than \$50 million in assets at the time the stock was issued.

In addition to the 100% exclusion for long-term profits, you won't owe

Section 529 plans have become popular because contributions grow tax-free and withdrawals for tuition, books, room and board are also tax-free. No limits are imposed on contributions, but your 529 may not exceed the estimated cost of a beneficiary's education expenses.



Many states let you deduct 529 contributions from state income tax, and some also allow deductions made to out-of-state 529 plans. Almost all states offer 529s and permit out-of-state residents to invest. Here's how the new tax overhaul encourages 529 savings:

Savings on state income tax lowers federal liability. To the horror

any current tax on a gain from the sale of QSBS if you roll over the proceeds into new QSBS within 60 days.

Do keep in mind, however, that investments in new business ventures can be extremely risky, and tax savings won't matter if your QSBS loses all or most of its value. Do your homework before investing

and make sure that the investment makes good financial sense as well tax sense. ●

of high-tax states, federal deductions for state income, property and sales tax were limited for 2018, and annually through 2026, with a \$10,000 limitation. Still, 41 states have an income tax and New Hampshire and Tennessee tax dividends and other investment income, and about three dozen states allow deductions for 529 contributions. Your gifts to 529s lower your income subject to federal as well as state income tax, easing the pain of losing the federal deduction for state and local taxes.

Paying for private school tuition. 529s to pay for kindergarten through 12th grade are now permitted, but you must check to see if your state allows you to deduct 529s used to pay for private schools.

Consider financial aid. A 529 might hurt a child's

chances for financial aid at private high school. However, 529s do not penalize an applicant for Federal Student Aid (FAFSA) for college.

Children with special needs. This bolsters a federal tax break for those who become blind or disabled before age 26. It also covers education for modern maladies, like ADHD and autism. Enacted in 2014, ABL accounts make gifts to individuals with special needs eligible for tax-free growth in 529 accounts. The 529 accounts are not figured into eligibility for Medicaid, Social Security income or Supplement Security Income (SSI) payments.

Deduct up to \$15,000 a year by giving to an ABL account from a 529. Spouses get twice as much benefit. Withdrawals are tax-free for qualified expenses, like employment training, housing, fighting autism, ADHD and overcoming disabilities.

If you have the privilege to be able to help the next generation and want to finance religious school, military training, or help a child with special needs, this is a loophole for you. Please let us know if we can assist you with making this happen. ●



A Bright Outlook For Consumer Spending

Investing prudently requires understanding economic fundamentals. Here's some insight into current economic conditions and the kind of ongoing analysis required to manage wealth prudently for the long term over up and down economic cycles.

The economy is measured quarterly in terms of gross domestic product (GDP), which is the sum of four factors: consumption, investment, government and net exports. Consumer spending is by far most important, accounting for 69% of U.S. economic activity. The key to strong economic growth, then, is a strong American consumer.

In the final quarter of 2017, net exports were a drag on GDP growth. However, net exports are volatile month-to-month and its dips have been followed repeatedly by surges over the past two cycles of the economic expansion and recession that

occurred since January 2002.

Government spending, which includes state and municipal expenditures, has been on the rebound after suffering years of cutbacks in The Great Recession and its aftermath. With real incomes rising since the financial crisis, tax receipts have risen and state and local government spending grew, which has been a positive factor in GDP growth in recent years.

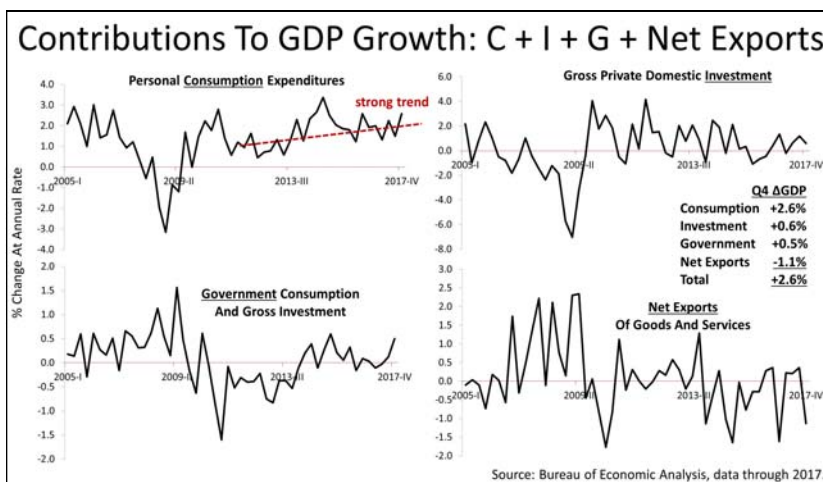
However, business investment and government spending are together not even half as important a factor in growth

of the U.S. economy as consumers. If consumers keep spending, the good times for the U.S. could keep on rolling, and there is some reason for optimism on that score.

Consumer strength rose in closing out the year, according to the most recent data, extending the strong growth trend line (in red) experienced in recent years. In addition, in February, a lower rate of withholding federal taxes on employee paychecks kicked in, and that is putting more money in consumers' pockets to spend. That could show up in GDP

growth figures to be released in early April 2018.

Economic growth shows up in profits of companies and is the key determinant in the value of stocks. Profit expectations at the Standard & Poor's 500 companies grew sharply in the opening quarter of 2018, according to independent economist Fritz Meyer, and the outlook for consumer strength was bright despite an 11.8% correction. ●



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(Continued from page 1)

Inflation recently surged to the Fed's target rate of 2% and the unemployment rate dropped to a record low of 3.9%. In addition, the Index of Leading Economic Indicators, a forward looking composite measuring growth literally 10 ways monthly, rose again in April continuing an uptrend and suggesting solid growth continuing through the second half of 2018.

Mr. Powell, who became Fed chair in

February 2018, has moved decisively in defiance of conventional wisdom, highlighting humanity's improved understanding of financial economics.

This chart from independent economist Fritz Meyer, whose

research we license to share with you regularly, shows the inverse relationship of inflation and unemployment since 1960.

If the Phillips Curve were an accurate forecasting tool, each of the

black dots would line up on top of the red line. When Professor Phillips came up with his theory in 1958 it was prophetic, but a half-century later we know so much more.

We're here to help you plan your future based on facts, analysis, and humanity's growing understanding of financial economics. ●

