Financial Decisions

Summary 2019
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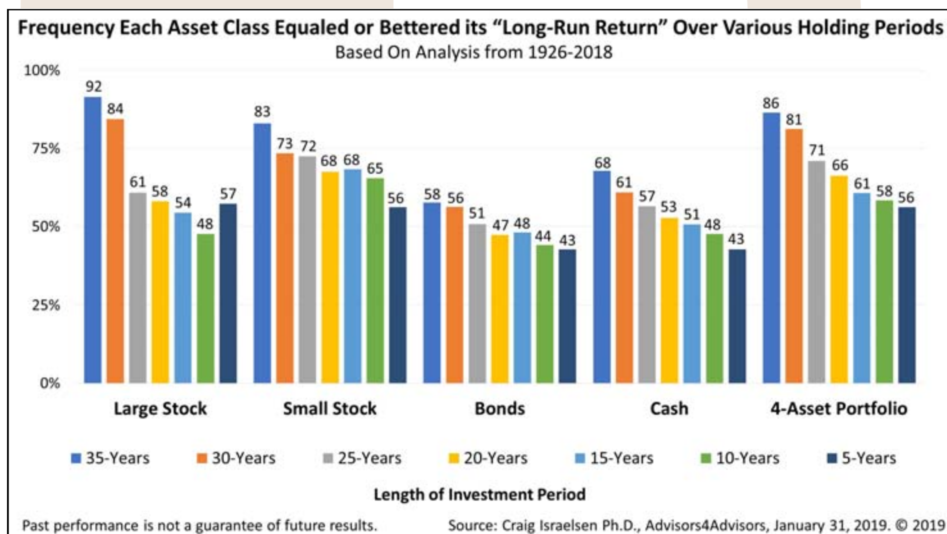
Staying Realistic About Investing Amid Volatile Market Swings

Despite the way securities traditionally are sold and what you hear in the media, the stock market confoundingly defies prediction. Look at the two quarters ended March 30th, 2019: The 19.8% plunge in the Standard & Poor's 500 index in the fourth quarter of 2018 was a flash bear market; in the first quarter of 2019, the recovery was just as swift, a snapback gain of 13% gain. If whipsaw emotional shifts from fear to greed make it harder to stay realistic about what to expect from a prudently-designed retirement portfolio, this chart offers a way to know what to expect based on historical data.



This chart shows the returns of four asset classes as well as a portfolio invested in a mix of the four. The returns are based on the average annual return of each asset in the 93 years from 1926 through 2018. Of the four assets, the best performing were large-company stocks, as measured by the Standard & Poor's 500 index, which averaged a total return of 9.9% annually over the 93 years.

Each group of bars shows how often the four asset classes and the diversified portfolio achieved or bettered the long-term return of that particular asset class — 9.9% for large-cap US stock, 11.08% for small-cap US stock, 5.24% for US bonds, 3.39% for US cash, and 9.23% for a 4-asset portfolio — over rolling periods of five years versus 10, 15, 20, and 35 years.

For example, large cap stocks gained 9.99% or more in 92% of the 59 35-year rolling calendar-year periods that occurred between 1926 and 2018. In comparison, the 9.99% return for large cap US stock was only achieved in 57% of the 89 rolling five years periods from 1926 through 2018.

The longer holding periods are the tallest bars, showing that the

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Spring Cleaning: Tips For Your Financial Files

There's no better time than Spring to clean up and make sure your financial life is in good shape!

Whether you're inspired by the season or the influence of Marie Kondo's trendy tidying methods, before you start, we would like to share a few tips on which financial documents to keep:

Tax documents - IRS recommends keeping records for the latter of 3 years from the date you file your return or 2 years from the date you pay the tax. However, if you report a loss from worthless securities or a bad debt deduction, those files should be kept for 7.

Home improvement file - Maintain a file of invoices for all capital improvements made to your residence, as they can be deducted from any gain you realize when you sell your home. These are improvements only, such as a new roof, boiler replacement, etc. It does not include repainting or other repairs.

Long Held Assets - Keep investment purchase information for any assets not acquired through your current custodian or advisor.

When you know what to keep, organizing your financial files becomes less tedious and should bring peace of mind. If space is limited, you can always scan your documents and keep electronic files. Just be sure you properly back up your files to avoid data loss. Finally, **all documents with sensitive information should be shredded.**

Happy cleaning!

Florence Dupont, Ken Gutwillig, and Linda Schoenthaler

Give To Charity From An IRA To Lower Your Tax Bill

To keep your tax bill down, if you are over 70½, consider a qualified charitable contribution, which makes donations of up to $100,000 from an Individual Retirement Account (IRA) to a fully deductible charity.

A qualified charitable distribution (QCD) lets you donate from a traditional or inherited IRA, provided you meet the age requirements.

A QCD can help you eliminate, or at least reduce, taxes owed on your required minimum distribution (RMD). That's the amount you are required to take out of your IRA account annually after turning 70½.

Example: Your yearly RMD is $20,000, which counts as taxable income. But if you donate that amount to a charity, it's not counted as income, which may drop you into a lower tax bracket.

Moreover, you don't have to itemize to take this tax deduction. That's good news for Americans no longer itemizing deductions on their returns. For these taxpayers, a qualified charitable distribution can make sense.

You don't have to donate the entire amount to a single charity. You can divvy up a QCD among multiple IRS-eligible charities, within the $100,000 annual limit. You don't have to use 100% of your RMD for the donation, of course, and can keep what you need to pay for your living expenses and donate the rest.

QCDs require careful attention to ensure your donation is made from an individual retirement account — not a 401(k) or 403(b). In addition, you may not make a QCD and take a deduction for the contribution. You must pick one. Plus, the charity must not be a private foundation or a donor-advised fund. These technical details are crucial.

Another QCD tip: Make the contribution straight from your IRA. The RMD money must never be in your personal, non-IRA account. Send your IRA custodian instructions to send the check directly to the charity, with the organization's name on the check. Have the IRA custodian send you documentation that you made the donation.

Finally, be sure to make the donation before you take your RMD. Should you take the RMD first, you can't give the money back to the retirement account and will be ineligible to deduct it.

The QCD is a fairly complex solution to lower taxes and requires the advice of a qualified tax professional. ●

Opportunity Zone Investment Frenzy Requires Caution

A new provision in the tax law is leading to a frenzy of tax-driven investment products to be promoted to affluent investors, but caution is wise.

Investors can defer paying tax on large capital gains or eliminate gains taxes entirely by investing in one of more than 8,000 places across the country designated under federal law as Opportunity Zones (OZ). The lucrative new tax-driven investments are being promoted by Wall Street firms, which already has prompted warnings in the press about the sudden investment fascination.

With an OZ investment, a reinvested capital gain is tax-deferred, putting an additional 15% or 20% more into your OZ investment. You don't have to pay the gains tax until you sell your interest in the opportunity zone investment. If you stay in the fund for five years, you pay tax on only 90% of your delayed capital gains. Hold for seven years, and you pay tax on 85% of the gains. And if you hold it for 10 years, the appreciation on the OZ investment is tax-free when you exit the fund — assuming the investment has increased in value.

Since January 2018, more than 80 OZ funds have sprung up, even though the Trump administration has not finalized regulations governing them, according to a front-page story in *The New York Times* on February 20th, 2019. "Managers of the funds are seeking to raise huge sums of money by pitching investors on a combination of outsize returns and a feel-good role in fighting poverty."

Some of these OZ areas are more down-and-out than others. Perhaps the most prominent OZ is Long Island City, a waterfront section of the New York borough of Queens. Amazon was set to build a new headquarters there but backed out

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As A Final Act of Love, Plan Thoughtfully

"Everybody wants to go to heaven," according to a classic blues song, "but nobody wants to die." Nor does anyone like to think about dying. And that must be why some people don't put much thought into estate planning, much less in drawing a schematic for distributing one's earthly possessions to those you love the most.

But this is important. It's something you want to do diligently. It's something you want to get right.

Your heirs and the executor of your estate — the person you choose to oversee that your wishes are carried out — will remember you kindly for your clarity of purpose; it's good for all involved. Otherwise, you risk setting off a family feud. To avoid this, consider these three key rules for further planning your estate:

Name Beneficiaries Correctly. Putting someone's name in your will often isn't enough. It's crucial to name who gets what in documents filed with your insurer, annuity provider and retirement fund sponsor, usually for individual retirement accounts. To be clear, if you want your daughter to inherit your IRA holdings, naming her in the will does no good. It must be on file with a custodian. Moreover, listing multiple beneficiaries of real estate is often an invitation to a quarrel. What if you give your home to your three children? Maybe one wants to keep it for old time's sake, and the other two want to unload it and pocket the money. Or perhaps they all want to sell but can't agree on a broker or a fair selling price. In the meantime, they would need to chip in to maintain the house, which can cause further disputes.

Keep Estate Plans Current. Years or decades may pass between when an estate plan is devised and your death. Lots can change. Like spouses. If you divorced and never updated your will afterward, your ex could end up inheriting your worldly possessions. And what about your nephew, who was so delightful as a kid but grew up to be someone you don't really want to help financially. What's more, the tax laws could have changed, and old plans may be totally out of sync with current rules. Reviewing your will annually makes sense.

Provide Vital Information. Another problem is not furnishing your executor and heirs with a thorough up-to-date list of accounts and how to get access to them. Account titles, user names, and passwords — along with security questions — must be stored. Encrypting and saving this information is best. Writing it down and storing it in a safe place is next best. Just make sure your executor knows where the details are kept. In leaving an item of sentimental value, consider not just the financial value of the heirloom, but also who among your heirs would most appreciate its significance. Your Facebook, Instagram and Amazon account can be managed from the grave using online services such as Mylennium. It's wise to have a master list with all user names and passwords for financial holdings. This can be in your safe deposit box or in a secure place in your home. Trouble is, keys tend to get lost. Encrypting it and storing it online or on secure media you keep in your home is better.

Nobody wants to die but if you want to go to heaven, making your final wishes easy on loved ones is a thoughtful final act to help get you there. ●

after its large tax breaks stirred controversy. Other gentrifying OZs include Oakland, Calif.; East Austin, Texas; and South Norwalk, Conn, but thousands are located in seedy parts of downtowns across the country.

The frenzy of activity is reminiscent of tax scams peddled after the enactment of major federal tax reforms in the 1980s and 1990s, which resulted in huge losses for investors and a plethora of class-action lawsuits against Wall Street firms and other promoters.

The New York Times

Wall Street, Seeking Big Tax Breaks, Sets Sights on Distressed Main Streets

- Hedge funds and other wealthy investors are plowing money into so-called opportunity zone funds.
- The funds are a creation of the 2017 tax law that provides incentives for spending on projects in poor areas.

Oz investing can be expensive and it carries a lot of risk. Investors should also be comfortable with the social objectives of a fund before investing. It requires personal tax planning and investment research from a professional. Please let us know if you have questions about this new type of investment that must be considered cautiously. ●

Please remember to contact Financial Decisions, in writing, if there are any changes in your personal/financial situation or investment objectives for the purpose of reviewing/evaluating/revising our previous recommendations and/or services, or if you would like to impose, add, or to modify any reasonable restrictions to our investment advisory services. Financial Decisions shall continue to rely on the accuracy of information that you have provided. Financial Decisions is neither a law firm, nor a certified public accounting firm, and no portion of the newsletter content should be construed as legal or accounting advice. A copy of Financial Decisions' current written disclosure Brochure discussing our advisory services and fees continues to remain available upon request.

Should You Move To A Different State?

Are you happy where you're living now? You may be comfortable in your location because it's close to where you work, it's a great place to raise your kids, and it's close to your friends and family. But it doesn't have to be forever. In fact, you might contemplate a move in the near future, especially if you're nearing retirement or are already retired.

Why would you move? For starters, there could be personal issues. You might enjoy living in a warmer climate, getting away from congestion, and living closer to a golf course or by water. But economic considerations, especially with regard to taxes, also may be part of the equation. Depending on your situation, it may be far less costly for you to live somewhere else when you take state and local taxes into account. Consider the following:

- You may be living in a state with high income tax rates. When you add state and local taxes to your federal tax load (including a top income tax rate of 39.6% and a 3.8% Medicare surtax), your top tax rate could exceed 50%. You could save money by moving to a state with lower rates. A few—Alaska, Florida, Nevada, South Dakota, Texas, Washington, and Wyoming—don't have an income tax.

- You may be living in a state with high taxes on retirement income. The tax treatment of retirement income varies widely around the country. For example, some states don't tax any income from retirement plans and Social Security benefits, some provide a partial exemption, and some tax all retirement income.
- You may be living in a state with high sales taxes. Almost all states impose sales and use taxes, but there's wide variation in the rates. Only five states—Alaska, Delaware, Montana, New Hampshire, and Oregon—don't have a sales tax. This could be a prime consideration if you expect to make substantial taxable expenditures during retirement.
- You may be living in a state with high property taxes. Although the real estate market generally has been soft recently, there has been little relief from property taxes for homeowners. And that town whose high property taxes may have seemed worthwhile when you were sending your kids to its great schools could be less appealing when your nest is empty.
- You may be living in a state with high inheritance taxes. This is a final factor that could influence where you choose to retire. The rules differ from state to state, and in several states the laws deviate from federal estate tax law.

All of these tax considerations could affect what you'll spend during retirement. With a little homework, you may be able to find a place with low taxes and one that appeals to you for other reasons. ●

Staying Realistic About Investing

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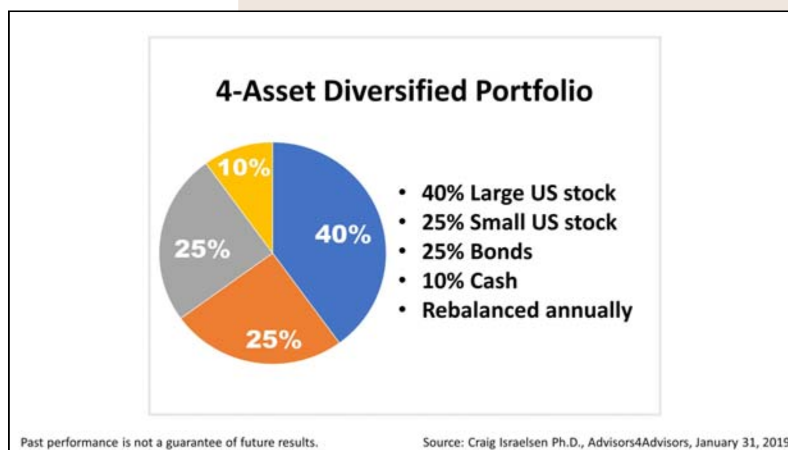
longer your time horizon, the more likely you were to achieve a long-run return.

Craig Israelsen, Ph.D., who compiled the data in this chart, has taught thousands of college students as well as financial professionals about low-expense portfolio design, says he would be the first to admit that what is happening now may not be your experience in the near future. But, over long periods of time, certain asset classes generally deliver their "mean" return.

"Investors are reminded always that past performance is never a guarantee of your future results," says Craig Israelsen, Ph.D., who compiled the data in this chart. "Yet, having just been through an emotional whiplash, investors get important perspective in knowing a diversified 4-asset portfolio averaged a 9.23% return or higher in 86% of the 59 rolling 35-year periods from 1926 through 2018 with just 76% of the volatility of large-cap US stock." ●



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