The
Financial Update

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Fee-Only Financial Planning

Second Quarter 2016 NAPFA - Registered Financial Advisor (478) 474-7480

10 Sensible Stock Market Strategies After A Fall

The start to 2016 was one of the worst in history for stock market investors as the Standard & Poor's (S&P) 500 registered a record-breaking plunge in January. Some prognosticators are predicting doom and gloom for the rest of the year and a bear market. They say the market downturn might even lead to a recession.

But experienced investors know not to panic. While it's important to keep abreast of the S&P 500 and other key indicators, it's equally essential—if not more so—to stick to investment principles that have guided you successfully in the past. Consider these 10 practical suggestions:

1. Have a game plan. Assuming you have lofty long-term objectives—a comfortable retirement, say, or buying a second home—make sure you map out a plan to get there. Focus on how much you need to set aside and invest annually, and if you're saving for retirement, factor in future withdrawals. Also keep in mind some of the advice below.

2. Balance risk with reward. While your investment plan should be designed to make money over time, it's important to consider the risks that could disrupt your path to profits. Ideally, your investment strategies should maximize your rate of return while minimizing the risks—and how much risk you're willing to accept will depend on many factors that may relate to you alone.

3. Play with "house money." With any investment, losses are possible, and you'll need to consider what you can afford to lose, and when. While the stock market, historically, always has made money over the long haul, there have also been steep dips along the way, and that could hurt if you're counting on the money you lose. Try not to invest amounts earmarked for paying your mortgage, sending your kids to college, and other necessities.

4. Diversify. Spreading your money across several kinds of investments is essential to most investment plans. Including a variety of stocks from across sectors or industries, as well as a diverse mix of bonds and cash equivalents in your portfolio, can help when one type of investment rises while others fall. Putting money into mutual funds or exchange-traded funds (ETFs) indexed to market benchmarks can be a simple way to diversify.

5. Avoid market timing. Getting in and out of stocks quickly tends to be a loser's game. If you're lucky you might see short-term benefits but over longer periods it's impossible to outguess financial markets.

6. Don't forget about taxes. When you examine your investments, you

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When Can I Afford To Retire?

This is one of the most frequent questions we hear from prospective clients. The answer may depend upon how many years you prepare for retirement before you begin making withdrawals.

The probability that you will meet your financial goals and maintain your standard of living is something we can calculate for you. If our analysis reveals any stumbling blocks to reaching retirement in your time frame, we can discuss alternative strategies. We can also help you avoid costly pitfalls in your preparation.

It's all part of the comprehensive financial planning process we offer our clients. We address everything from cash flow and retirement planning to investment strategy. You also benefit from income tax planning, insurance and risk management planning, estate tax planning, and education planning

We do not sell any products or take any commissions, so you can rest assured that you are getting unbiased financial advice. We are fiduciaries, and are happy to coordinate our services with those of your CPA and attorney.

Feel free to call us at (478) 474-7480 to schedule a consultation, and plan to retire comfortably.

Sincerely,
Day & Ennis, LLC

Do Roth IRA Math Before Converting

The Roth IRA conversion has been one of the most popular retirement planning techniques in recent years and there's nothing to indicate that this trend will change. The main attraction is that the money you take from a Roth after the conversion is generally free from income tax and you don't have to dilute your nest egg with required minimum distributions (RMDs) as you do with traditional IRAs. For many retirement-savers, it's a good deal.

But the benefits of Roth IRAs come at a price: When you convert funds in a traditional IRA to a Roth, you must pay tax on the conversion amount, just like you would with a regular distribution from an IRA. The trick is to minimize the tax liability when you pull off this maneuver.

Normally, withdrawals from a traditional IRA are fully taxable at ordinary income tax rates, currently reaching as high as 39.6%. In addition, these distributions increase your exposure to the 3.8% surtax on net investment income, as well as other potential adverse tax consequences such as the personal exemption phaseout (PEP). Furthermore, you must begin taking RMDs from your traditional IRA accounts after you reach age 70½—no exceptions.

Once you convert to a Roth, "qualified" distributions after five years are completely exempt from income tax. Qualified distributions, for this purpose, include withdrawals you take after age 59½, that are made because of death or disability, or are used for a first-time home purchase (up to a lifetime limit of $10,000). And you don't have to take RMDs during your lifetime no matter how long you live.

You may be able to contribute directly to a Roth IRA, but that option is phased out for upper-income taxpayers. A conversion may be your only viable route.

If you're thinking about a Roth conversion this year, you might consider limiting the amount you convert to the maximum you can add to your income without moving into a higher tax bracket. For example, if you expect to be in the 25% bracket and have another $50,000 to spare before crossing into the 28% bracket, you could take this opportunity to convert $50,000 from your traditional IRA to a Roth. Not only is that amount below the thresholds for the 3.8% surtax and PEP, the tax rate is limited to 25%. You then could repeat this strategy over multiple years to keep your tax liability at a reasonable level.

Finally, you're holding another tax card up your sleeve: If it suits your needs, you might decide to "recharacterize" part of the converted amount back into a traditional IRA. This could be a good idea if the value of the account declines significantly after the conversion. You have until the tax return due date for the year of the conversion plus extensions to recharacterize, giving you plenty of time to make an informed decision. ●

When To Use An Installment Sale

Do you own commercial or investment real estate you're planning to sell? If the property has appreciated in value since you bought it, and you've been writing off your initial cost through depreciation deductions, you could owe a hefty tax on the transaction. What's more, you might not be able to find a buyer that can come up with all of the cash—at least not at your asking price.

You may be able, however, to kill two birds with one stone. An installment sale of commercial or investment real estate can let you defer the tax over several years, reducing the overall tax bite. In addition, the buyer can spread out the payments. There are no special conditions; the tax law specifies only that the payments must be made over two or more years.

Except for the effect of having the sale happen gradually, the basic tax rules for real estate transactions continue to apply. If you make a profit, it will be taxed as a capital gain. If you've held the property for more than one year, your long-term capital gain will be taxed at a maximum rate of 15%, or 20% if you're in the top ordinary income tax bracket of 39.6%. You also may be liable for the 3.8% surtax on net investment income.

You generally will owe tax on a portion of your gain in the year of the sale and the remainder in the years during which you receive the installment payments. The taxable portion is based on something called the "gross profit ratio"—your gross profit from the real estate sale divided by the price. Suppose that you sell a commercial building, your gain is $1 million, and the gross profit ratio is 60%. If you receive $250,000 a year, you are taxed on $150,000 (60% of $250,000) of the proceeds annually. Assuming a 20% long-term capital gain tax rate (and excluding any net investment income surtax), your tax each year on the installment sale is

Don't Be Victimized By These 10 Common Scams

Scams of all varieties continue to bilk unsuspecting victims out of billions of dollars each year. In particular, older Americans are being targeted, especially those who have been recently widowed. With that in mind, here are 10 scams to watch out for:

1. IRS imposters. This scam proliferates during tax-return season. A caller will say he or she is an IRS agent and claim you owe back taxes. Then the caller threatens you with stiff penalties or a lawsuit—and even arrest—if you don't wire the money immediately. But the IRS doesn't call debtors without sending a notice via U.S. mail first. To be on the safe side, if you get such a call, check with the IRS at 1-800-829-1040 to check the caller's credentials.

2. Tech support. Typically, you receive a phone call purporting to be from Microsoft or another software company, and the caller says a virus has invaded your computer. Then you're asked to provide access to your computer and the hacker installs malware that steals personal information. These software companies don't make unsolicited phone calls, so hang up immediately.

3. Robo-calls. Are you a victim of those annoying automatic telephone calls? Although the call itself isn't an attempt at ID theft, it helps the crooks build a "go-to list" for future phone scams. Use your caller ID to screen calls and don't answer if someone is calling from a number you don't know.

4. Charitable solicitations. Many legitimate charities call on the phone so it's hard to weed out the real ones from the fakes. Investigate any charity before handing over cash or making a credit or debit card contribution by mail or online. If the charity is for real, the caller won't hesitate to provide additional information. Check out charities at www.charitynavigator.org.

5. Credit cards. It's not surprising that scam artists are working an angle as credit card companies change their cards from magnetic strips to chips. Someone impersonating a credit card company employee may request information or ask you to click on a link to update your status. But credit card companies don't operate this way. If you have any doubts, call the company directly.

6. Dating websites. Initially, scams were based on prying money or sensitive data out of single people who recently have entered the dating scene. But now it has mushroomed into more sophisticated cons aimed at newcomers to religion-based sites. Because you're "dating" someone from your faith, you may be more likely to let your guard down and give access to money.

7. Widows and widowers. A typical trick of con artists is to prey on your emotions. Of course, elderly individuals are especially vulnerable after the death of a loved one. It's not unusual for a criminal to pretend to be a banker or other professional to coerce you to hand over funds. Rely on reputable financial planners you know and trust and close family members to steer you in the right direction.

8. Medical ID theft. ID theft often is associated with financial information, but loss of medical information can be just as damaging. Just imagine someone running up costs for expensive drugs, doctor visits, and even surgery under your name. What's more, unlike theft of credit card data, you're often held liable for these purchases. Don't volunteer your particulars (for example, Social Security and insurance account numbers) unless you're certain it's for a valid reason. Check with your insurer about any charges you don't understand.

9. Gift card vouchers. If you're targeted for this scam, you receive an unsolicited email offering you a free gift card from a well-known retailer or restaurant if you click on a link. It can look legitimate—the scammers will go to great lengths to replicate logos and corporate designs—but often it isn't. Clicking on the link will install malware on your computer that can siphon away personal data. No matter how appealing an offer is, don't click on links you have not verified.

10. Counterfeit apps. Finally, in a highly publicized incident, Apple developed some applications that were found to contain vicious malware that spied on consumers. While Apple believes it has purged these malicious apps, similar occurrences could lead to loss of personal data. Try to use only well-known apps and consider reading reviews before purchasing them.

These are just 10 of the scams currently making the rounds. Be on your guard and be skeptical of anything that doesn't seem just right. ●

$30,000 (20% of $150,000).

Any depreciation you claim on the property must be recaptured as ordinary income to the extent it exceeds the amount allowed under the straight-line depreciation method. However, spreading out the tax over a number of years will take greater advantage of the 15% tax rate on long-term capital gain.

Finally, there's one other potential tax pitfall. If the sale price of your property (other than farm or personal property) exceeds $150,000, you'll have to pay interest on the tax that is deferred to the extent that your outstanding installment obligations exceed $5 million.

While installment sale treatment on your tax return is automatic, you can opt out if that suits your purposes—for example, if your income was otherwise low for the year. In that case, the entire gain is taxable in the year of the sale. But these rules are complicated, so be sure to get expert tax advice about your situation. ●

Retirement Plan Choices For The Self-Employed

If you are self-employed, have no employees, and have not yet started a retirement plan for yourself, you have several choices.

1. Traditional or Roth IRAs. You don't have to be self-employed to set up and contribute to these IRAs. For 2016, you can put up to $5,500 into a traditional or Roth IRA if you're under age 50. Contributions to a traditional IRA may be tax-deductible, depending on your income and whether you also contribute to a plan at work, and earnings in your account grow tax-deferred. A Roth is funded with after-tax dollars but withdrawals during retirement are normally tax-free. You can't contribute to a Roth if you're single and earn more than $117,000 in 2016 or are married and earn more than $184,000. But there are no income limits on converting a traditional IRA to a Roth; you just have to pay income tax on the amount you convert.

2. Simplified Employee Pension (SEP) IRA. If you can put more than $5,500 into a retirement plan for 2016, this may be the vehicle for you. You can put up to 25% of your self-employment income, up to a maximum of $53,000 in 2016, into a SEP. Contributions are tax-deductible and earnings grow tax-deferred.

3. SOLO 401(k). With this kind of plan, you may be able to contribute more than you can put into a SEP IRA. As an employee, you're able to contribute 100% of your earnings up to a maximum of $18,000, or $24,000 if you're 50 or older. Then, as your own employer, you can add up to 25% of your earned income—your net earnings from self-employment minus one-half of your self-employment tax and the amount you already contributed to the retirement plan—up to a maximum of $53,000 for 2016.

We can help with any of these plans. ●

Sensible Stock Market Strategies

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may tend to focus on returns to the exclusion of practically everything else. But taxes also can have a major impact. Adding tax-exempt municipal bonds to your portfolio, for example, could improve your overall after-tax returns, and it makes sense to look for ways to offset capital gains with capital losses before the end of the year.

7. Review and rebalance. Regardless of how the stock market is performing today, it's important to look at your portfolio periodically and make whatever adjustments are necessary to stick to your long-term plan. Suppose you want to keep a hypothetical asset allocation of 50% in stocks, 25% in bonds, and 25% in other investments. If stock prices fall and your allocation drops to 35%, you may need to sell bonds and buy stocks to get things back in line. That also has the potential advantage of adding to your stocks when prices are low.

8. Try to keep your emotions out of it. It's easy to be swept up when the market is climbing or falling, but you'll be much better off if you're able to remain calm. Resisting impulse acquisitions and sales tends to be a winning long-term strategy.

9. Stick with your plan. It's not enough to develop an overall investment plan—you also need to follow it even when you face market turbulence—in other words, don't abandon the stock market just because you're experiencing some negative returns. Staying the course over the long term is likely to give you the best results.

10. Obtain professional assistance. Last, but not least, you don't have to go it alone. Your professional investment advisors can help you weather the inevitable ups and downs of the stock market. Don't hesitate to contact us at any time. ●

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