The
FINANCIAL UPDATE

DAY & ENNIS, LLC
FEE-ONLY FINANCIAL PLANNING

Third Quarter 2015 NAPFA - Registered Financial Advisor (478) 474-7480

After Five Great Years For Stocks, What's Next?

Once again, investors have been taught about the power of investing in stocks for the long run. The lesson is illustrated in this chart of returns of a diverse array of 13 investments, including European stocks, commodities, and bonds as well as U.S. stocks. It is a lesson investors have been taught many times before but remains difficult to learn. The chart spans a five-year period, which is a long time, and it covers investments that in the past behaved differently from one another.

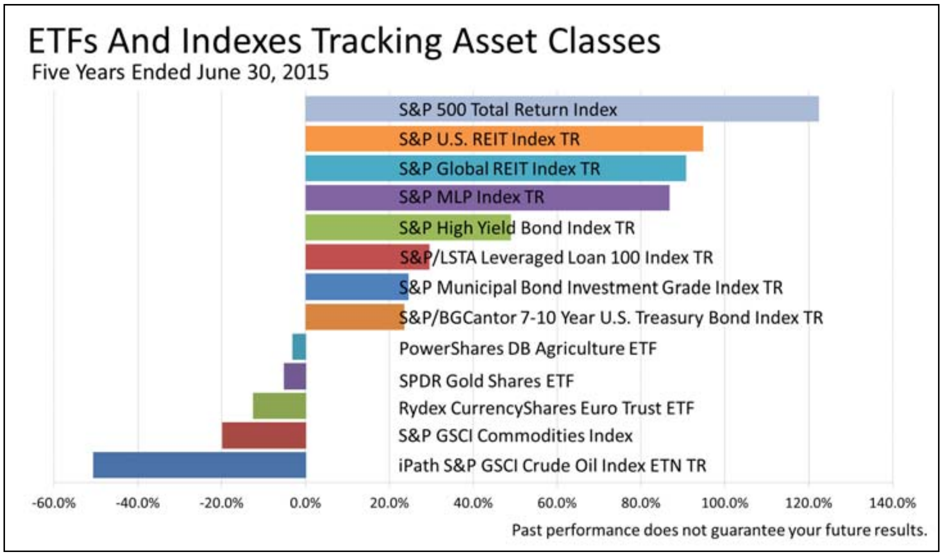
Atop the chart, the best investments by far, were America's blue-chip publicly held companies. Also among the best-performing asset classes for the five years were real estate investment trusts (REITs), both U.S. and foreign, and master limited partnerships.

The worst asset class on the list for the past five years was crude oil and other commodities, along with the euro currency. The euro lost 13% versus the U.S. dollar over the five years.

As for the bond total return indices, U.S. Treasuries returned 23%, or 4.6% per year. Municipal bonds gained 25%, or about 5% per year. Leveraged loans gained 30%, or about 6% annually, while high-yield "junk" bonds gained 49%, about 9.8% per year.

An ounce of gold, in this five-year period, shot from approximately $1,200 to $1,800 before losing luster, recently settling at $1,120. Gold bulls had counted on the Fed's liquidity program going too far, triggering inflation and "debasing" the U.S. dollar. It never happened. Inflation and bond yields are lower than investors, including the Federal Open Market Committee, the central bankers who make up the Federal Reserve, had expected.

But the most important takeaway from this accompanying chart is not the returns on specific asset classes over



(Continued on page 4)

A Social Security Benefit Calculator? It's Not Foolproof

One critical financial decision for soon-to-be retirees is when to begin collecting Social Security benefits. Putting aside other concerns—such as whether you're really ready to retire—it often boils down to whether you want to start earlier, and receive lower monthly benefits, or wait longer to receive higher benefits.

In this high-tech age, it's not surprising that online calculators are springing up, designed to do all of the number-crunching for you. However, while these tools can provide valuable insights, they won't necessarily tell you everything you need to know.

Generally, you can begin receiving Social Security retiree benefits as early as age 62, but you won't qualify for 100% of the benefits you've earned until you reach your full retirement age (66 for most baby boomers). If you wait until age 70 to stake your claim, the monthly benefits will be even higher. Benefits increase by about 6% to 8% for every year you wait between ages 62 and 70.

Online calculators can compare payouts, but they don't always factor in variables such as changing life expectancies or spousal or survivor benefits. Without those additional considerations, you may not end up with the optimal recommendation for your situation.

Schedule an old-fashioned sit-down with us to discuss the scenarios.

Sincerely,
Day & Ennis, LLC

How A Financial Advisor Can Help

What are your hopes and dreams for the future? They probably begin with being able to provide for yourself and your family. But you also might aspire to a bigger home, an exotic vacation or another luxury, savings for your children's education, and a nest egg for retirement.

While you may be able to achieve all of those things, you can't just snap your fingers and make them happen. You'll need hard work and financial discipline, and you'll need to make a long-term commitment to work toward your goals. Enlisting the services of a financial advisor could help guide you along the way.

Of course, you still would be the one calling the shots, but an advisor can provide valuable assistance in many respects. An advisor can help you:

- Assess your current financial status, including your income, investments, assets, liabilities, insurance coverage, tax situation, and estate plan;
- Set goals that are both ambitious and reasonable;
- Account for changes in your personal circumstances (births, deaths, marriage, or divorce);
- Address weaknesses in your current investment and retirement planning;
- Develop a comprehensive plan to suit your current needs and future desires.

Couldn't you do all of this on your own? If you're sufficiently savvy about financial matters you could, but few people have the time, expertise, and inclination to do all that's required. And even if you're determined to tackle your financial objectives by yourself, you could need a push to get you started. What's more, an objective third party such as a professional financial advisor may add a valuable new perspective to your own outlook. You might benefit from having someone review key decisions about your financial future.

Even if you don't feel you need the help of a financial planner now, something could happen to trigger a call for help. For instance, maybe you've inherited a large sum of money or property and you're not sure how to handle it. Perhaps you, or your spouse, have been laid off from a job and suddenly money is tight and you're forced to make financial trade-offs. Or you may require assistance on other financial fronts ranging from elder-care planning to paying higher-than-expected college costs for your kids or resolving a shortfall in your retirement savings.

If you do decide to use a professional financial advisor, you'll still need to find one who is experienced and has experience helping clients in your situation. We would be glad to show you the high level of services that we provide. ●

Top Court Mandates 401(k) Fee Duty

Are you being charged more than you should be for management fees in your 401(k) account? The U.S. Supreme Court thinks you might be. In a landmark ruling, the nation's top court says employers have a continuing duty to monitor the fees paid by participants in 401(k) plans (Tibble v. Edison International, S. Ct. No. 13-550, 5/21/15). And whereas the court often is divided along political lines, in this instance it came to a unanimous conclusion.

The ruling relates to the obligations of employers under the Employee Retirement Income Security Act (ERISA). ERISA provides numerous protections to 401(k) plan participants, and it requires employers to meet fiduciary standards, putting the interests of plan participants ahead of their own. Now the Supreme Court has extended those duties in one key respect.

For employees, 401(k) plans have long come with significant drawbacks, including an inability to negotiate lower fees affecting their account assets. And while ERISA and other laws ensure that workers are informed about fees and other rules relating to the operation and administration of their plans, such notifications may be buried deep in a stack of documents that participants don't have the time or inclination to wade through. And so employees usually just accept the status quo.

Some workers at Edison International, a California-based electric power company, decided to do something about this situation. They brought a class-action lawsuit alleging that they were being charged unnecessarily higher fees in their 401(k) accounts. These employees had to choose exclusively from several retail mutual funds in their 401(k) plans, rather than being able to opt for institutional mutual funds. Typically,

7 Traps For IRA Owners To Steer Around

The rules for IRAs offer plenty of opportunities to save a tidy nest egg through contributions directly to the accounts as well as rollovers from 401(k)s or other employer-sponsored retirement plans. Funds in the accounts normally compound tax-deferred while you're working and into the early years of your retirement. You won't owe a penny of federal income tax until you take money out of your IRA.

But if you don't fully understand those rules for IRAs you could run into trouble. Consider these seven common tax traps:

1. You withdraw money from your IRA too early. Because IRAs are meant to be used for retirement saving, the government will penalize you for taking withdrawals prematurely. Generally, a 10% tax penalty applies to distributions made before you reach age 59½, although there are some exceptions—your heirs won't owe the penalty on withdrawals if you die before you reach that age, and you also are allowed to take "substantially equal periodic payments" over several years without penalty. But when you do have to pay the penalty, 10% is added to the regular income tax you owe on the withdrawal.

2. You fail to withdraw money from your IRA. But you're also not allowed to keep money in an IRA indefinitely. The IRS requires you to begin taking required minimum distributions (RMDs) in the year after you reach age 70½. Then you must take an RMD, based on a life expectancy table and the amount in your account at the end of the prior year, for each succeeding year. Failure to take RMDs results in a penalty equal to 50% of the amount that should have been withdrawn.

3. You don't complete a rollover in time. The tax law allows you 60 days from the time you receive a distribution from a tax-deferred retirement plan to redeposit the funds in an IRA. This rollover is exempt from federal income tax. That's generally true whether the rollover comes from an employer plan or from another IRA. However, if you don't redeposit the same amount as you withdrew within 60 days, the transfer is treated as a taxable distribution.

4. You double up on RMDs in the first year. Technically, you don't have to take your first RMD until April 1 of the year following the year in which you turn age 70½. However, if you wait until then to withdraw that first year's RMD, you still must take an RMD for the second year as well. What's more, doubling up on RMDs in one year may increase your overall tax by pushing you into a higher tax bracket. You might end up owing less in taxes if you take the first distribution during the year you turn 70½.

5. You roll over to another IRA more than once a year. Although rollovers aren't taxed as long as they're completed within 60 days, you can make an IRA-to-IRA transfer only once during a 12-month period. Violation of this "once-in-a-year rule" results in a taxable transfer. Previously, the IRS treated this rule as applying separately to each IRA you own. However, because of a recent Tax Court case and a subsequent change in IRS rules, the once-a-year rule now applies to all IRAs. So if you make a transfer between any of your accounts, you won't be able to make another one until a year has passed.

6. You make the wrong choice for a spousal rollover. Spouses who inherit an IRA may elect to treat the IRA as their own, remain as a beneficiary of the deceased spouse's IRA, or "disclaim" the IRA so that it goes to a contingent beneficiary. This complex decision could have unintended tax consequences. For instance, if you inherit an IRA, you are under age 59½, and you need to make a withdrawal, designating the IRA as your own could result in a 10% tax penalty.

7. You ignore estate tax ramifications. IRA owners sometimes forget the estate tax implications of inherited IRAs. Because IRA assets will be included in your taxable estate, the person you designate as beneficiary can make a difference. Spouses normally can inherit an unlimited amount without owing estate taxes, but that money could be taxed when the second spouse dies. It pays to consider all of the possible implications when you work with your advisors to devise an estate plan that fits your situation.

By paying close attention to the rules, and sidestepping these traps, you can derive the maximize benefits from your IRAs. ●

retail funds carry higher management fees than institutional funds.

For example, a retail fund might charge a 1% fee on assets compared with just 0.25% for an institutional fund. Although this may seem like small potatoes now, it can add up over time, costing participants tens of thousands of dollars, especially if they are years away from retirement.

A lower court had sided with the plaintiffs, with some exceptions, and the Supreme Court upheld the obligations for all claims made by the employees. As a result, employers now may be sued if they fail to continue to monitor mutual funds in 401(k) accounts to look for unnecessarily high fees.

The case will affect employers and employees alike. Employers may have to modify procedures for administering plans while employees are likely to have broader investment options. Remember, though, that as important as mutual fund fees are, they're not the only consideration when choosing an investment option. ●

4 Estate Issues For Business Owners

Estate planning is essential for almost everyone, but it's especially important if you own a business. Your company may account for the majority of what you leave to your heirs. And while you may be years away from retirement, it's far better to get started sooner rather than later. Consider these factors that you may need to address in your estate plan:

1. **Succession plan.** This can have a ripple effect on other aspects of your estate planning. Do you plan to sell the business to an outsider, or perhaps to hand the reins to a member of your family? If you're grooming a family member for the top spot, it's a good idea to make that clear to everyone involved. Similarly, if power within the company is to be shared among several family members, spell out how that will work. Establish how much control you may want to keep, and make sure you document the arrangement so there won't be misunderstandings.

2. **Buy-sell agreement.** A buy-sell agreement may work hand in hand with a succession plan. A buy-sell agreement is a contract between a company's co-owners or shareholders specifying what will happen if a principal dies or is disabled. The main benefit is that such an agreement establishes a value for the business, which may be helpful for various purposes—for example, if someone wants to buy or sell shares from or to another co-owner.

3. **Estate taxes.** The specter of potential tax consequences often lurks in the background for small businesses. Even with the generous federal estate tax exemption ($5.43 million in 2015), your heirs may face tax complications, especially on the state level. Because most businesses have a minimum of cash on hand to pay estate taxes, the company might have to be sold to satisfy federal or state obligations. Estate tax returns are generally due within nine months of death, so make provisions now to avoid a distress sale in the future. And find out what tax breaks could benefit the estate—for instance, a federal tax law provision that allows deferral of estate tax payments when a business interest comprises at least 35% of a taxable estate.

4. **Life insurance.** One way to avoid a forced sale of a business is to secure adequate life insurance protection for the owner or co-owners. Proceeds from a life insurance policy can be used to pay estate taxes, debts, or other business obligations when an owner dies. Life insurance also may be an essential part of a buy-sell agreement. Depending on your needs, you might choose a form of whole life insurance, term insurance, or another variation.

To avoid problems down the line, consider all of the estate planning implications of owning your business. We will be glad to assist you with the specifics based on your personal circumstances. ●

After Five Great Years

(Continued from page 1)

these last five years, but the unpredictable nature of investments. At the end of 2009, Time magazine declared the two biggest news stories of the year were the "non-recovery" of the economy and the war in Afghanistan. Who would have thought the U.S. recovery would go so well and that oil prices and commodities would plunge in the years ahead? Who would have known in 2009, amid the global slowdown, that the U.S. was leading the world from recession and the stock market had just started one of the biggest bull markets of the century? Such things are unpredictable, which is why our investment approach is guided by long-term wisdom about markets and human nature.

With the outperformance of U.S. stocks over this five-year period, today's markets are different than they were five years ago. Stock prices have tripled, and only three bull markets have lasted as long as this one since the advent of the modern securities markets in the 1920s. The longer the bull market goes on, the more likely it will be interrupted by a period of sharp losses. However, bull markets have continued longer than expected many times in the past and this one could go on. It would be folly to abandon stocks now as though we can predict what will happen over the coming five years.

While investors must be realistic about the possibility of a bear market, stock valuations by historic standards were not out of line in the third quarter of 2015. Corporate earnings were in line with analysts' predictions, and the U.S. economy was continuing to grow. You never should expect past performance to predict your investment results reliably, you should expect the next five years to be totally different from the last five years. But enduring truths about how asset classes historically behave and the power of stocks over the long run remain paramount. ●

Articles are written by a journalist hired by Day & Ennis, LLC and are general infomation not intended as advice to individuals.

©2015 API