



# Farmers Trust Company

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## Up and Up, But Don't Get Carried Away

Equity markets around the world have continued their upward trajectory since this time last month, although most widely followed market indices are still 7 to 10 percent below the all-time highs reached back in September. Nevertheless, the bounce off the Christmas Eve lows has most investors breathing a sigh of relief. There are several factors in play that the market is currently taking cues from; the most important of which is the Federal Reserve's about-face on further plans to tighten monetary policy. After expecting to hike the federal funds rate as many as three times in 2019 at their December meeting, current guidance from the central bank is now pointing to a likely maximum of one additional rate hike this year. The next big wildcard for the market is Washington, D.C. While it is difficult to say that things are "going well" in our nation's capital, it appears that several things will turn out better than expected. For one, another government shutdown seems unlikely at this juncture. In addition, the probability of a resolution to the trade dispute with China is looking increasingly likely.

Now for the bad news. Economic data around the world continues to deteriorate. The bond markets are picking up on this fact as interest rates are plummeting all over the globe. As of last week, nearly \$9 trillion of global debt securities traded with negative yields. The yield on a 10-year government bond in Germany fell below 0.09% from more than 0.50% in October. Japanese 10-year government bonds are trading with yields below zero. Rates are much higher in the U.S., but even our 10-year Treasury note has fallen from its 2018 high around 3.25% to a current 2.70%. With comparatively higher yields here in the United States, the U.S. dollar has resumed its upward trajectory. This could ultimately weigh heavily on U.S. multinational businesses that source a significant amount of revenues from other countries.

It is important to keep in mind that more than 40% of the revenues of the S&P 500 originate outside of the United States.

That brings me to my next point – corporate earnings estimates for 2019 have continued to go lower even as stock prices have been on the rise so far this year. Therefore, equity valuations are getting more expensive, i.e. you are paying more for less. S&P 500 earnings are collectively only expected to grow by a measly one-percentage-point in the first quarter of 2019 versus expectations of 8% growth back on November 1, 2018. If this trend of falling earnings expectations doesn't change soon, it is unlikely stock prices will have much more upside in the near-term.

While we don't necessarily forecast an environment that would warrant a tactical reduction to equity exposures, it likely makes sense to rebalance portfolios that may be overweight equities relative to desired target weightings. It may also be an opportunity for investors who found themselves bearing more risk exposure than their stomachs could tolerate to reevaluate their overall approach to asset allocation. We are cautiously optimistic that the economy (and markets) will avoid significant damage in 2019, but we continue to maintain some defensive positioning in sectors like utilities and real estate while we keep a close eye on the underlying fundamentals for signs that economic and earnings growth is either reaccelerating or deteriorating further.

## Farmers Trust Company February 2019 Newsletter

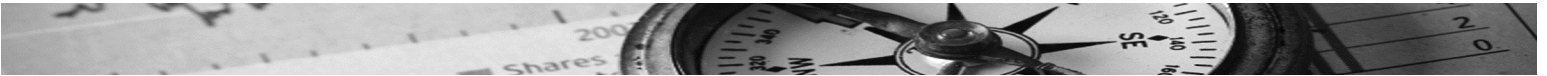
Tax Scams to Watch Out For

Know Your Mutual Funds

How can you lower the costs of owning a vehicle?

Is a vehicle subscription service in your future?





## Tax Scams to Watch Out For



*It is important to remember that the IRS will never initiate contact with you by email to request personal or financial information. This includes any type of electronic communication, such as text messages and social media.*

While tax scams are especially prevalent during tax season, they can take place any time during the year. As a result, it's in your best interest to always be vigilant so you don't end up becoming the victim of a fraudulent tax scheme.

Here are some of the more common scams to watch out for.

### Phishing

Phishing scams usually involve unsolicited emails or fake websites that pose as legitimate IRS sites to convince you to provide personal or financial information. Once scam artists obtain this information, they use it to commit identity or financial theft.

It is important to remember that the IRS will never initiate contact with you by email to request personal or financial information. This includes any type of electronic communication, such as text messages and social media. If you get an email claiming to be from the IRS, don't respond or click any of the links; instead forward it to [phishing@irs.gov](mailto:phishing@irs.gov).

### Phone scams

Beware of callers claiming that they're from the IRS. They may be scam artists trying to steal your money or identity. This type of scam typically involves a call from someone claiming you owe money to the IRS or that you're entitled to a large refund. The calls may also show up as coming from the IRS on your Caller ID, be accompanied by fake emails that appear to be from the IRS, or involve follow-up calls from individuals saying they are from law enforcement. Sometimes these callers may threaten you with arrest, license revocation, or even deportation.

If you think you might owe back taxes, contact the IRS for assistance at [irs.gov](http://irs.gov). If you don't owe taxes and believe you have been the target of a phone scam, you should contact the [Treasury Inspector General](http://www.treasury.gov) and the [Federal Trade Commission](http://www.ftc.gov) to report the incident.

### Tax return preparer fraud

During tax season, some individuals and scam artists pose as legitimate tax preparers, often promising unreasonably large or inflated refunds. They try to take advantage of unsuspecting taxpayers by committing refund fraud or identity theft. It is important to choose a tax preparer carefully, since you are legally responsible for what's on your return, even if it's prepared by someone else.

A legitimate tax preparer will generally ask for proof of your income and eligibility for credits and deductions, sign the return as the preparer, enter the Preparer Tax Identification Number, and provide you with a copy of your return.

### Fake charities

Scam artists sometimes pose as a charitable organization in order to solicit donations from unsuspecting donors. Be wary of charities with names that are similar to more familiar or nationally known organizations, or that suddenly appear after a national disaster or tragedy. Before donating to a charity, make sure that it is legitimate. There are tools at [irs.gov](http://irs.gov) to assist you in checking out the status of a charitable organization, or you can visit [charitynavigator.org](http://charitynavigator.org) to find more information about a charity.

### Tax-related identity theft

Tax-related identity theft occurs when someone uses your Social Security number to claim a fraudulent tax refund. You may not even realize you've been the victim of identity theft until you file your tax return and discover that a return has already been filed using your Social Security number. Or the IRS may send you a letter indicating it has identified a suspicious return using your Social Security number. If you believe you have been the victim of tax-related identity theft, you should contact the IRS Identity Protection Specialized Unit at 800-908-4490 as soon as possible.

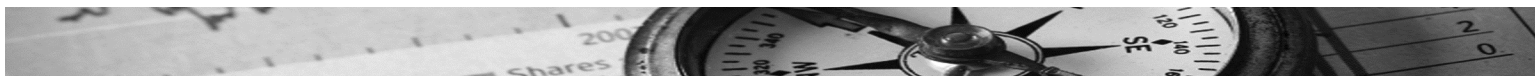
### Stay one step ahead

The best way to avoid becoming the victim of a tax scam is to stay one step ahead of the scam artists. Consider taking the following precautions to keep your personal and financial information private:

- Maintain strong passwords
- Consider using two-step authentication
- Keep an eye out for emails containing links or asking for personal information
- Avoid scam websites
- Don't answer calls when you don't recognize the phone number

Finally, if you are ever unsure whether you are the victim of a scam, remember to trust your instincts. If something sounds questionable or too good to be true, it probably is.





## Know Your Mutual Funds



*At the end of October 2018, there were 7,866 U.S. mutual funds spread across the following broad categories:*

*Domestic equity (3,144)*

*World equity (1,499)*

*Hybrid (709)*

*Taxable bond (1,573)*

*Municipal bond (560)*

*Taxable money market (297)*

*Tax-exempt money market (84)*

*Source: Investment Company Institute, 2018*

Almost 100 million Americans, representing about 44% of U.S. households, owned mutual funds in 2018. Saving for retirement was the primary goal for 73% of investors; other goals included saving for college or a house, building an emergency fund, or providing current income.<sup>1</sup>

Mutual funds offer a convenient way to participate in a broad range of market activity that would be difficult for most investors to achieve by purchasing individual securities. With almost 8,000 funds available on the U.S. market, you should be able to find appropriate investments to pursue your goals.<sup>2</sup> However, it's important to periodically examine the mix of funds you hold.

If you are approaching retirement or already retired, this may be a good time to assess the risk level and growth potential of your funds, along with any other investments in your portfolio. Keep in mind that even though it is generally wise to reduce risk as you near retirement, you may also need to pursue long-term growth opportunities.

The following overview describes some basic types of funds in rough order of risk, from lowest to highest. Investments seeking to achieve higher returns also carry an increased level of risk.

**Money market funds** invest in short-term debt investments such as commercial paper and certificates of deposit and are typically used as a cash alternative. *Although a money market fund attempts to maintain a stable \$1 share price, you can lose money by investing in such a fund. Money market funds are neither insured nor guaranteed by the FDIC or any other government agency.*

**Municipal bond funds** generally offer income that is free of federal income tax and may be free of state income tax if the bonds in the fund were issued from your state. Although interest income from municipal bond funds may be tax exempt, any capital gains are subject to tax. Income for some investors may be subject to state and local taxes and the federal alternative minimum tax.

**Income funds** concentrate their portfolios on bonds, Treasury securities, and other income-oriented securities, and may also include stocks that have a history of paying high dividends.

**Balanced funds, hybrid funds, and growth and income funds** seek the middle ground between growth funds and income funds. They

include a mix of stocks and bonds and seek to combine moderate growth potential with modest income.

**Growth funds** invest in the stock of companies with a high potential for appreciation but low emphasis on income. They are more volatile than many types of funds.

**Global funds** invest in a combination of domestic and foreign securities. **International funds** invest primarily in foreign stock and bond markets, sometimes in specific regions or countries. There are increased risks associated with international investing, including differences in financial reporting, currency exchange risk, economic and political risk unique to a specific country, and greater share price volatility.

**Sector funds** invest almost exclusively in a particular industry or sector of the economy. Although they offer greater appreciation potential, the volatility and risk level are also higher because they are less diversified.

**Aggressive growth funds** aim for maximum growth. They typically distribute little income, have very high growth potential, tend to be more volatile, and are considered to be very high risk.

Bond funds (including funds that contain both stocks and bonds) are subject to the interest rate, inflation, and credit risks associated with the underlying bonds in the fund. As interest rates rise, bond prices typically fall, which can adversely affect a bond fund's performance. U.S. Treasury securities are guaranteed by the federal government as to the timely payment of principal and interest. Dividends are not guaranteed.

Asset allocation and diversification are methods used to help manage investment risk; they do not guarantee a profit or protect against investment loss. Mutual fund shares, when sold, may be worth more or less than their original cost.

*Mutual funds are sold by prospectus. Please consider the investment objectives, risks, charges, and expenses carefully before investing. The prospectus, which contains this and other information about the investment company, can be obtained from your financial professional. Be sure to read the prospectus carefully before deciding whether to invest.*

1-2) Investment Company Institute, 2018



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## How can you lower the costs of owning a vehicle?

Vehicle expenses can take a big bite out of your budget. According to a AAA report, the average annual total cost of owning and operating a new vehicle in 2018 was \$8,849. Fortunately, you may be able to save money by reducing three costs.

**Depreciation:** The loss of a vehicle's value over time was the largest expense associated with buying a vehicle, according to the AAA report. Depreciation accounts for almost 40% of the cost of owning a new vehicle — on average, \$3,289. Some cars hold their value better than others, so it's important to consider resale value before you buy. Because depreciation lessens over time, buying a used vehicle or keeping a vehicle longer can help minimize the impact of depreciation.

**Insurance:** The average annual cost of full-coverage auto insurance was \$1,189. Premiums are based on many factors, including the vehicle make and model, and your location. Some vehicles may cost substantially more to insure because they are statistically more likely to be damaged in a crash, stolen, or have high repair costs. So when you're in the market for a

vehicle, find out how much the insurance will cost before you sign the paperwork.

You can often save money on your insurance premium if you're willing to accept a higher deductible. You may also want to review your policy annually with your insurer to make sure you're receiving all the discounts for which you are eligible, and have only the coverage you need.

**Maintenance and repairs:** With an average annual cost of \$1,231, maintaining and repairing your vehicle is a big line item expense in your budget. So before you buy or lease a vehicle, talk to a trusted mechanic who is familiar with the cost of parts and general repair issues for the makes and models you're considering, or look for reliability statistics online. Get written estimates before you have any repairs completed, and shop around. Hourly labor rates and parts costs may vary widely. And keep up with regular maintenance. It can pay off in the long term, not only by preventing costly repairs but by potentially increasing your vehicle's resale value.

Source: AAA *Your Driving Costs*, 2018 Edition. Average costs are based on driving 15,000 miles annually.



## Is a vehicle subscription service in your future?

Automakers and start-up companies are betting that today's generation of drivers will embrace a new model of temporary ownership called a vehicle subscription service.

A vehicle subscription service offers an alternative to buying or leasing. You don't have to sign a long-term contract or commit to just one vehicle. Once you join, you typically pay an all-inclusive monthly or sometimes weekly fee that covers the cost of using the vehicle you choose, including insurance, routine maintenance, roadside assistance, and a warranty. You then have the option of swapping out your vehicle periodically, depending on the terms of your subscription.

For example, perhaps you've been temporarily transferred to a new city and want a fuel-efficient car for the six months you're living there. Maybe you need a second car only during the summer when your child is home from college. Or you might want the flexibility to drive whichever vehicle suits your needs at the time — a luxury sedan for day-to-day driving, then a minivan for a family trip. If your needs change, you can return your vehicle and get

another, or end your subscription. Plans vary, but many subscription services require only a short one- to two-month minimum commitment, with the option to renew. Subscription services are often app-based, making it easy to find and swap vehicles, and your newest ride may be delivered to you via a concierge service.

Of course, flexibility and convenience come at a cost, which is often substantial, so if you are interested in subscribing to your next vehicle you'll need to carefully assess your options. Prices depend on the subscription service, the vehicle selected, and other factors such as mileage and extras. You may also be required to pay a sign-up fee.

Vehicle subscription services are evolving and are still not available everywhere. Many services are in the testing phase, and most have been launched primarily in major metropolitan markets such as Los Angeles, San Francisco, and New York, with a few offered in other cities. But vehicle subscription services are gaining traction, increasing the likelihood that they will someday be available in most areas.



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