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Inflation (Surprisingly) Firm: Fed on Hold; Stocks Mark Time

February 19, 2016

We finally had relief in the equity market, as oil prices bounced off their lows and the fear of a European banking crisis faded. But it would be quite premature to say that all is fine. Both the CPI and PPI inflation indicators came in above expectations. Core CPI, in fact, is running at a 2.2% annual rate, the highest in four years. To be sure, the core PCE Deflator, the preferred measure of the Fed (and most economists) is only up 1.4%. Nevertheless it is disquieting to see price measures continue to rise in the face of collapsing energy prices.

Despite these firm inflation readings, it is extremely unlikely that the Fed will raise rates in March and the January minutes highlighted the FOMC's awareness of the volatility in the financial markets and the de facto tightening caused by the increase in risk spreads (which became far more severe in the two weeks after the Fed meeting). I also regard the recent dovish comments by St. Louis Fed President James Bullard, a long-standing hawk, significant. If he is coming to the conclusion that it is wise to wait, it is almost impossible to see how the Fed will hike. Super hawks like Richard Fisher and Charles Plosser are no longer at the Fed and Chairman

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Our core purpose, our passion, is to make a positive and profound difference in the lives of our clients and in the communities we serve.

"In every walk with nature one receives far more than he seeks." - John Muir

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Yellen is a natural dove. Furthermore Vice-Chair Fischer (although characterized as a mild hawk) keeps his ear close to the international markets and I am sure that he, as well as other FOMC members, have heard numerous pleas from businesses as well as other central bankers to pause if not halt their tightening.

The productivity collapse appears to have continued into this quarter. January payrolls were strong and, with the recent strength emanating from jobless claims, the rest of the quarter's payrolls look to be strong. Yet GDP growth estimates for this quarter are only 2%. Recall, that 2% GDP growth would materialize, based on historical trends, if there were absolutely *no* increase in either payrolls or hours worked (which jumped in January). This new era of zero (or even negative) productivity growth is troublesome. It does keep real interest rates low, but it slows the growth of demand and most importantly brings the rise in real wages, the main indicator of the standard of living, to a halt.

Furthermore, with lagging growth in the labor supply, the increase in the number of workers further tightens the labor market and forces the unemployment rate still lower. This, at some point, will raise wages not due to productivity, but due to a labor shortage, further pressuring profit margins. For these reasons, I am not convinced a sustained recovery in share prices is yet in the offing.

“Good friends are like stars. You don’t always see them, but you always know they’re there.”

When Inspiration Strikes . . .

You may have noticed that we’ve included some of our favorite quotes on the Hudock Capital website and on our Facebook page. Our hope is to provide a little inspiration and provoke some positive thought by sharing these with you.

We change these quotes regularly, so be sure to look for the latest bit of inspiration the next time you sign on to the Hudock Capital website or Facebook page. If you have a favorite quote that you’d like to share with us, please send it to: info@hudockcapital.com.

We’ll try to include as many of your suggested quotes as possible as we update our website and Facebook page. We look forward to hearing about what inspires you!

2016’s 10 Biggest Tax Changes

Be aware of these new rules taxpayers will have to follow.

Written by Dan Caplinger Dec 6, 2015. Reprinted with permission from The Motley Fool. Redistribution is prohibited.

Tax time is nearly upon us again, and 2016 will bring some tax changes you need to know about. By learning about them *before* the New Year, you'll be better able to take steps that will leave you prepared both this year and next. Let's look at the 10 biggest tax changes you should know about going into 2016.

1. Tax Day is April 18. The Washington, D.C., holiday of Emancipation Day is on Friday, April 15, 2016. Under federal law, the tax deadline gets extended when it falls on a holiday or weekend, and so the tax deadline for most taxpayers will be the following Monday, April 18. For those states in New England that celebrate Patriots Day, an even later April 19 deadline will apply.

2. Tax penalties related to Obamacare are going up again. The Affordable Care Act imposed penalties for those not having qualifying healthcare coverage. Those penalties started at \$95 per adult, or 1% of income above the filing threshold in 2014, but they rose to \$285 per adult, or 2% of income above the filing limit in 2015. For 2016, penalties will rise again, hitting \$695 per adult, or 2.5% of income. A family maximum will apply to the per-person amount, but the \$2,085 amount will be substantially higher than the \$975 in 2015, and the \$285 in 2016.

3. Tax brackets are rising slightly. Most of the tax brackets that govern different classes of taxpayers are adjusted for inflation. For 2016, these bracket amounts are rising by roughly 0.4%.

4. Standard deductions are going up for head of household filers. The low inflation rate kept standard deductions for most taxpayers steady in 2016 from 2015 levels, including the single, married filing jointly, and married filing separately statuses. For those who qualify as heads of household, the standard deduction will rise \$50 to \$9,300 in 2016.

5. Personal exemptions are rising. The personal exemption that taxpayers are entitled to take on their tax returns will go up in value by \$50 in 2016. That will give everyone an exemption amount of \$4,050.

6. Contribution limits on health savings accounts are going up. Health savings accounts let people with high-deductible health plans set money aside on a pre-tax basis to cover the costs of their healthcare. For 2016, the contribution limit for individual policies will remain at \$3,350, but the maximum contribution for family policies

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will rise by \$100 to \$6,750. A catch-up contribution of \$1,000 for those 55 or older will continue to apply.

7. The Earned Income Credit is rising. The maximum allowable Earned Income Credit will go up modestly in 2016. For those with three or more qualifying children, the maximum credit will rise to \$6,269, up \$27. Those with two children will get a maximum \$5,572, which is up \$24 from 2015, while one-child families can get up to \$3,373, \$14 more than last year. Those without children get just a \$3 bump and can claim up to \$506 for 2016.

8. The exemption from AMT is higher. The alternative minimum tax has struck a growing number of taxpayers, making the exemption amount more important than ever. Single taxpayers will see their AMT exemptions go up \$300 in 2016 to \$53,900, while joint filers will see a \$500 boost to \$83,800.

9. The estate tax exemption is heading upward. The lifetime exemption amount for the gift and estate tax is tied to inflation, and it is slated to rise next year as well. The exemption amount will rise to \$5.45 million, up \$20,000 from 2015. The limit applies to estates of those who pass away in 2016.

10. Other tax provisions could change if not renewed. Nearly every year, lawmakers wait until the last minute to renew popular tax breaks, such as charitable distribution from IRAs, state sales tax deductions, teachers' write-offs for classroom supplies, and deductions for private mortgage insurance. As of early December, these provisions hadn't yet been renewed for 2015, but typically, lawmakers renew them retroactive to the beginning of the year. The same is likely in 2016 unless an extension provides for two years of relief rather than just one.

Many things aren't changing. Even though the 10 things listed above are changing, many other typical annual changes *aren't* happening. Contribution limits to 401(k) plans, IRAs, and flexible spending arrangements are all staying the same in 2016 as they were in 2015, reflecting the minimal amount of inflation in the economy.

Most people put off tax planning to the last minute, but by knowing about these coming changes before they take effect, you can do more comprehensive tax planning that will serve you better in 2016 and beyond.



Check out the TaxCaster App by TurboTax!

Available on the App Store | Android App on Google Play | Appstore for Android on Amazon

Teaching Heirs: News of the Past

"Turning back the clock to 1916"

**President Woodrow Wilson
Vice President Thomas R. Marshall**

March Events

Alfred von Tirpitz announces that he has resigned as the head of the German navy. Von Tirpitz refuses to compromise his strategy of attacking neutral ships with German submarines. Adm. von Tirpitz is succeeded by Adm. von Capelle. The Russian military launches an offensive against Germany on the Eastern Front. The leaders of the Russian troops believe that this is the best time to attack since Germany is engaged at Verdun on the Western Front.

Sports

In baseball, the Boston Red Sox defeat Brooklyn four games to one to capture the World Series. Army beats Navy 15-7 in their annual football contest. Hockey's coveted prize, the Stanley Cup, is won by the Montreal Canadiens. Dario Resta wins Indianapolis 500, with an average speed of 84 mph. Charles Evans, Jr. wins the U.S. Open in golf. A horse named George Smith pulls ahead and wins the Kentucky Derby.

Cost of Living

	1916	2016
Gallon of Milk	\$ 0.36	\$ 3.98
Loaf of Bread	\$ 0.07	\$ 1.98
New Auto	\$ 500.00	\$ 27,055.00
Gallon of Gas	\$ 0.08	\$ 2.21
New Home	\$ 5,000.00	\$ 364,100.00
Average Income	\$ 1,098.00	\$ 45,472.00
Dow Jones	\$ 95.00	\$ 17,847.63

March Birthdays

Actress Leslie-Anne Down - 1954

Actor Kurt Russell - 1951

Ballet dancer Rudolf Nureyev - 1938

Actor Patrick Duffy - 1949

Singer Nat "King" Cole - 1919

Songs

Back in 1916, the popular songs were: "Allah's Holiday" performed by Otto Harbach; "Baby Shoes" performed by Joe Goodwin; "Have a Heart" sung by P.G. Wodehouse; and "I Ain't Got Nobody" by Roger Graham. Also topping the charts: "Li'l Liza Jane" by Countess De Lachau; "Pretty Baby" by Gus Kahn; "Rackety Cool!" by Otto Harbach; and the popular "The Cobbler's Song" by Oscar Asche.



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After the Closing Bell

For this issue's "After the closing bell..." I'd like to keep it light and share a message gathered from different people and collected in the 1995 book, *Live and Learn and Pass It On, Volume II*. I hope you enjoy this. "I've learnedThat the best classroom in the world is at the feet of an elderly person. I've learnedThat when you're in love, it shows. I've learned That just one person saying to me, 'You've made my day!' makes my day. I've learned ... That having a child fall asleep in your arms is one of the most peaceful feelings in the world. I've learnedThat being kind is more important than being right. I've learnedThat you should never say no to a gift from a child. I've learnedThat I can always pray for someone when I don't have the strength to help him in some other way. I've learnedThat no matter how serious your life requires you to be, everyone needs a friend to act goofy with. I've learnedThat sometimes all a person needs is a hand to hold and a heart to understand. I've learnedThat simple walks with my father around the block on summer nights when I was a child did wonders for me as an adult. I've learnedThat life is like a roll of toilet paper. The closer it gets to the end, the faster it goes. I've learnedThat we should be glad God doesn't give us everything we ask for. I've learnedThat money doesn't buy class. I've learnedThat it's those small daily happenings that make life so spectacular. I've learned ... That under everyone's hard shell is someone who wants to be appreciated and loved. I've learnedThat to ignore the facts does not change the facts. I've learnedThat when you plan to get even with someone, you are only letting that person continue to hurt you. I've learnedThat love, not time, heals all wounds. I've learnedThat the easiest way for me to grow as a person is to surround myself with people smarter than I am. I've learned That everyone you meet deserves to be greeted with a smile. I've learnedThat no one is perfect until you fall in love with them. I've learned ...That life is tough, but I'm tougher. I've learnedThat opportunities are never lost; someone will take the ones you miss. I've learnedThat when you harbour bitterness, happiness will dock elsewhere. I've learned That I wish I could have told my Mum and Dad that I love them one more time before they passed away. I've learnedThat one should keep his words both soft and tender, because tomorrow he may have to eat them. I've learnedThat a smile is an inexpensive way to improve your looks. I've learnedThat when your newly born grandchild holds your little finger in his little fist, that you're hooked for life. I've learned ...That everyone wants to live on top of the mountain, but all the happiness and growth occurs while you're climbing it. I've learnedThat the less time I have to work with, the more things I get done."

Warm regards,

Barbara

Upcoming Events

◆ Annual Charity Golf Tournament

Susquehanna Country Club
(Selinsgrove)

-August 5th, 2016

◆ Holiday Events

The Club at Shepard Hills

-December 6th, 2016

Williamsport Country Club

-December 9th & December 12th, 2016

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