BRIDGES TRUST
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QUARTERLY NEWSLETTER

THINK FORWARD

Please contact us if you'd like more information about how Bridges Trust can help you meet your long-term financial objectives.

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BRIDGES TRUST

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THINK FORWARD

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Welcome to the Bridges Trust Quarterly Newsletter – Think Forward. Our goal is that this newsletter will be a useful tool to keep in touch with you.

If you would like to receive this newsletter by email, please send us a message at **contact@bridgestrust.com** or sign up on our website.

Thanks and happy reading!

CONGRATULATIONS

to Megan McMurry on earning the Chartered Advisor in Philanthropy (CAP) Designation. We are so proud to have you on our team!

BITCOIN: THE NEXT TULIP-CRAZE?

BY NICHOLAS A. WILWERDING, CFA

Unless you've been able to avoid the Internet, 24-hour news channels and social media in recent months, you've undoubtedly heard of the phenomena that is Bitcoin. Although Bitcoin has only been in existence since 2009, when it was created by a mystery figure named Satoshi Nakamoto, it did not attract real attention until last year when the digital currency value increased more than 1,000 percent in 2017 alone.

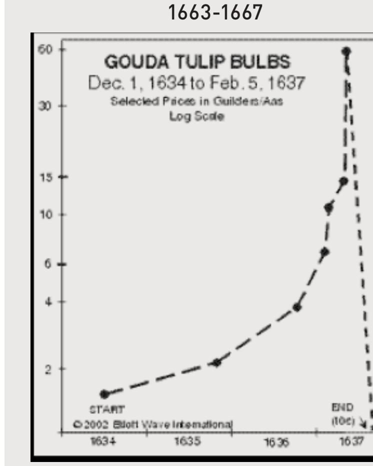
This meteoric rise in price accompanied with a 'FOMO' hysteria ('Fear of Missing Out'), has many historians drawing a straight line from the enthusiasm currently surrounding Bitcoin to the Dutch Golden Age, when a similar frenzy took hold of an economy before coming to an abrupt and unceremonious end.

TULIP MANIA

In the 17th century, Holland was teeming with industry. The Netherlands dominated world trade and had become the richest country in Europe. As a result, aristocratic citizens, wealthy merchants and even middle-class artisans and tradesmen suddenly found that they had spare cash to spend on luxuries.

The tulip bulb was not native to the Netherlands however, and was different from every other flower known to Europe at that time. The appearance of the tulip quickly became a status symbol and, as a result, tulips rapidly became a coveted luxury item.

TULIP PRICE CHART
1663-1667



According to some reports, bulbs could change hands upwards of 10 times in one day. Prices skyrocketed at one point in 1637, increasing 1,100 percent in a month. Tulips even began to be used as a form of money in their own right: in 1633, actual properties were sold for handfuls of bulbs.

And then, overnight, the tulip trade disappeared. In early February 1637, the market for tulips collapsed as most speculators could no longer afford to purchase even the cheapest bulbs. Demand disappeared, and flowers tumbled to a tenth of their former values. The result was the prospect of financial catastrophe for many. The extraordinary thing is that the collapse of the market for tulips didn't diminish the Dutch appetite for flowers – in art, at least. Dutch flower painting persisted for the best part of two centuries.

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BITCOIN BUBBLE

Unlike tulip bulbs, Bitcoin does not exist in physical form but is still "mined" like natural commodities. Bitcoin is a digital currency, more commonly referred to as a cryptocurrency, and payment system. It is unlike traditional currencies because it has no central bank, nation state or regulatory authority to back it. Rather than some central authority validating transactions, they are instead recorded on a public ledger, called the blockchain.

Bitcoin has been used as an anonymous way to carry out large cross-border money transfers, so it has become linked to drug dealing and money laundering. There is a finite supply of Bitcoin which supporters claim makes it more stable than government-backed currencies that can be devalued by central banks printing money. However, it has been extremely volatile rising to more than $19,000 per unit in December 2017 before losing nearly 50percent of its value weeks later.

BLOCKCHAIN TECHNOLOGY

Blockchain is a decentralized ledger of all transactions across a peer-to-peer network. Using this technology, participants can confirm transactions without the need for a central certifying authority. Blockchain was introduced in October 2008 as part of a proposal for Bitcoin, but has rapidly garnered favor for many purposes. Companies are already using blockchain to track items through complex supply chains. In July of last year, Delaware became the first U.S. state to allow businesses incorporated there to use blockchain for recordkeeping purposes. This is significant as at least 60 percent of U.S.-based corporations are incorporated in Delaware. More recently, JPMorgan Chase & Co. announced a new blockchain-based payment processing network to speed up transactions between global banks.

Although the future for Bitcoin is uncertain, we expect technological developments to intensify going forward. These innovations may occasionally result in asset bubbles forming and ultimately bursting. However, these advances should also create attractive opportunities for the long-term investor.

KEY INVESTMENT THEMES FOR 2018

BY TED BRIDGES, CFA

For a number of months, we have been advising clients to "expect more volatility." 2017 was one of the least volatile years for the stock market in history, as equity prices worked gradually higher throughout the course of the year. But the placid environment that characterized 2017 has given way to a markedly different capital markets climate in 2018. So, what comes next?

Our thoughts are summarized as follows:

1. We expect continued stock price volatility in coming weeks as investors digest and assess the tradeoff between rising interest rates (which have a tendency to reduce the valuation levels that investors will pay for stocks) and a stronger economic environment that is driving improved corporate profits. We expect an eventual resolution toward higher stock prices, but a retest of interim lows is also a material possibility.

2. We continue to believe that the S&P 500 could see as much as a 15-20 percent decline and a 15-20 percent advance from current levels over the course of 2018, as the stock market returns to more normal levels of volatility.

3. Valuations for stocks have actually improved materially over the past two weeks, as stock prices have declined about 7-8 percent from their January highs, while consensus earnings estimates for 2018 have risen about 7 percent since year-end (driven by solid fourth quarter earnings reports, and the potential for favorable effects of the corporate tax rate cut that was legislated in late December).

4. We continue to believe that fair value for the S&P 500 at year-end 2018 is approximately 3,000, versus a closing level of 2,594 as of this writing.

5. We would view sharp stock price declines from current levels as an opportunity to add equity exposure; we would view an advance significantly above 3,000 on the S&P 500 as an opportunity to reduce equity exposure, all things equal.

If you have questions about your portfolio, or would like to discuss our outlook in more detail, we would encourage you to contact us at your convenience.

THE TAX CUTS AND JOBS ACT OF 2017 – A BRIEF LOOK

BY BRIAN R. MILES, JD

As most are aware, the biggest tax overhaul in more than 30 years (known as the Tax Cuts and Jobs Act of 2017, or the "Act") has become law. Now the real work of unpacking the new rules can begin. In the wake of this sweeping tax legislation, I thought it might be interesting to take a look at a few components of the law. In particular, the increase in the estate, gift and generation skipping transfer (GST) tax exemptions, changes to the individual income tax rates and the elimination of certain itemized deductions.

ESTATE, GIFT AND GENERATION SKIPPING TRANSFER TAXES

The major estate and gift tax change is a doubling of the integrated estate and gift tax exemption to an inflation adjusted $11.2 million for decedents dying and gifts made in 2018. A married couple has the benefit of two exemptions, or a total of $22.4 million in 2018. The generation-skipping tax exemption is also doubled to $11.2 million for an individual and $22.4 million for a married couple. These exemptions will be adjusted annually for inflation. Property transferred in excess of the increased exemption will continue to be taxed at a rate of 40%. These changes sunset after the end of 2025 unless there is further legislation to extend them.

The annual exclusion from gift tax for direct gifts and gifts to a trust which are subject to a Crummey power will increase to $15,000 in 2018 (a married couple may make gifts of $30,000 per recipient). This change is due to inflation and not the new legislation. No change is made to the ability to make unlimited gifts of medical and education expenses, if paid directly to the provider, and other provisions under current law, such as carryover basis and portability remain unchanged.

INCOME TAX RATES

Individual income tax brackets for 2018 are set at 10, 12, 22, 24, 32, 35 and 37 percent. The previous top rate was 39.6 percent percent. The top rate of 37 percent begins at $500,000 for single taxpayers and $600,000 for married filing jointly. This rate structure will be in place until December 31, 2025. The standard deduction is increased to $12,000 for individuals and $24,000 for married couples, indexed for inflation, but again, only until December 31, 2025. The deduction for personal exemptions is repealed for tax years beginning after December 31, 2017.

LIMITATION ON ITEMIZED DEDUCTIONS

The Act imposes limits on certain itemized deductions. In particular, it imposes a limit on itemized deduction for sales, state and local income, and property tax up to a combined total of $10,000 ($5,000 for individuals) for tax years beginning after December 31, 2017, and ending before January 1, 2026.

The individual deduction for home mortgage interest is also limited. For acquisition indebtedness incurred after December 15, 2017, the current deductibility limit of interest on $1 million of acquisition indebtedness is reduced to interest on $750,000 of acquisition indebtedness.

Charitable contributions remain allowed as itemized deductions. The percentage-of-income limitation for cash gifts to public charities is temporarily increased from 50 percent to 60 percent. Notably, the Act repeals the current 80 percent deduction for contributions made for university athletic ticket rights.

With respect to the AMT, the Act temporarily increases the exemption amount to $109,400 for married filing jointly and $70,300 for single filers. The Act also increases the phase-out of the AMT exemption amounts to $1,000,000 for married taxpayers filing jointly and $500,000 for single taxpayers. These changes are scheduled to sunset on December 31, 2025.

CONCLUSION

Flexibility and prioritizing financial goals will be important to ensure effective planning under the Act. Why? Because although the Act provides many changes that impact individuals and businesses, those changes will generally sunset at the end of 2025; and furthermore, while tax laws may change over time, one's goals and desires tend to endure.

If you have questions, please be sure to contact your tax, legal and financial advisors to discuss how the changes to the tax laws as a result of the Act might impact you.