2018 Wealth Management Forum

February 1, 2018

JOHNSON INVESTMENT COUNSEL

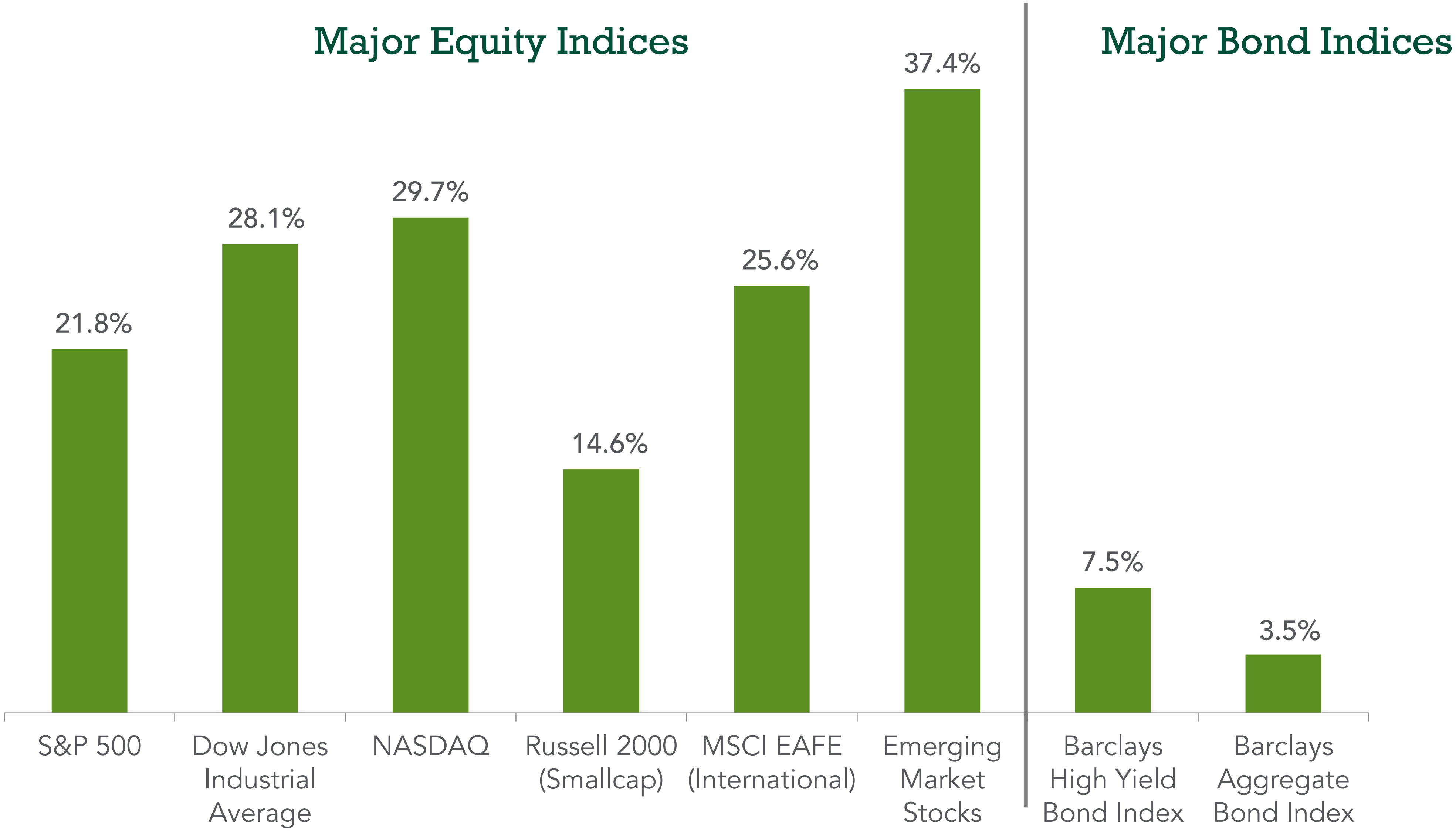
Introduction

Jason O. Jackman, CFA
President & Chief Investment Officer

Speakers

- > **Dale H. Coates, CFA**
  Vice President & Portfolio Manager
- > **Chad R. Maggard, CFA**
  Portfolio Manager
- > **Charles E. Rinehart, CFA, CAIA**
  Portfolio Manager
- > **Brandon A. Zureick, CFA**
  Portfolio Manager & Strategist

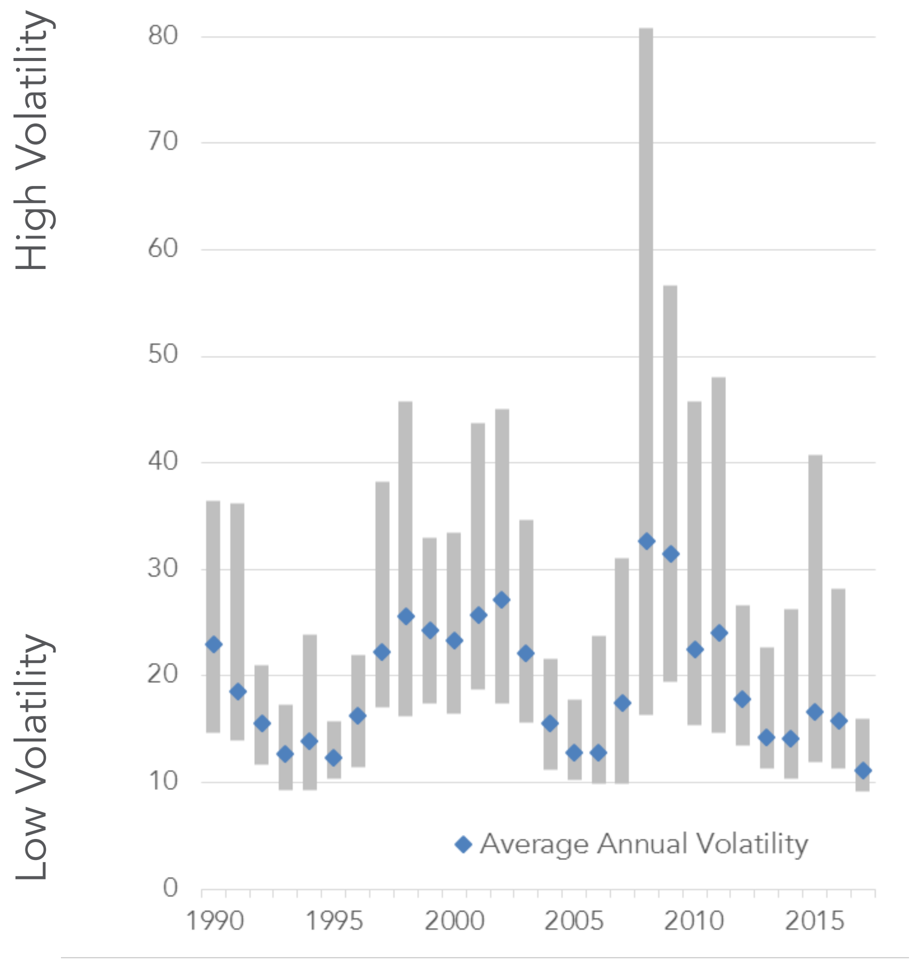
2017 – A Year of Strong Market Returns



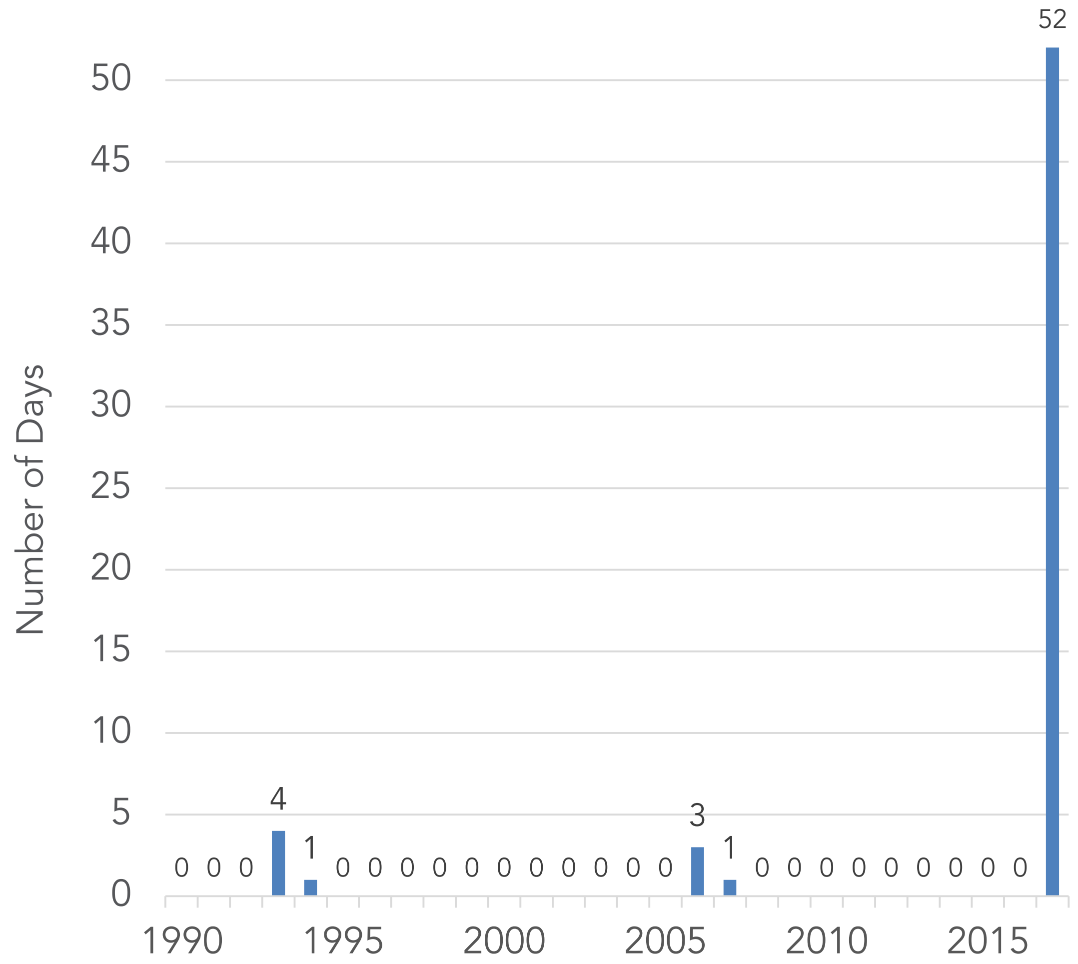
Source: Bloomberg

A Record Year for Low Volatility

Annual Stock Volatility



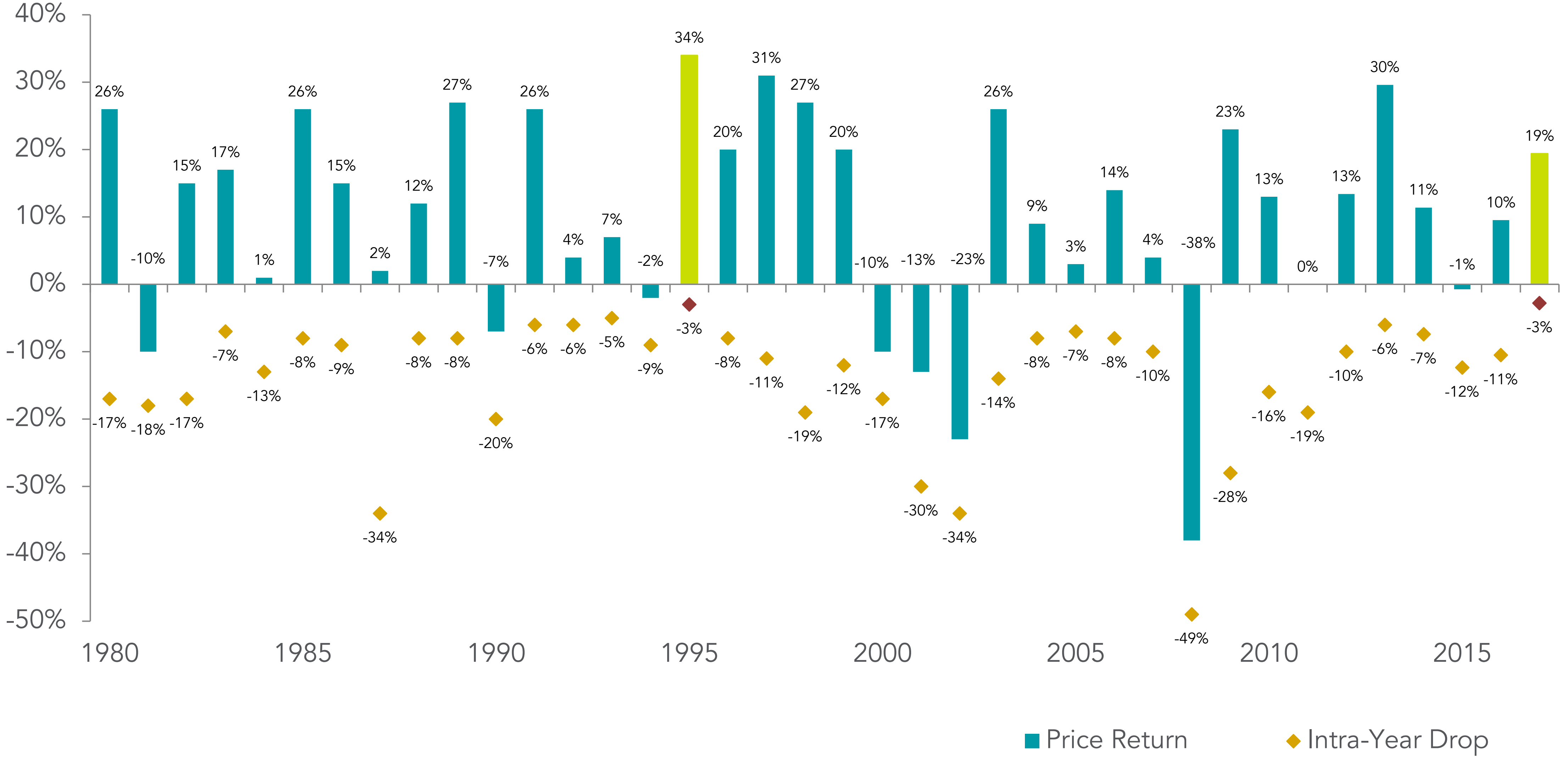
Number of Days During the Year Volatility was Very Low (Index below 10)



Source: Chicago Board Options Exchange Volatility Index

Stock Market Corrections are Normal

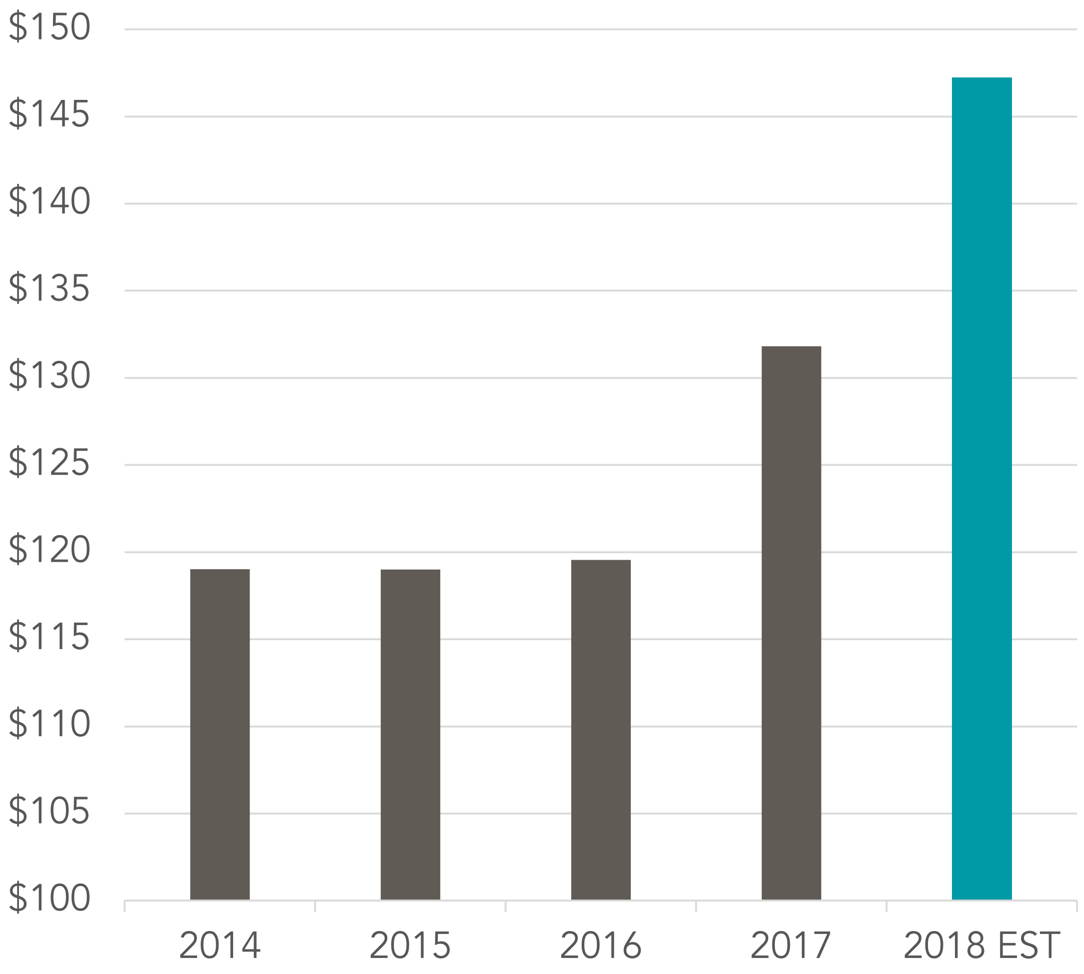
S&P 500 Intra-Year Price Declines vs. Calendar Year Change



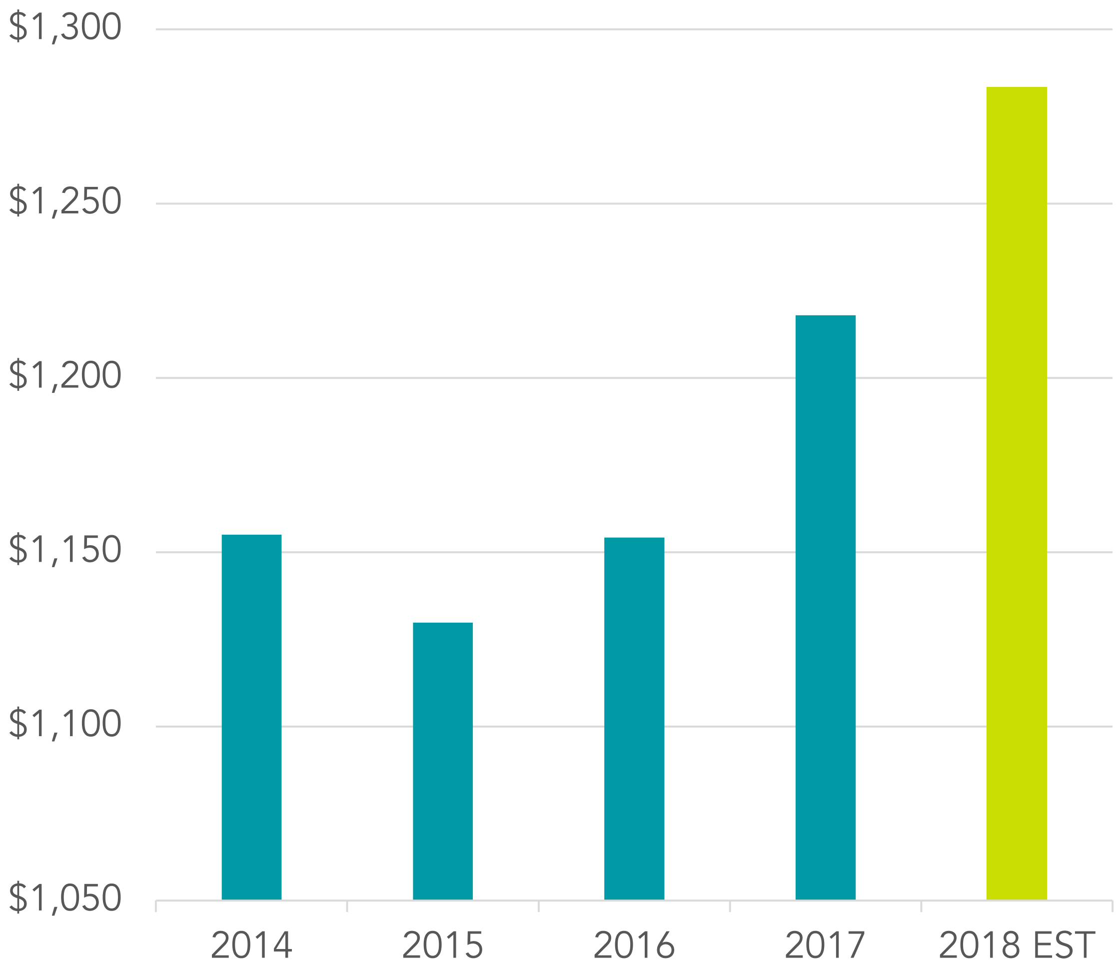
Source: Standard & Poor's; JP Morgan; Factset

Growth Accelerated in 2017

S&P 500 Earnings Per Share

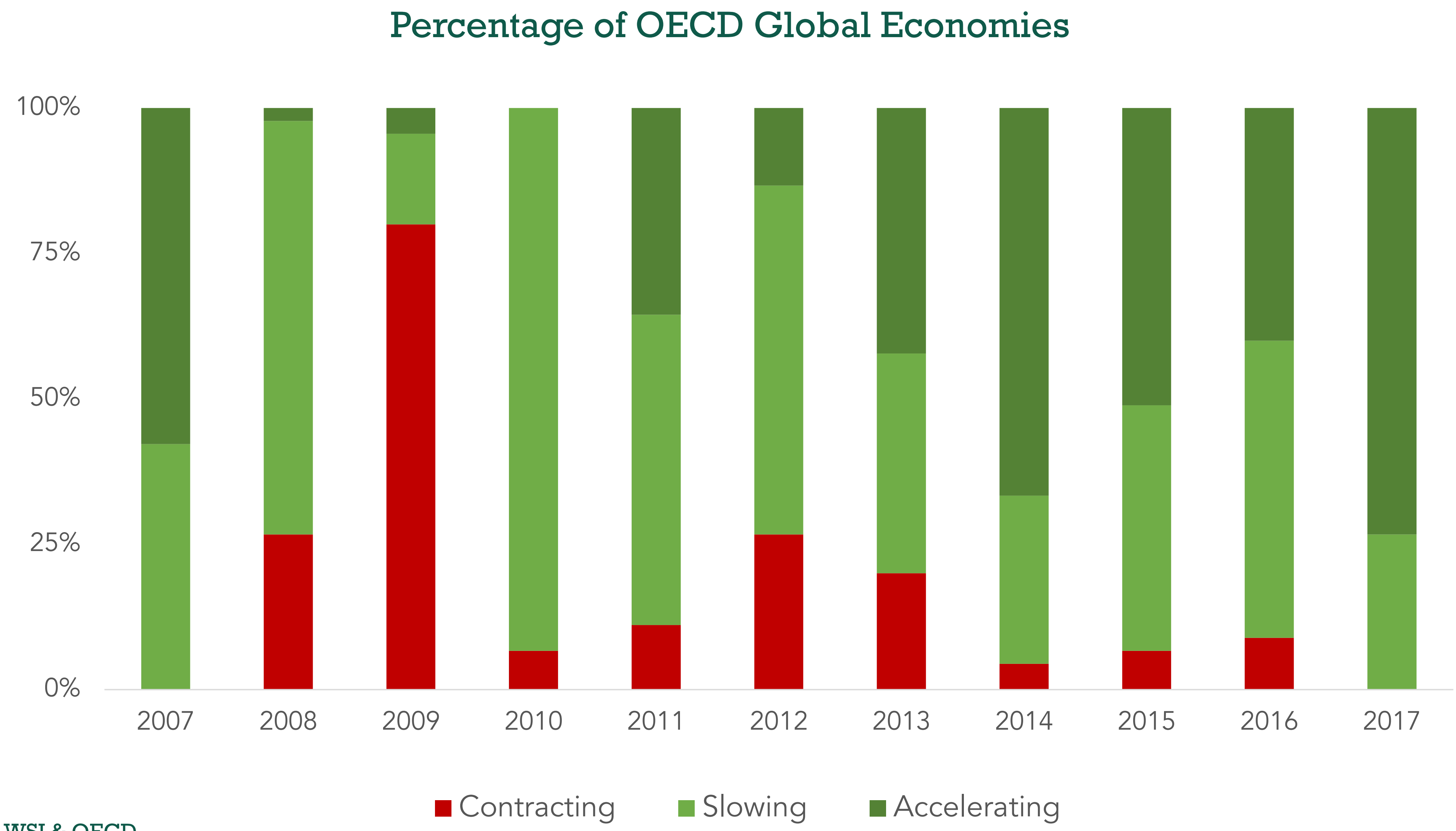


S&P 500 Revenue Per Share



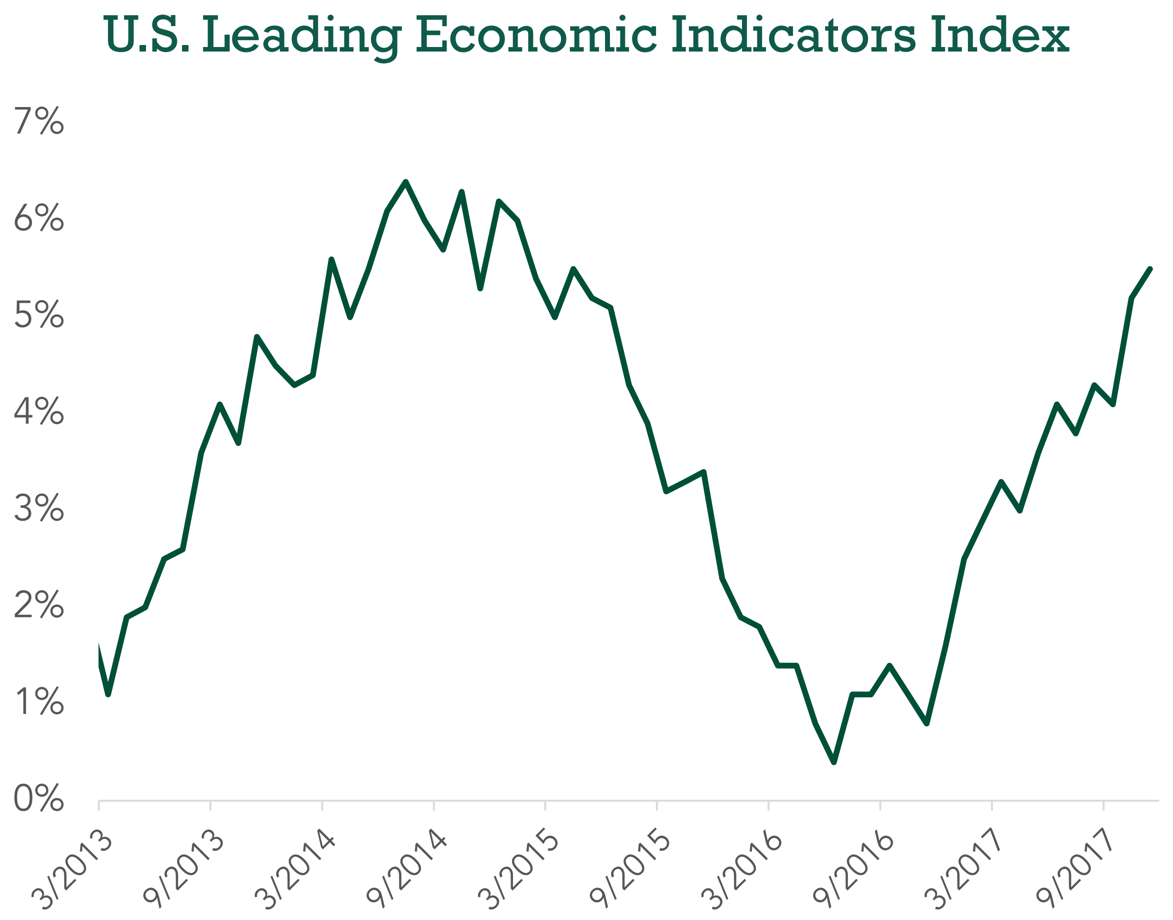
Source: Factset

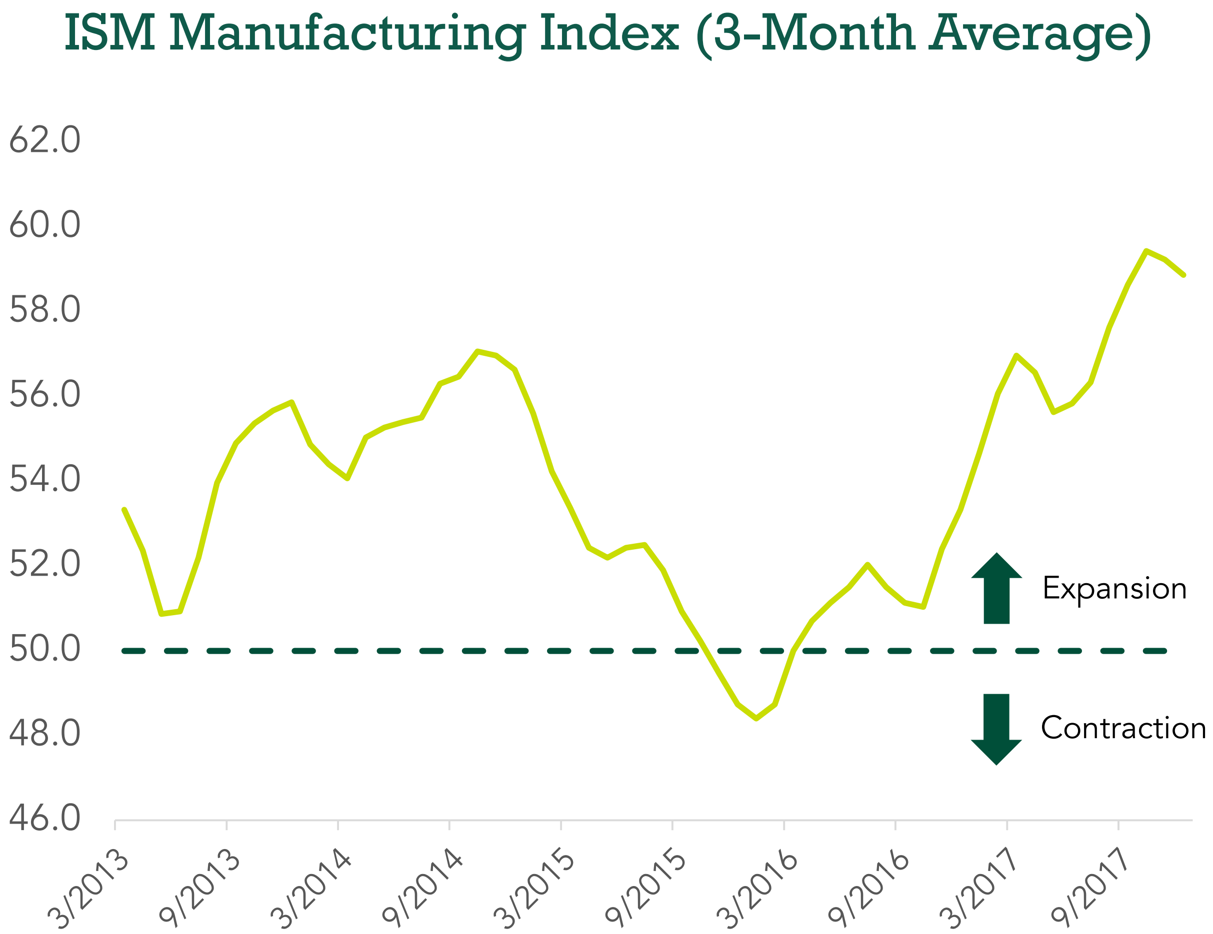
Synchronized Global Growth



Source: WSJ & OECD

Domestic Tailwinds





Source: Bloomberg

Economic Impact of Tax Reform

Estimated Savings Under Tax Cuts & Jobs Act (Billions)

Individual Provisions

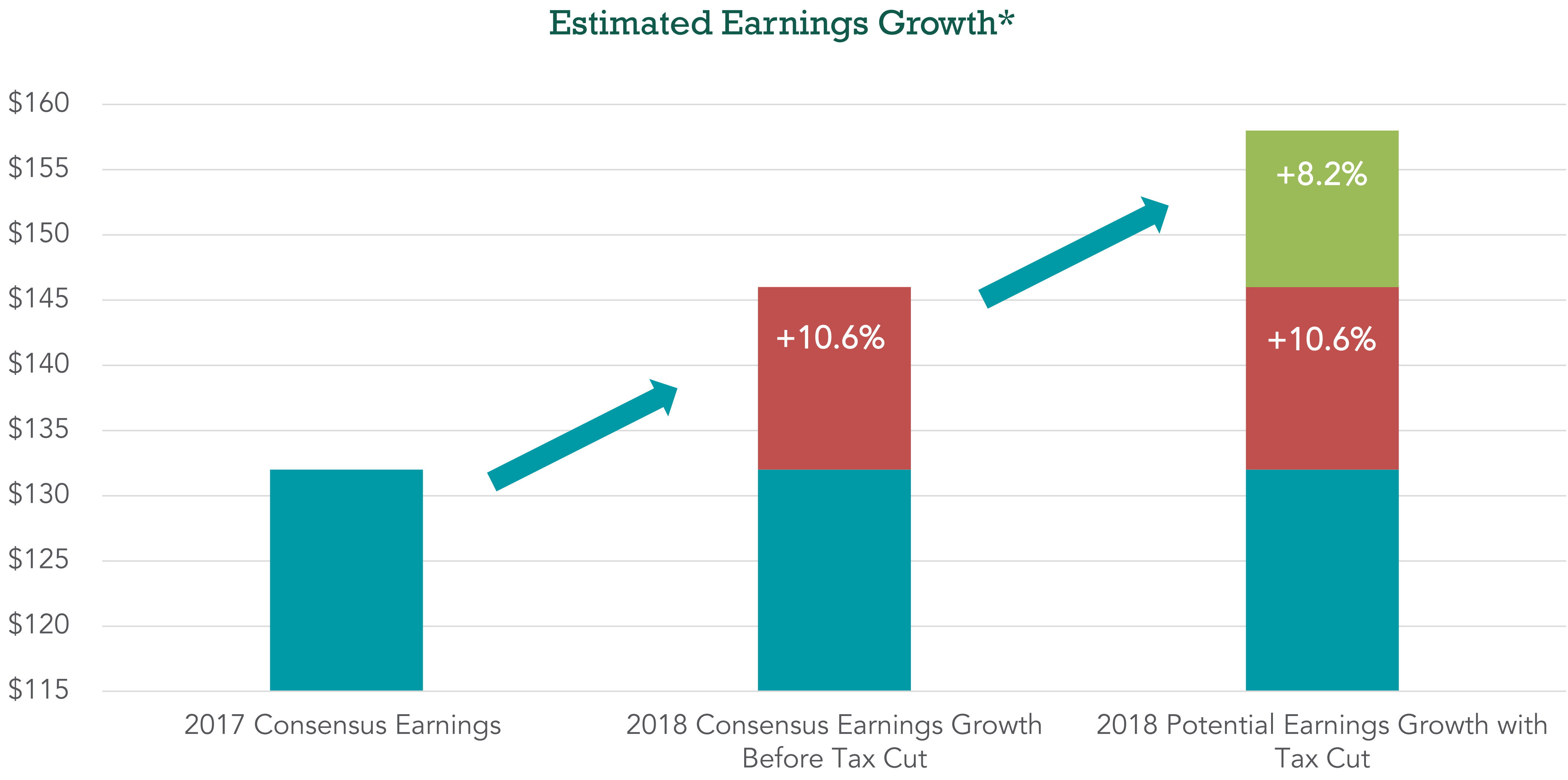
		Year
Income Tax Rate Cuts	$	135
AMT Relief	$	83
Other	$	16
Itemized Deduction	$	(70)
Net Individual Impact	**$**	**164**

Corporate Provisions

		Year
Corporate Rate Cut	$	125
Expensing	$	44
Pass-through Reform	$	31
International Changes	$	7
Business Deduction Reform	$	(35)
Net Corporate Impact	**$**	**172**
Total	$	336
Nominal GDP	$	19,500
%		1.7%

Source: Joint Committee on Taxation & Cornerstone Macro & Bloomberg

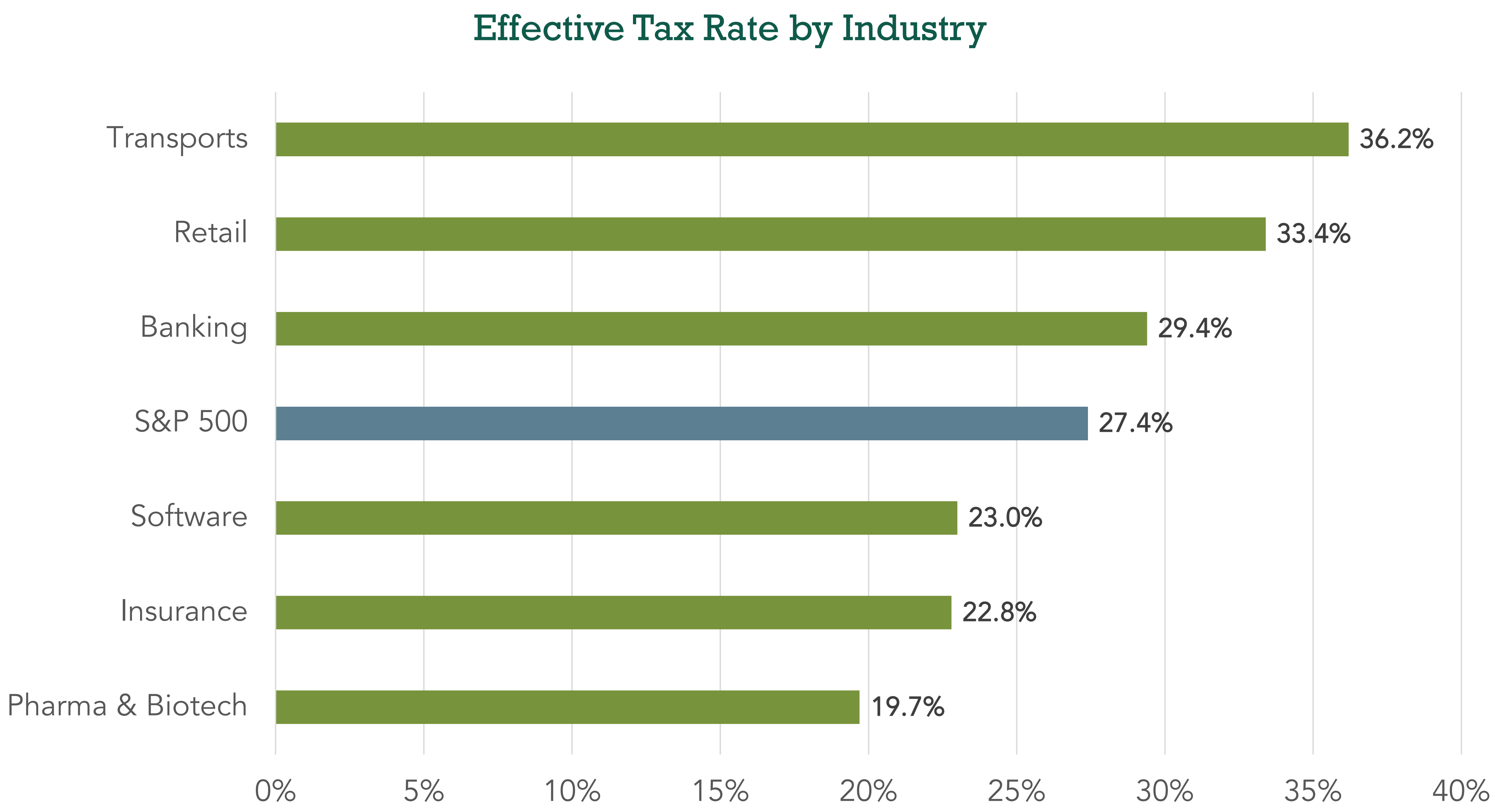
Market Impact of Tax Reform



Source: Credit Suisse

* Assumes all savings from corporate tax reform flow through to net earnings

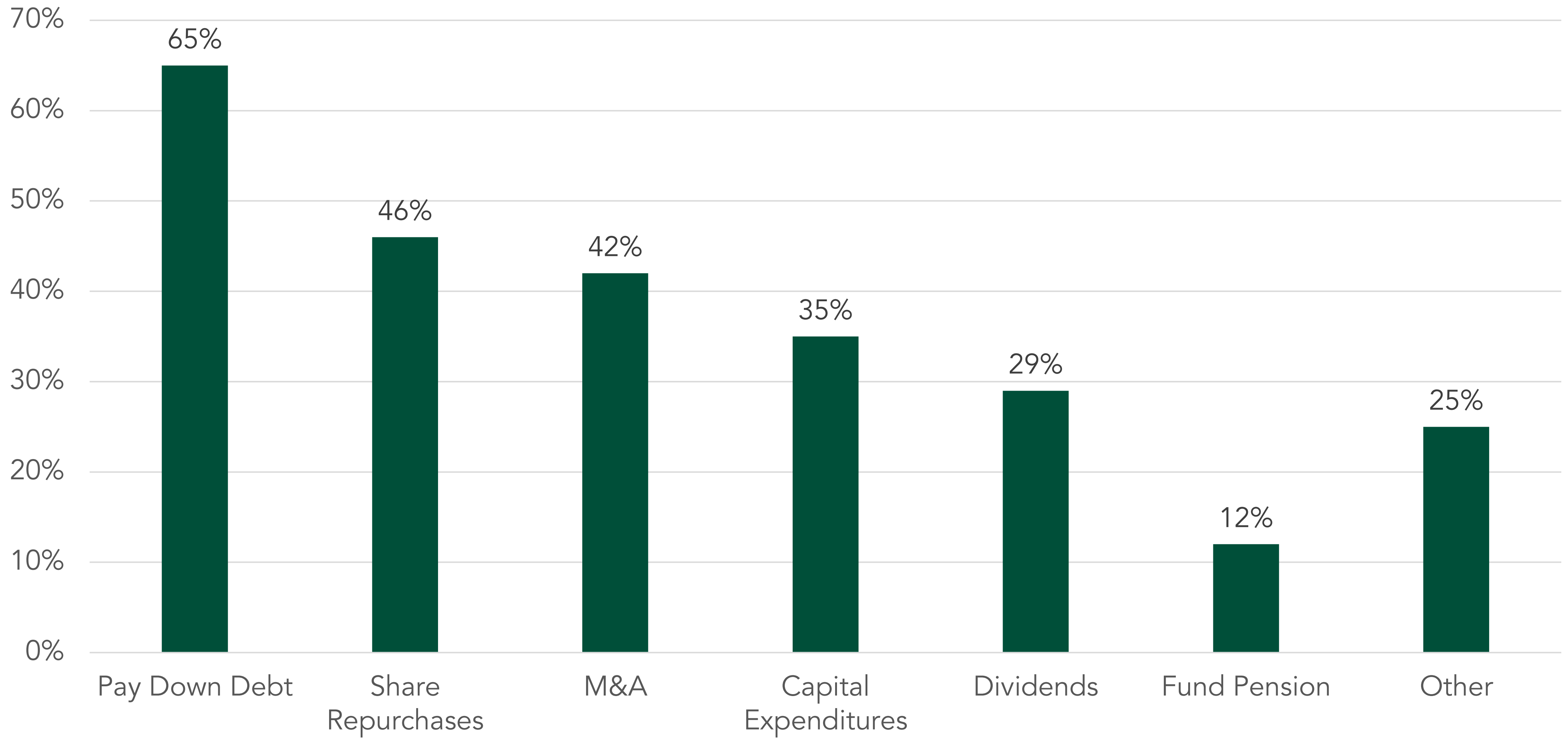
Market Impact of Tax Reform



Source: Credit Suisse

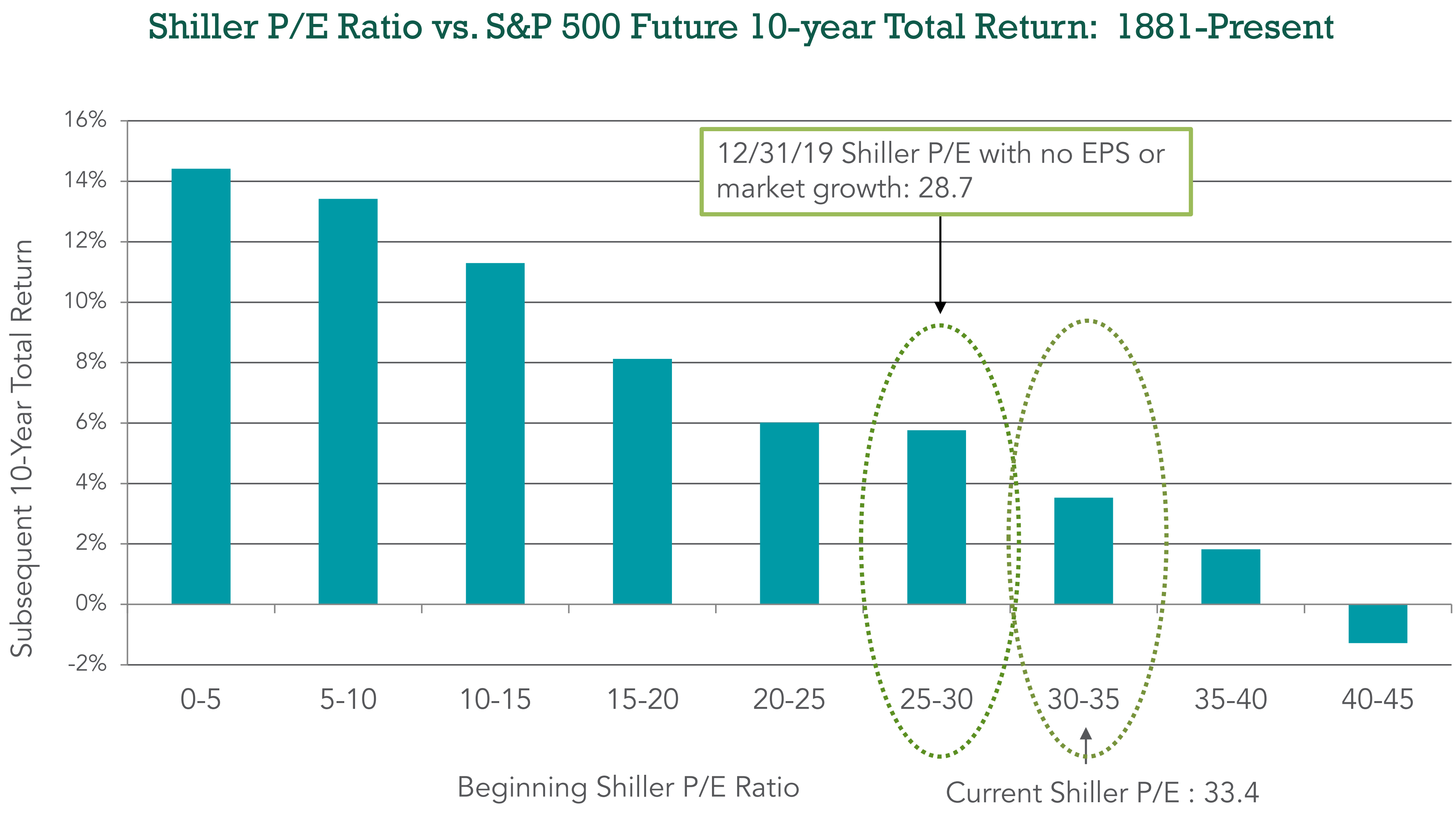
Market Impact of Tax Reform

Plans for Repatriated Cash – Survey of 300 American CEOs



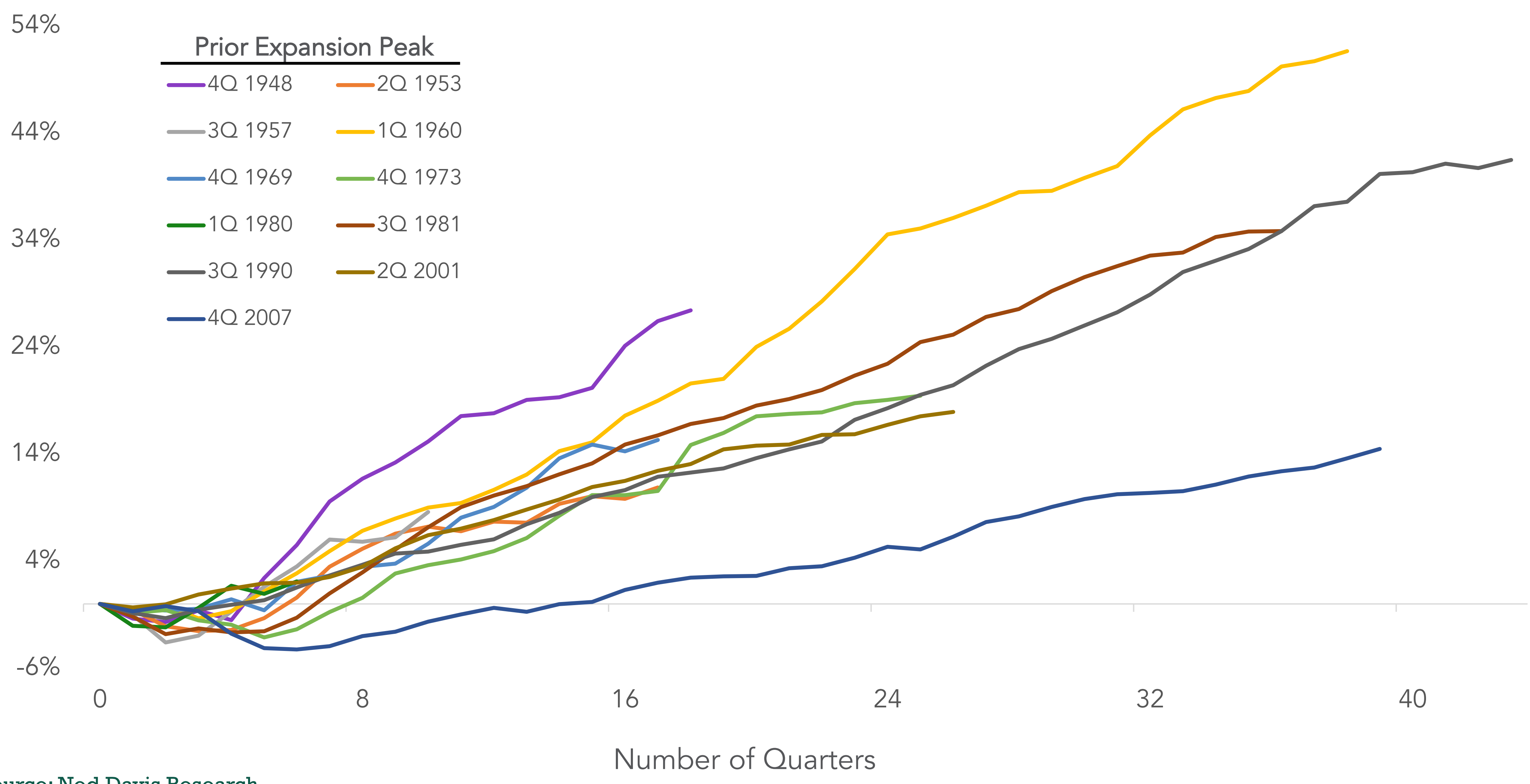
Source: Bank of America Merrill Lynch Global Research

Valuation: A Key Determinant in Our Forecast



Source: Bloomberg, Standard & Poor's, Robert Shiller

Current Expansion Compared to Past Economic Cycles



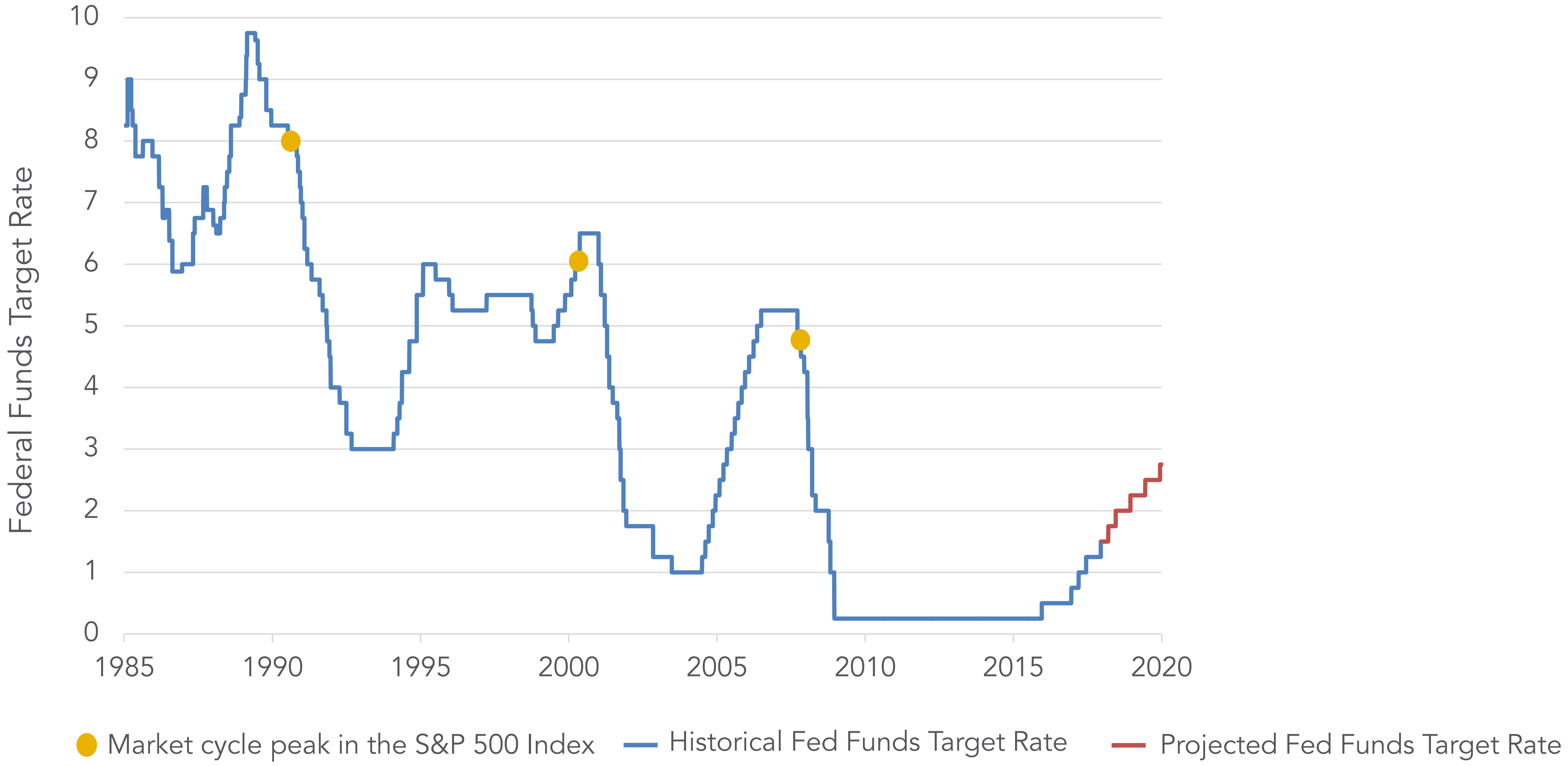
Source: Ned Davis Research

Tight Labor Can Lead to Higher Wage Growth and Inflation

Source: Bloomberg

Monetary Policy and the Stock Market

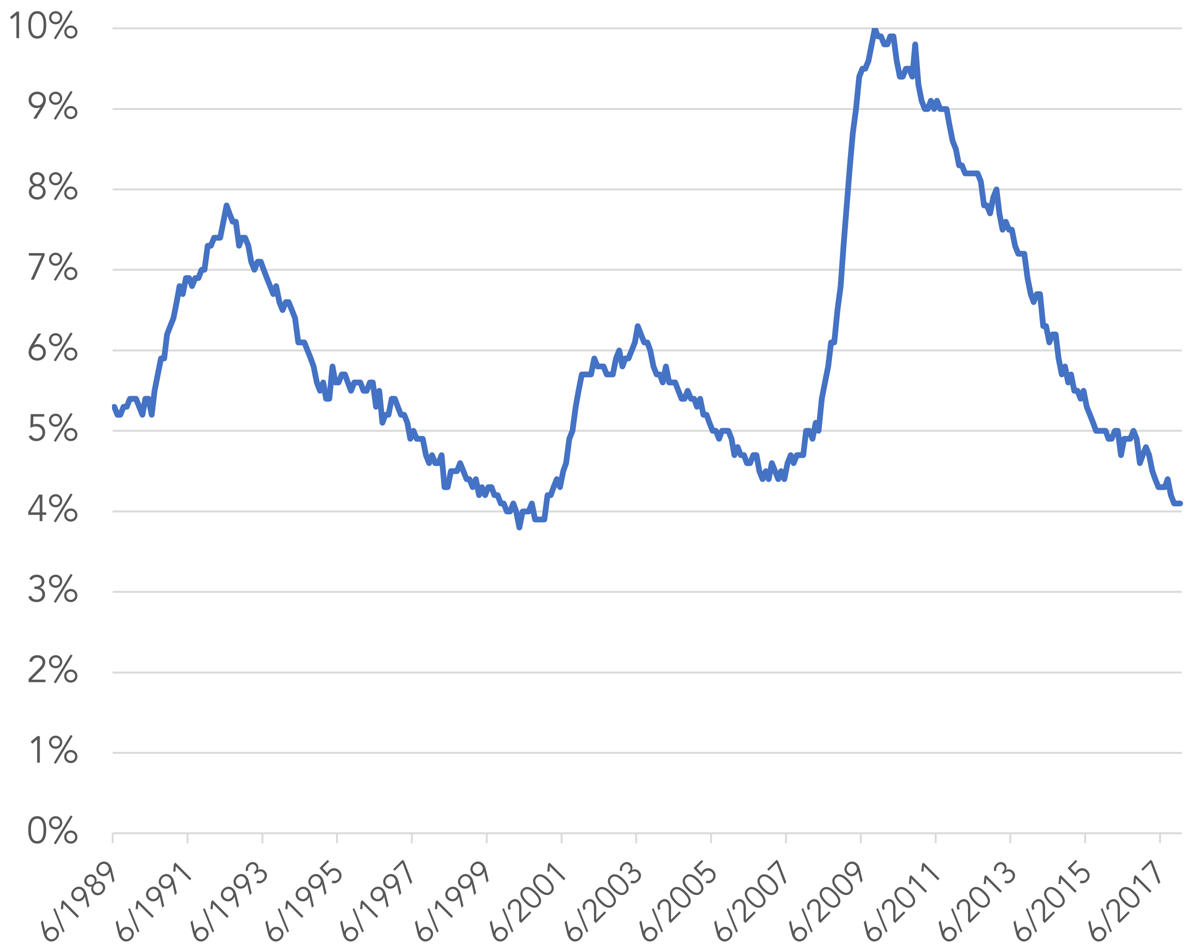
The market often rallies into Fed tightening, peaking after tightening policies come to an end



Source: Bloomberg

Coincident Indicators

Unemployment Rate

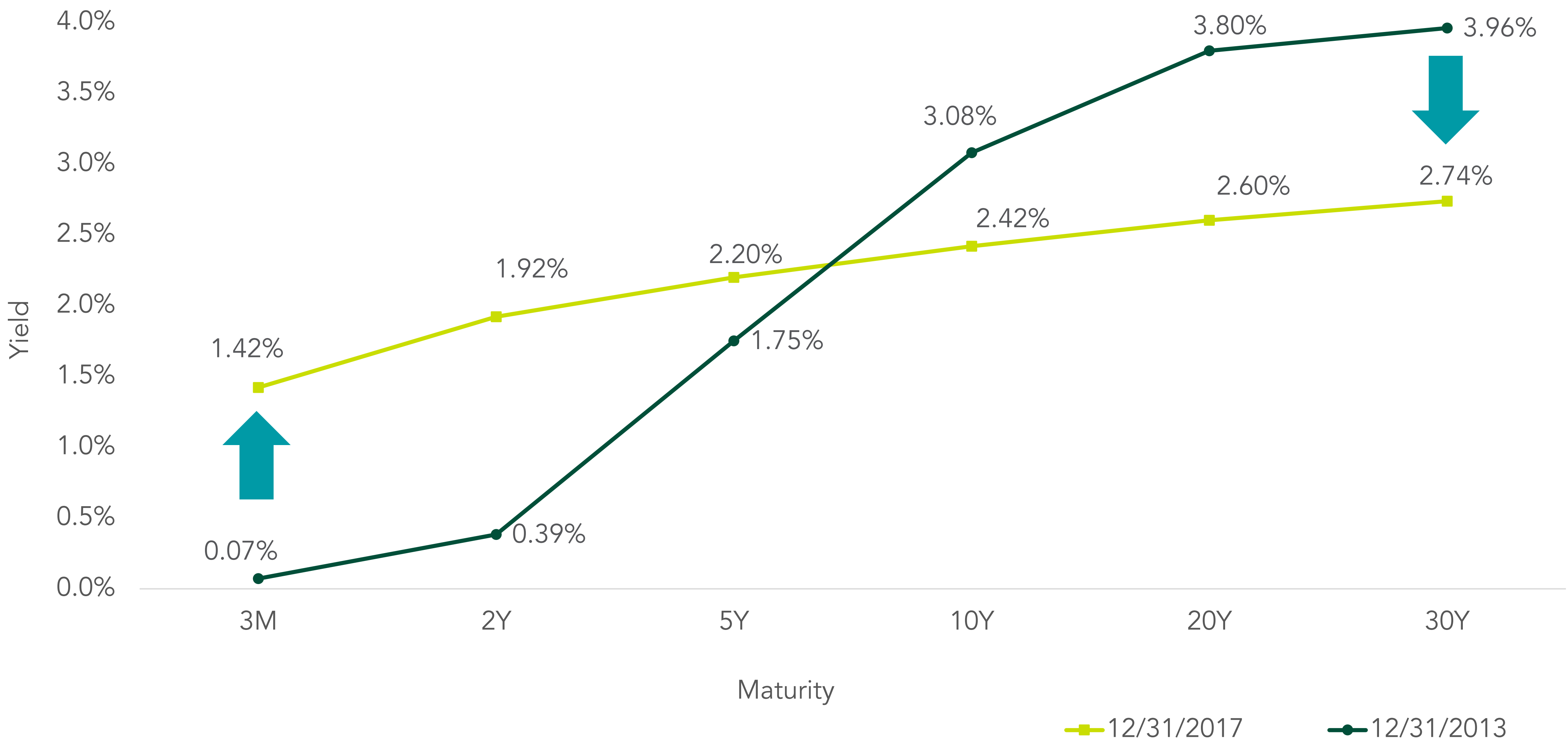


Corporate Bond Spreads

Source: Barclays & Bloomberg

Leading Indicator

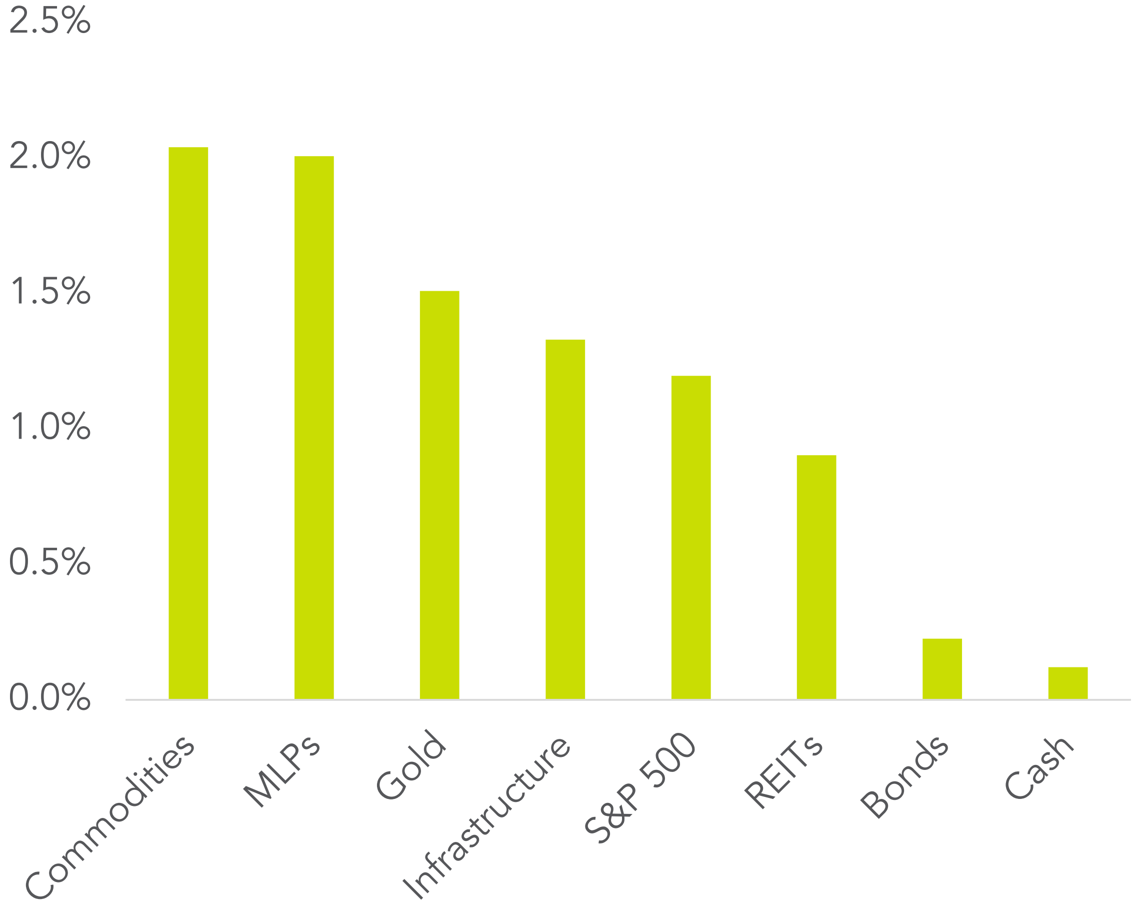
U.S. Treasury Yield Curve



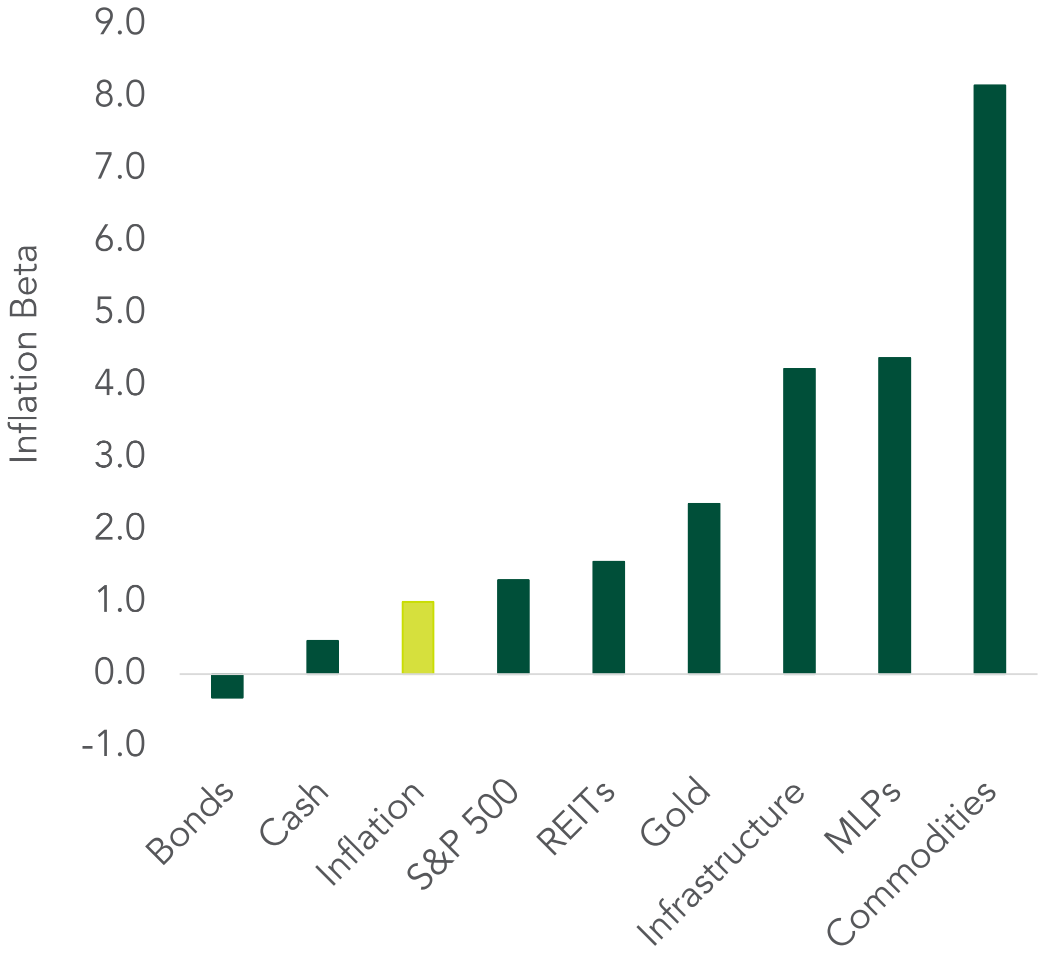
Source: Bloomberg

Real Assets Provide Inflation Protection

Average Total Return in Months with Above-Average Inflation



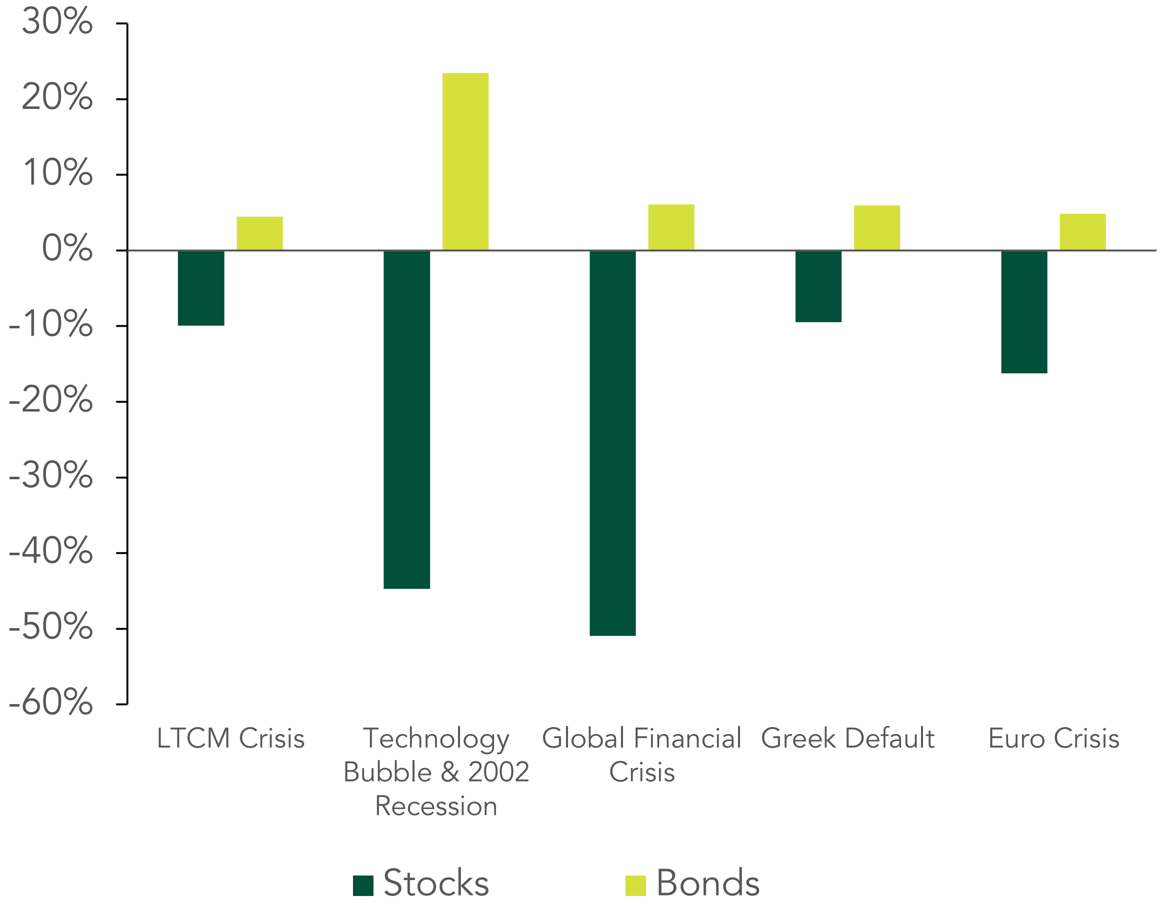
Sensitivity to Inflation



Source: Zephyr, Bureau of Labor Statistics

High Quality Stocks and Bonds are the Best Defense

Bonds outperform during bear markets…



…and high quality stocks provide relative protection.

Source: Factset, Zephyr; "Stocks" is represented by the S&P 500 Index and "Bonds" is represented by the Barclays Aggregate Index. Quality measured by return on invested capital.

Tax Planning

Mary P. Burns, Esq. – Trust Counsel
Jason Farler, CFA – Portfolio Manager
Scott Wyckoff, CFA, CFP® – Portfolio Manager

The Income Tax Turns 105

TO BE FILLED IN BY COLLECTOR. | Form 1040. | TO BE FILLED IN BY INTERNAL REVENUE BUREAU.

INCOME TAX.

List No. ....

.... District of ....

Date received ....

THE PENALTY
FOR FAILURE TO HAVE THIS RETURN IN THE HANDS OF THE COLLECTOR OF INTERNAL REVENUE ON OR BEFORE MARCH 1 IS $20 TO $1,000.
(SEE INSTRUCTIONS ON PAGE 4.)

File No. ....

Assessment List ....

Page .... Line ....

UNITED STATES INTERNAL REVENUE.

RETURN OF ANNUAL NET INCOME OF INDIVIDUALS.

(As provided by Act of Congress, approved October 3, 1913.)

RETURN OF NET INCOME RECEIVED OR ACCRUED DURING THE YEAR ENDED DECEMBER 31, 191....

(FOR THE YEAR 1913, FROM MARCH 1, TO DECEMBER 31.)

Filed by (or for) .... of ....
(Full name of individual.) (Street and No.)

in the City, Town, or Post Office of .... State of ....
(Fill in pages 2 and 3 before making entries below.)

1. Gross Income (see page 2, line 12) .... $

2. General Deductions (see page 3, line 7) .... $

3. Net Income .... $

Deductions and exemptions allowed in computing income subject to the normal tax of 1 per cent.

4. Dividends and net earnings received or accrued, of corporations, etc., subject to like tax. (See page 2, line 11) .... $

5. Amount of income on which the normal tax has been deducted and withheld at the source. (See page 2, line 9, column A) ....

6. Specific exemption of $3,000 or $4,000, as the case may be. (See Instructions 3 and 19) ....

Total deductions and exemptions. (Items 4, 5, and 6) .... $

7. Taxable Income on which the normal tax of 1 per cent is to be calculated. (See Instruction 3) .... $

8. When the net income shown above on line 3 exceeds $20,000, the additional tax thereon must be calculated as per schedule below:

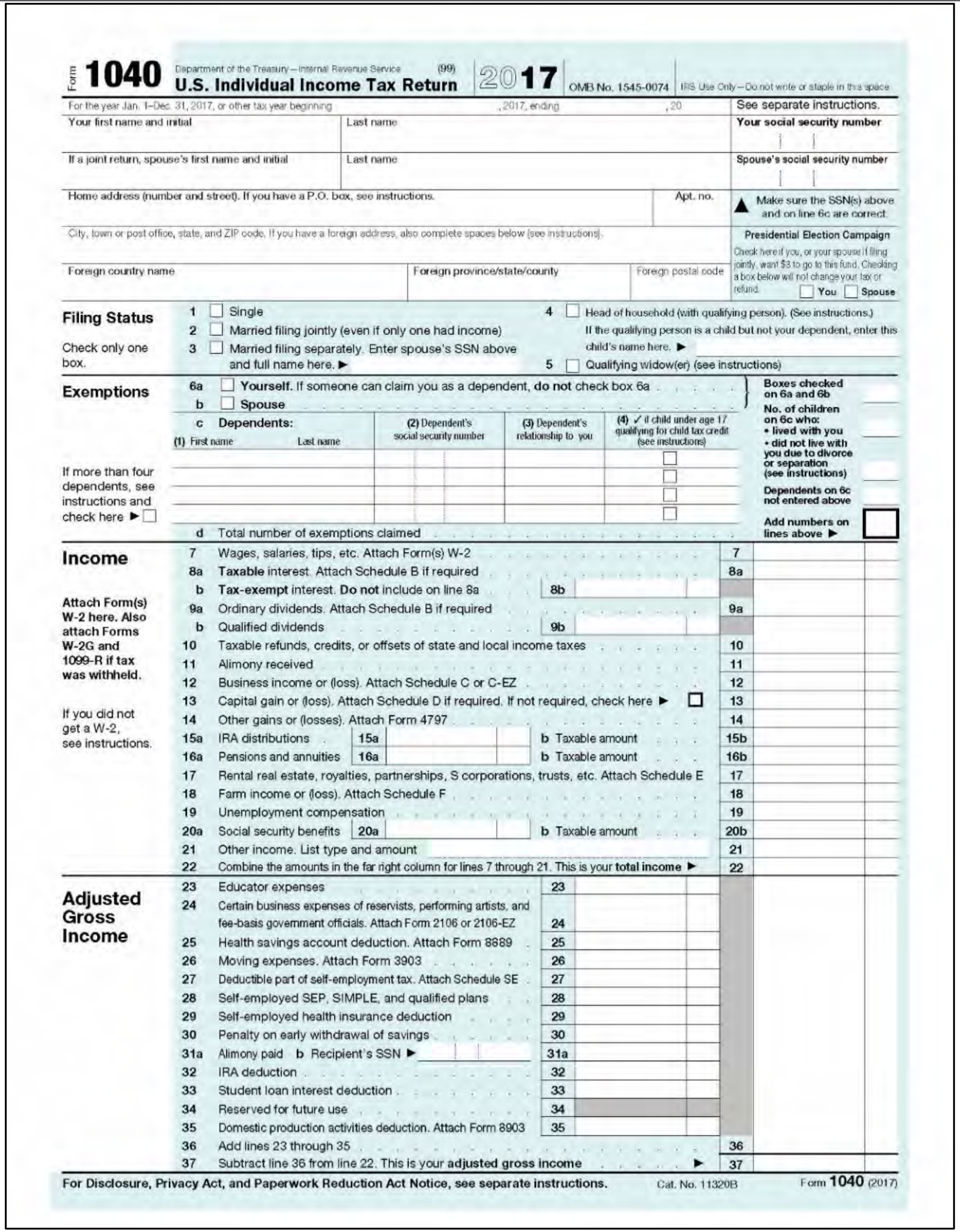
					Income.	Tax.
1 per cent on amount over $20,000 and not exceeding $50,000					$	$
2	"	"	50,000	" " 75,000		
3	"	"	75,000	" " 100,000		
4	"	"	100,000	" " 250,000		
5	"	"	250,000	" " 500,000		
6	"	"	500,000	....		

Total additional or super tax .... $

Total normal tax (1 per cent of amount entered on line 7) .... $

Total tax liability .... $

The Modern 1040



Form **1040** Department of the Treasury—Internal Revenue Service (99) **2017** OMB No. 1545-0074 IRS Use Only—Do not write or staple in this space.

U.S. Individual Income Tax Return

For the year Jan. 1–Dec. 31, 2017, or other tax year beginning , 2017, ending , 20 See separate instructions.

Your first name and initial | Last name | Your social security number

If a joint return, spouse's first name and initial | Last name | Spouse's social security number

Home address (number and street). If you have a P.O. box, see instructions. | Apt. no. | ▲ Make sure the SSN(s) above and on line 6c are correct.

City, town or post office, state, and ZIP code. If you have a foreign address, also complete spaces below (see instructions).

Presidential Election Campaign — Check here if you, or your spouse if filing jointly, want $3 to go to this fund. Checking a box below will not change your tax or refund. ☐ You ☐ Spouse

Foreign country name | Foreign province/state/county | Foreign postal code

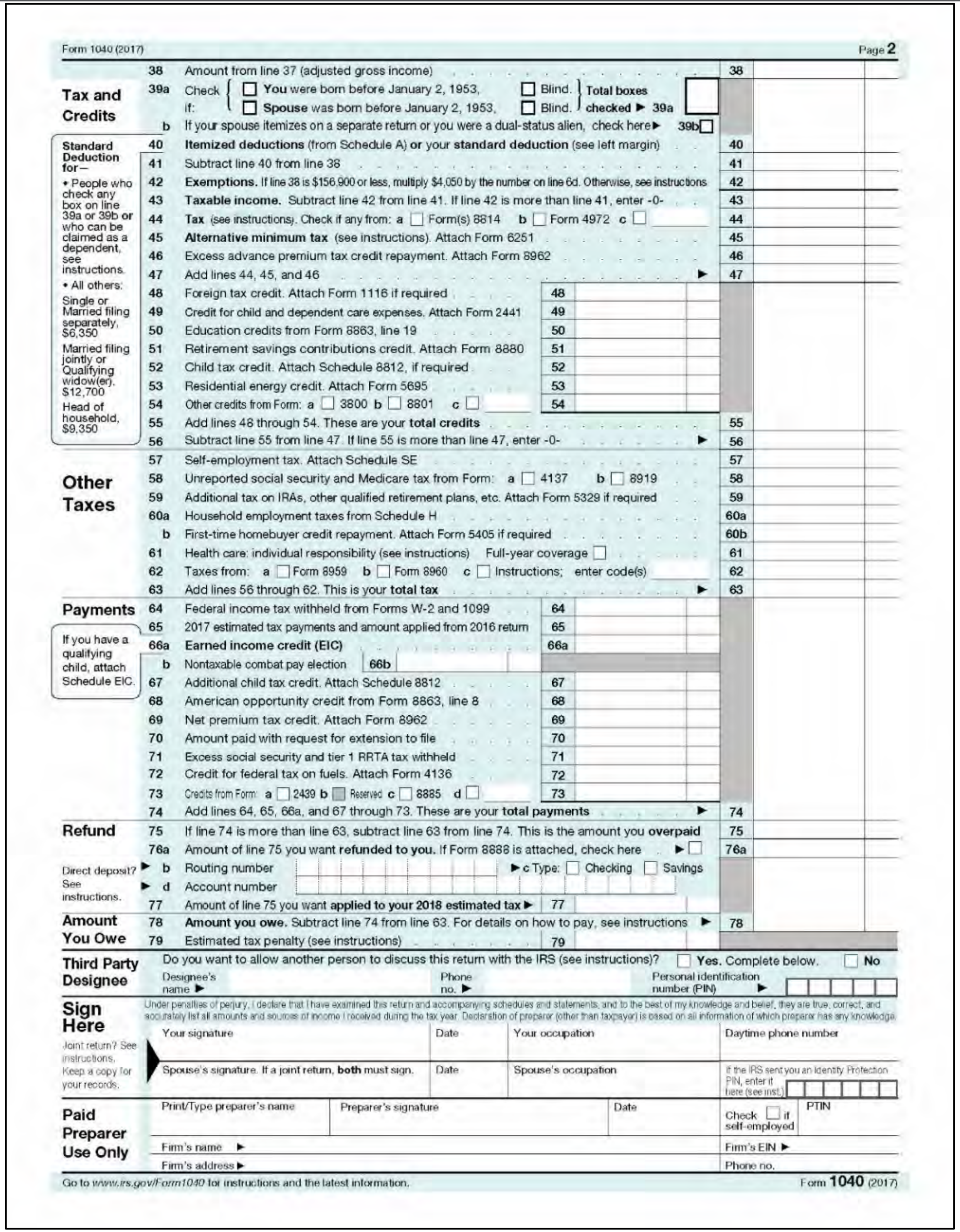
Filing Status — Check only one box.
1 ☐ Single
2 ☐ Married filing jointly (even if only one had income)
3 ☐ Married filing separately. Enter spouse's SSN above and full name here. ▶
4 ☐ Head of household (with qualifying person). (See instructions.) If the qualifying person is a child but not your dependent, enter this child's name here. ▶
5 ☐ Qualifying widow(er) (see instructions)

Exemptions
6a ☐ **Yourself.** If someone can claim you as a dependent, **do not** check box 6a
b ☐ Spouse
c **Dependents:** (1) First name Last name | (2) Dependent's social security number | (3) Dependent's relationship to you | (4) ✓ if child under age 17 qualifying for child tax credit (see instructions)
If more than four dependents, see instructions and check here ▶ ☐
d Total number of exemptions claimed
Boxes checked on 6a and 6b; No. of children on 6c who: • lived with you • did not live with you due to divorce or separation (see instructions); Dependents on 6c not entered above; Add numbers on lines above ▶

Income — Attach Form(s) W-2 here. Also attach Forms W-2G and 1099-R if tax was withheld. If you did not get a W-2, see instructions.
7 Wages, salaries, tips, etc. Attach Form(s) W-2
8a **Taxable** interest. Attach Schedule B if required
b **Tax-exempt** interest. **Do not** include on line 8a — 8b
9a Ordinary dividends. Attach Schedule B if required
b Qualified dividends — 9b
10 Taxable refunds, credits, or offsets of state and local income taxes
11 Alimony received
12 Business income or (loss). Attach Schedule C or C-EZ
13 Capital gain or (loss). Attach Schedule D if required. If not required, check here ▶ ☐
14 Other gains or (losses). Attach Form 4797
15a IRA distributions — 15a — b Taxable amount — 15b
16a Pensions and annuities — 16a — b Taxable amount — 16b
17 Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E
18 Farm income or (loss). Attach Schedule F
19 Unemployment compensation
20a Social security benefits — 20a — b Taxable amount — 20b
21 Other income. List type and amount
22 Combine the amounts in the far right column for lines 7 through 21. This is your **total income** ▶

Adjusted Gross Income
23 Educator expenses
24 Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106 or 2106-EZ
25 Health savings account deduction. Attach Form 8889
26 Moving expenses. Attach Form 3903
27 Deductible part of self-employment tax. Attach Schedule SE
28 Self-employed SEP, SIMPLE, and qualified plans
29 Self-employed health insurance deduction
30 Penalty on early withdrawal of savings
31a Alimony paid b Recipient's SSN ▶
32 IRA deduction
33 Student loan interest deduction
34 Reserved for future use
35 Domestic production activities deduction. Attach Form 8903
36 Add lines 23 through 35
37 Subtract line 36 from line 22. This is your **adjusted gross income** ▶

For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see separate instructions. Cat. No. 11320B Form **1040** (2017)



Form 1040 (2017) Page **2**

Tax and Credits
38 Amount from line 37 (adjusted gross income)
39a Check if: ☐ **You** were born before January 2, 1953, ☐ Blind. ☐ **Spouse** was born before January 2, 1953, ☐ Blind. Total boxes checked ▶ 39a
b If your spouse itemizes on a separate return or you were a dual-status alien, check here ▶ 39b ☐
40 **Itemized deductions** (from Schedule A) or your **standard deduction** (see left margin)
41 Subtract line 40 from line 38
42 **Exemptions.** If line 38 is $156,900 or less, multiply $4,050 by the number on line 6d. Otherwise, see instructions
43 **Taxable income.** Subtract line 42 from line 41. If line 42 is more than line 41, enter -0-
44 **Tax** (see instructions). Check if any from: a ☐ Form(s) 8814 b ☐ Form 4972 c ☐
45 **Alternative minimum tax** (see instructions). Attach Form 6251
46 Excess advance premium tax credit repayment. Attach Form 8962
47 Add lines 44, 45, and 46 ▶
48 Foreign tax credit. Attach Form 1116 if required
49 Credit for child and dependent care expenses. Attach Form 2441
50 Education credits from Form 8863, line 19
51 Retirement savings contributions credit. Attach Form 8880
52 Child tax credit. Attach Schedule 8812, if required
53 Residential energy credit. Attach Form 5695
54 Other credits from Form: a ☐ 3800 b ☐ 8801 c ☐
55 Add lines 48 through 54. These are your **total credits**
56 Subtract line 55 from line 47. If line 55 is more than line 47, enter -0- ▶

Standard Deduction for— • People who check any box on line 39a or 39b or who can be claimed as a dependent, see instructions. • All others: Single or Married filing separately, $6,350; Married filing jointly or Qualifying widow(er), $12,700; Head of household, $9,350

Other Taxes
57 Self-employment tax. Attach Schedule SE
58 Unreported social security and Medicare tax from Form: a ☐ 4137 b ☐ 8919
59 Additional tax on IRAs, other qualified retirement plans, etc. Attach Form 5329 if required
60a Household employment taxes from Schedule H
b First-time homebuyer credit repayment. Attach Form 5405 if required
61 Health care: individual responsibility (see instructions) Full-year coverage ☐
62 Taxes from: a ☐ Form 8959 b ☐ Form 8960 c ☐ Instructions; enter code(s)
63 Add lines 56 through 62. This is your **total tax** ▶

Payments — If you have a qualifying child, attach Schedule EIC.
64 Federal income tax withheld from Forms W-2 and 1099
65 2017 estimated tax payments and amount applied from 2016 return
66a **Earned income credit (EIC)**
b Nontaxable combat pay election — 66b
67 Additional child tax credit. Attach Schedule 8812
68 American opportunity credit from Form 8863, line 8
69 Net premium tax credit. Attach Form 8962
70 Amount paid with request for extension to file
71 Excess social security and tier 1 RRTA tax withheld
72 Credit for federal tax on fuels. Attach Form 4136
73 Credits from Form: a ☐ 2439 b ☐ Reserved c ☐ 8885 d ☐
74 Add lines 64, 65, 66a, and 67 through 73. These are your **total payments** ▶

Refund
75 If line 74 is more than line 63, subtract line 63 from line 74. This is the amount you **overpaid**
76a Amount of line 75 you want **refunded to you.** If Form 8888 is attached, check here ▶ ☐
Direct deposit? See instructions. ▶ b Routing number ▶ c Type: ☐ Checking ☐ Savings
▶ d Account number
77 Amount of line 75 you want **applied to your 2018 estimated tax** ▶ 77

Amount You Owe
78 **Amount you owe.** Subtract line 74 from line 63. For details on how to pay, see instructions ▶
79 Estimated tax penalty (see instructions)

Third Party Designee — Do you want to allow another person to discuss this return with the IRS (see instructions)? ☐ **Yes.** Complete below. ☐ **No**
Designee's name ▶ Phone no. ▶ Personal identification number (PIN) ▶

Sign Here — Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and accurately list all amounts and sources of income I received during the tax year. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.
Joint return? See instructions. Keep a copy for your records.
Your signature | Date | Your occupation | Daytime phone number
Spouse's signature. If a joint return, **both** must sign. | Date | Spouse's occupation | If the IRS sent you an Identity Protection PIN, enter it here (see inst.)

Paid Preparer Use Only
Print/Type preparer's name | Preparer's signature | Date | Check ☐ if self-employed | PTIN
Firm's name ▶ | Firm's EIN ▶
Firm's address ▶ | Phone no.

Go to *www.irs.gov/Form1040* for instructions and the latest information. Form **1040** (2017)

New (Lower) Income Tax Rates

Single Taxpayers 2018				
If taxable income is:		The tax is:		
Over-	but not over-			of the amount over--
-	9,525		10%	0
9,526	38,700	952.50	+12%	9,525
38,701	82,500	4,453.50	+22%	38,700
82,501	157,500	14,089.50	+24%	82,500
157,501	200,000	32,089.50	+32%	157,500
200,001	500,000	45,689.50	+35%	200,000
500,001	& greater	150,689.50	+37%	500,000
Standard Deduction		12,000		
Personal Exemption		Eliminated		

Married Taxpayers Filing Joint 2018				
If taxable income is:		The tax is:		
Over-	but not over-			of the amount over--
-	19,050		10%	0
19,051	77,400	1,905.00	+12%	19,050
77,401	165,000	8,907.00	+22%	77,400
165,001	315,000	28,179.00	+24%	165,000
315,001	400,000	64,179.00	+32%	315,000
400,001	600,000	91,379.00	+35%	400,000
600,001	& greater	161,379.00	+37%	600,000
Standard Deduction		24,000		
Personal Exemption		Eliminated		

Changes to Itemized Deductions

The following sections on Form 1040 Schedule A have changed:

Medical and Dental Expenses:

Limited to expenses above 7.5% of AGI

Taxes You Paid:

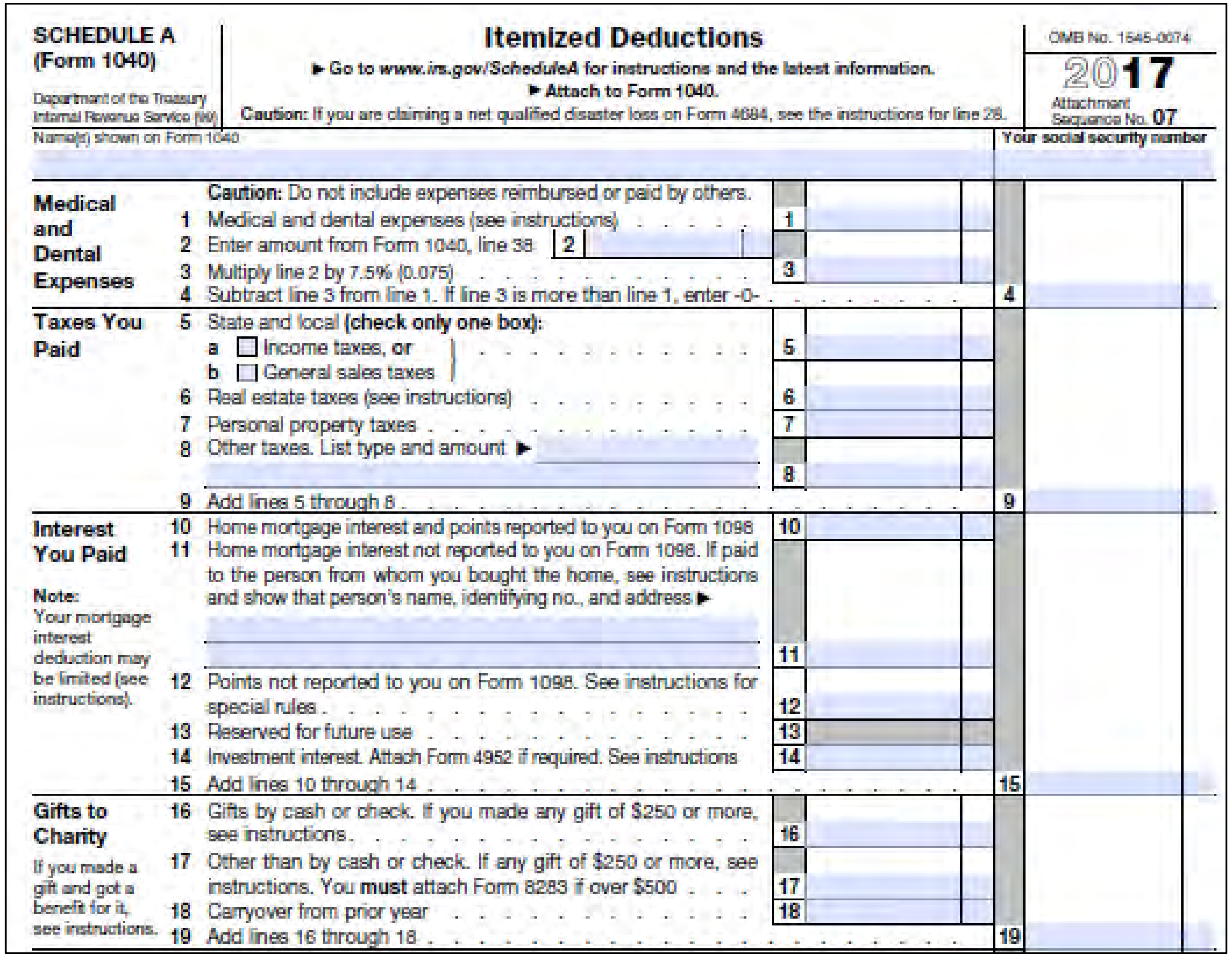
Limited to $10,000 total

Interest You Paid:

Limited to interest on $750,000 of mortgage debt

Gifts to Charity:

Still deductible for itemizers (up to 60% of AGI)



SCHEDULE A (Form 1040)

Department of the Treasury Internal Revenue Service (99)

Itemized Deductions

▶ Go to www.irs.gov/ScheduleA for instructions and the latest information.

▶ Attach to Form 1040.

Caution: If you are claiming a net qualified disaster loss on Form 4684, see the instructions for line 28.

OMB No. 1545-0074

2017

Attachment Sequence No. 07

Name(s) shown on Form 1040 | Your social security number

Medical and Dental Expenses		**Caution:** Do not include expenses reimbursed or paid by others.	
	1	Medical and dental expenses (see instructions)	1
	2	Enter amount from Form 1040, line 38	2
	3	Multiply line 2 by 7.5% (0.075)	3
	4	Subtract line 3 from line 1. If line 3 is more than line 1, enter -0-	4
Taxes You Paid	5	State and local (**check only one box**):	
		a ☐ Income taxes, or	5
		b ☐ General sales taxes	
	6	Real estate taxes (see instructions)	6
	7	Personal property taxes	7
	8	Other taxes. List type and amount ▶	8
	9	Add lines 5 through 8	9
Interest You Paid	10	Home mortgage interest and points reported to you on Form 1098	10
	11	Home mortgage interest not reported to you on Form 1098. If paid to the person from whom you bought the home, see instructions and show that person's name, identifying no., and address ▶	11
Note: Your mortgage interest deduction may be limited (see instructions).	12	Points not reported to you on Form 1098. See instructions for special rules	12
	13	Reserved for future use	13
	14	Investment interest. Attach Form 4952 if required. See instructions	14
	15	Add lines 10 through 14	15
Gifts to Charity	16	Gifts by cash or check. If you made any gift of $250 or more, see instructions	16
If you made a gift and got a benefit for it, see instructions.	17	Other than by cash or check. If any gift of $250 or more, see instructions. You **must** attach Form 8283 if over $500	17
	18	Carryover from prior year	18
	19	Add lines 16 through 18	19

Changes to Itemized Deductions

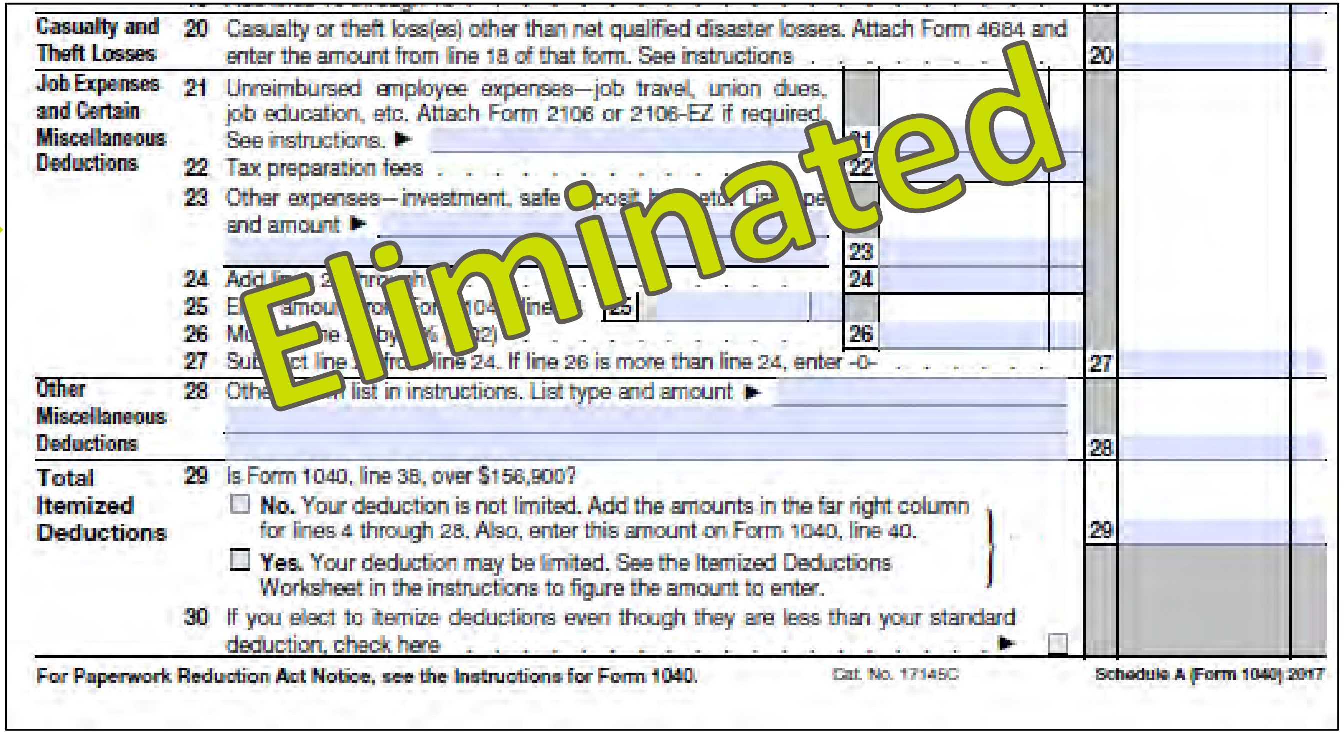
The following deductions have been eliminated:

Casualty and Theft Losses

Job Expenses and Certain Misc. Deductions

Other Misc. Deductions

Pease Limitations Eliminated



Casualty and Theft Losses 20 Casualty or theft loss(es) other than net qualified disaster losses. Attach Form 4684 and enter the amount from line 18 of that form. See instructions 20

Job Expenses and Certain Miscellaneous Deductions 21 Unreimbursed employee expenses—job travel, union dues, job education, etc. Attach Form 2106 or 2106-EZ if required. See instructions. ▶ 21

22 Tax preparation fees 22

23 Other expenses—investment, safe deposit box, etc. List type and amount ▶ 23

24 Add lines 21 through 23 24

25 Enter amount from Form 1040, line 38 25

26 Multiply line 25 by 2% (0.02) 26

27 Subtract line 26 from line 24. If line 26 is more than line 24, enter -0- 27

Other Miscellaneous Deductions 28 Other—from list in instructions. List type and amount ▶ 28

Total Itemized Deductions 29 Is Form 1040, line 38, over $156,900?

☐ **No.** Your deduction is not limited. Add the amounts in the far right column for lines 4 through 28. Also, enter this amount on Form 1040, line 40.

☐ **Yes.** Your deduction may be limited. See the Itemized Deductions Worksheet in the instructions to figure the amount to enter. 29

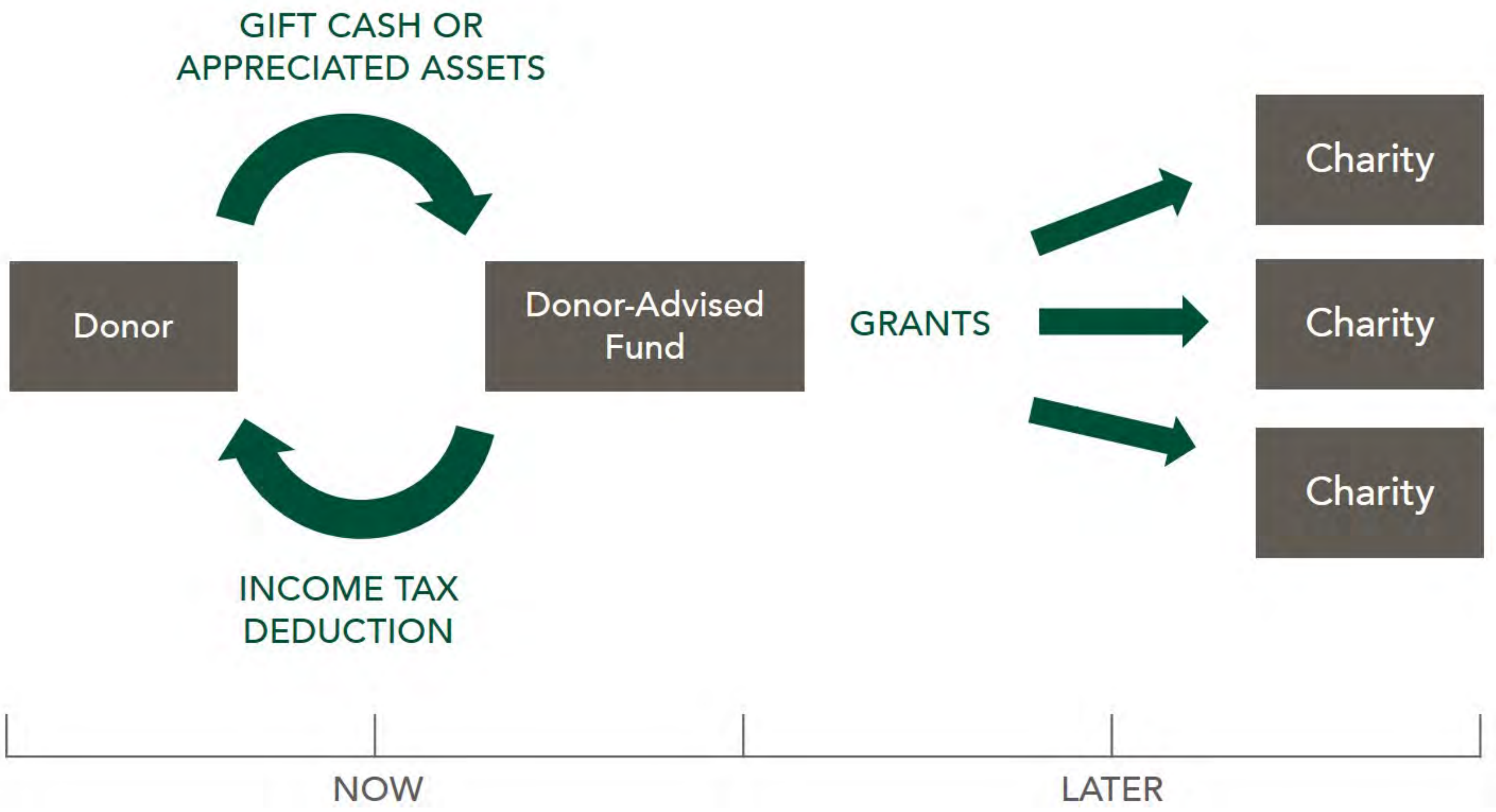
30 If you elect to itemize deductions even though they are less than your standard deduction, check here . . . . ▶ ☐

For Paperwork Reduction Act Notice, see the Instructions for Form 1040. Cat. No. 17145C **Schedule A (Form 1040) 2017**

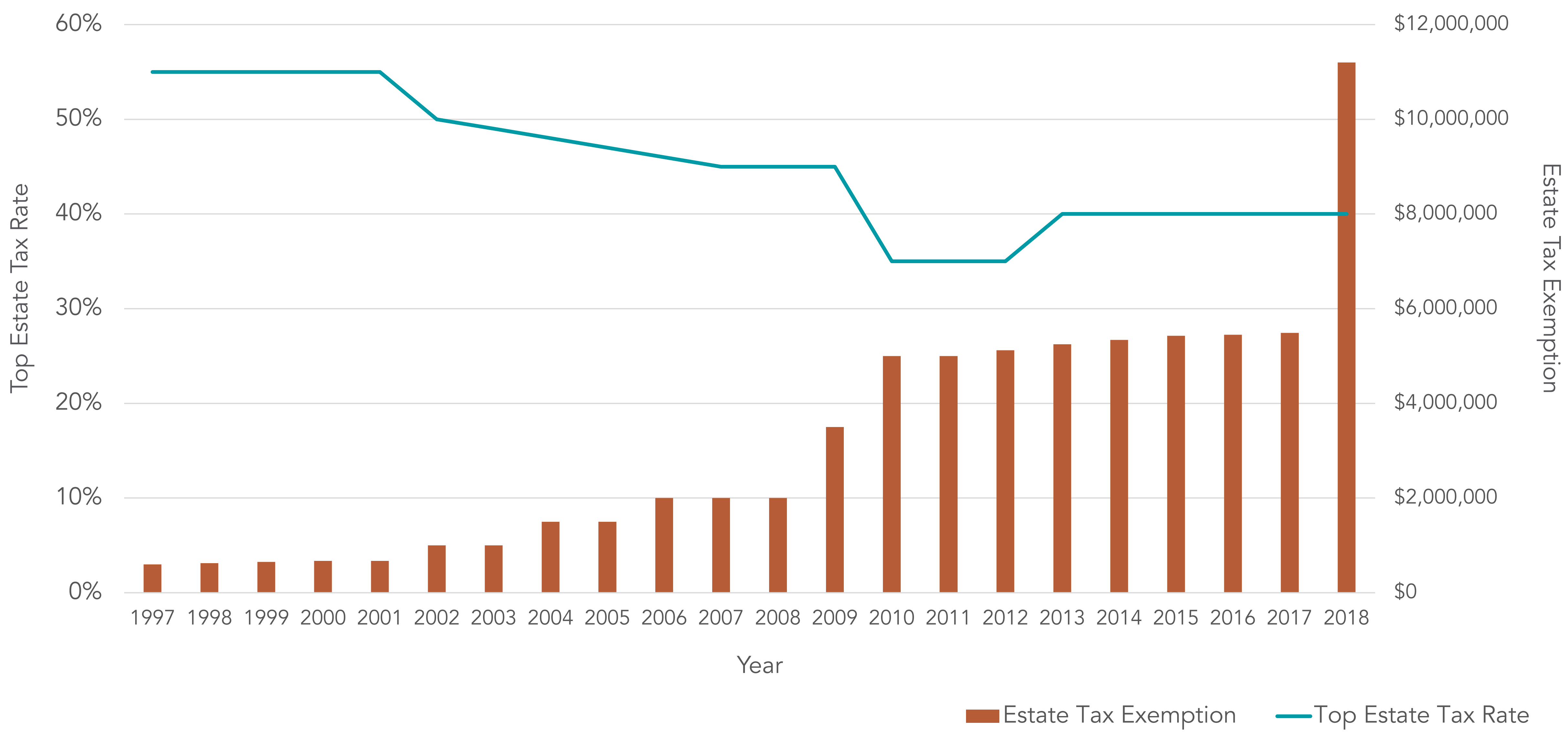
Charitable Giving: Donor-Advised Funds

Benefits of a Donor-Advised Fund

- Low contribution minimum
- Easy set-up and cost efficiency
- Tax benefits
- Ability to give anonymously
- Parenting tool
- Distribution flexibility
- Legacy of philanthropy



Federal Estate Tax Exemption and Top Estate Tax Rate



Reasons to Review Your Estate Plan

- Retirement
- Marriage
- Birth or adoption
- Financial responsibility of a child
- Divorce
- Death of spouse
- Change in health
- Serious illness of family member
- Receipt of inheritance
- Move to another state
- Acquisition of property in another state
- Death of executor, trustee or guardian
- Change in tax, property, probate or trust law
- Change in beneficiary attitudes
- Change in insurability for life insurance
- Change in business interest

Basic Estate Planning Documents

- Power of Attorney
- Health Care Power of Attorney
- Living Will
- Health Care Information Release ("HIPPA Waiver")
- Will
- IRA or Retirement Plan Designation of Beneficiary
- Trust

These documents are the foundation of your plan…

2018 Wealth Management Forum

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JOHNSON INVESTMENT COUNSEL

Thank You!

For more information, please contact us at 800.541.0170 or visit our website at www.johnsoninv.com.

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