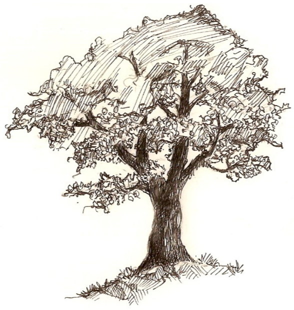

Ashwood Advisors, LLC®

5 North Meadows Road ● Medfield, MA ● (508) 359-9442 ● GeremiaInvestments.com

Truth, Knowledge, Experience *3rd Quarter 2018*

Hi Everyone,

As we enter the fall the Fed continues to tighten. We are currently in one of the longest expansions in history.

Caution remains my mantra.

Wishing everyone a great season.

Sincerely,
Steve Geremia

In This Issue:

The Basics of Credit Scores and Credit Reports

Presented by Stephen Geremia

As consumers, we know that having a good credit score is important. Whether you are applying for a loan or signing up for a credit card, your credit score plays a major role in determining if you will be approved. Your credit score can also have a significant impact on loan terms and borrowing costs.

What is a credit score?

When you borrow money from a lender or sign a contract pledging to make payments, the other party needs to assess how likely it is that you will fulfill your obligations. Your credit score is a measure of risk that helps lenders quantify this likelihood in real time.

Credit scores also help to make the credit process more efficient. In order to make a decision about whether to lend money, a lender needs to gather a great deal of information. The credit score speeds up this process immensely by giving the lender a quantifiable measure without having to collect all the data. In addition, the efficiency of using credit scores does a lot to increase the amount of credit available, which in turn pushes down the cost of credit to consumers.

Types of credit scores

The FICO® Score, created by the Fair Isaac Corporation, is the most commonly used credit measure. Although in this article we focus on FICO, you should be aware that other scores—for example, VantageScore and PLUS Score—evaluate credit worthiness using their own methodologies.

A consumer's base FICO Score ranges from 300 to 850—the higher the consumer's score, the lower his or her risk to lenders. During the past 25 years, the base FICO Score has undergone many revisions, and the scoring methodology has evolved to account for new data points. Currently, the most widely used measure is the FICO 8 Score. (Fair Isaac has several other scores whose methodology is specific to the type of lending decision being evaluated. For instance, a bank may use a different FICO Score for mortgage lending than it does for making decisions about issuing credit cards.)

How a FICO Score is calculated
When a consumer obtains credit, the lender reports the information to the three major U.S. credit bureaus: Equifax, Experian, and TransUnion. The information then goes into the individual's credit report, which provides the raw data used to calculate the credit score.

"Never test the depth of a river with both your feet"
~ Warren Buffett

The credit report includes the consumer's personal information (e.g., date of birth, social security number), all of his or her account information, information about credit inquiries, and negative information such as bankruptcies and late payments. For calculating an individual's credit score, the FICO formula looks at five primary categories of information:

1. The consumer's total amount of debt
2. The combination of different types of accounts
3. The consumer's history of making payments on time
4. How old the consumer's credit history is
5. The amount of new credit applied or shopped for

Although some categories like payment history and amount of debt are more heavily weighted in determining the FICO Score, the relative importance of a category can be affected by the aggregated information in the consumer's credit report.

Improving and maintaining your credit score

Now that you understand what goes into calculating a credit score and why the score is so important, let's look at some strategies for improving, maintaining, and protecting your score. It all starts with an initial check of your credit report.

Consumers may request their credit report once a year from each credit bureau. There is no cost to request the three reports, and they can be obtained easily online through www.annualcreditreport.com.

Once you receive your reports, check them diligently for accuracy. Cross-reference them with each other to be sure that the information is correct across the three bureaus. If you find inaccurate information—especially incorrect negative information—contact the credit bureaus to dispute the data.

Here are some additional tips for improving your credit score:

- Do your best to keep balances on credit cards low compared with your total available credit line. High balances can hurt your credit score.
- Create a system to ensure that you pay your bills in a timely fashion. Consistently paying bills on time will have a positive effect on your score.
- Do not move debt around to avoid payments. Work on a system to pay down debt rather than move it.
- Use credit cards, but use them properly and pay on time. Lenders want to see a track record that demonstrates your ability to manage debt responsibly.
- If you are looking to obtain a loan, shop around within a *short* period of time. If you spread your search out over a long time frame, lenders may infer that you are shopping for many credit lines rather than for just one loan.
- If you are unable to make payments, contact the lenders to try to come up with a plan. Consider working with a credit counselor to develop a strategy for paying down your debt.

Regular monitoring and diligent checking are key

Considering the importance of credit scores, consumers should make a concerted effort to monitor and protect the information that makes up their scores. Request your credit reports at least annually and diligently check the information for accuracy. Take pride in having a good score and enjoy the benefits that come along with it.

"Money is only a tool. It will take you wherever you wish, but it will not replace you as the driver." ~Ayn Rand

Is Your W-4 Withholding Accurate?

Presented by Stephen Geremia

We all know that federal income taxes are withheld from our paychecks. But are you aware of the degree of control you have over how much is withheld? Here, we'll discuss the importance of having an accurate W-4 holding, including how recent changes to the tax code present a unique situation for taxpayers in 2018.

W-4 breakdown

Let's start with how the W-4 actually works. In a nutshell, your employer adjusts your gross pay and calculates how much federal income tax to withhold from your paycheck based on the withholding allowances you claim on Internal Revenue Service (IRS) Form W-4 (Employee's Withholding Allowance Certificate). Each allowance you claim exempts a portion of your income from federal tax withholding and thereby increases what you receive in your paycheck. So, if you claim too many allowances, not enough tax will be withheld from your paycheck, and you will owe the IRS come April 15. If you claim too few allowances? An unnecessarily high amount of tax will be withheld from your paycheck, and you will get a tax refund.

Of course, no one wants to get hit with a large tax bill. But getting a tax refund is not necessarily a better option. It simply means you have paid more than your share in federal income tax and essentially have given the federal government an interest-free loan. As such, the optimal result from a cash flow and financial planning standpoint is to land right in the middle: maximizing income received in each paycheck *without* owing additional taxes when you file.

Time to check your W-4 withholding: The Tax Cuts and Jobs Act (TCJA)

Best practice is to review your W-4 annually. Further, it is especially important to check when you experience a major life event, such as marriage, birth or adoption of a child, a spouse getting or losing a job, or a significant pay raise or pay cut. Each of these events can directly affect the amount of tax you will owe. This year presents a unique situation, however, because the implementation of the TCJA means that everyone's tax situation has changed in 2018.

Tax brackets. There are seven new income tax brackets: 10 percent, 12 percent, 22 percent, 24 percent, 32 percent, 35 percent, and 37 percent. With these new brackets in place, many people making the same income in 2018 that they did in 2017 will find themselves in a lower tax bracket. As a result, many are taking home more money in their paychecks in 2018 compared with 2017.

Standard deduction. The TCJA also increased standard deductions across the board.

- **For single individuals or for married couples filing separately,** the standard deduction increased from $6,350 to $12,000.
- **For heads of household,** the standard deduction rose from $9,350 to $18,000.

For married couples filing jointly, the standard deduction went from $12,700 to $24,000.

In addition, the TCJA eliminated miscellaneous itemized deductions and limits state and local income and property tax deductions to $10,000.

"One of the funny things about the stock market is that every time one person buys, another sells, and both think they are astute." ~William Feather

Finding the "sweet spot"

The simplest and most accurate way to determine your appropriate W-4 withholding election is to use the IRS Withholding Calculator, available on the IRS's website. Keep in mind that this calculator is designed for *most* taxpayers, but people with especially complex tax situations may need to reference Publication 505 (Tax Withholding and Estimated Tax).

The calculator will ask for your filing status, your family situation, your income, your current withholding, and other information that could affect your 2018 taxes. To expedite the process and ensure the most accurate result, be sure to have your most recent pay stubs, the previous year's income tax return, and a copy of your completed Form 1040 on hand before using the calculator.

If the calculator recommends adjusting your withholding, there's no need to wait! You can adjust your W-4 withholding with your employer at any time, and the change will be reflected in your future paychecks. One important note here: If the calculator recommends a change to your withholding for 2018, be sure to check back at the start of 2019. Why? The calculator is designed to adjust your withholdings so that you pay the correct amount of federal income tax for the current year, based on the information you provide. A midyear withholding change in 2018 may have a different full-year impact in 2019.

Want to learn more?

Of course, this is a general discussion of ensuring accurate W-4 withholdings. If you have additional questions or would like more in-depth information about your withholding, be sure to consult your employer or tax advisor.