Financial Decisions

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780 Third Avenue, 19th Floor
New York, NY 10017
Phone: 212-920-3470
financialdecisions@findec.net
www.findec.net

How To Outsmart 10 Common Scams

Scams of all varieties continue to bilk unsuspecting victims out of billions of dollars each year. Older Americans, in particular, 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, a lawsuit, or even arrest if you don't wire the money immediately. Rest assured, 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 valid, 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 scammers have honed onto a specific new target- newcomers to religion-based sites. Because potential victims "date" members from their faith, they may be more likely to let their guard down and give access to money.

7. Widows and widowers. A typical trick of con artists is to prey on

(Continued on page 4)

Exciting News At Financial Decisions

We would like to share some exciting new developments at Financial Decisions. First, we have hired two new associates, Stephanie Shaw and Jenny Lam. Stephanie and Jenny provide well needed support to our financial planning and investment management departments, respectively. You can get to know them a little better by checking out their bios on our website, www.findec.net. These additions have enabled our senior management to focus more on the advice we give you and less on administrative tasks.

We are also improving our infrastructure. This summer, we are rolling out new cutting-edge software which will help us become more efficient and proactive than ever. Our new programs will give us "smarter" tools to improve our follow up and turnaround time and make our investment reporting even more powerful and client-friendly. These enhancements will boost our ability to communicate with you and to protect your financial well-being!

We hope that you will enjoy your summer worry-free, knowing that we are working hard behind the scenes on your behalf. Seize the opportunity to relax, slow down and reconnect with what matters most to you. September will be here before you know it, so take advantage now. Make this summer count and we will too!

Florence Dupont, Ken Gutwillig, and Linda Schoenthaler

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Add To Your 401(k) With No Pain

We don't have to tell you how important it is to save as much as you can for retirement through a 401(k) or other plan offered by your company, but that's often easier said than done. When you're paying off the mortgage on your home and putting your children through college, you may be left without much money to direct into your retirement plan. However, there may be a way to add to your 401(k) without feeling any pain.

It has to do with timing. If you earn more than the maximum Social Security wage base—$118,500 in 2016—you could allocate all or some of your year-end payroll tax savings to add to your 401(k) salary deferral. If you do that every year, you could boost your 401(k) account balance by tens of thousands of dollars or more. And you may not even notice those extra contributions!

With a 401(k) plan, you can defer part of your salary before taxes to an account established on your behalf, within generous limits adjusted for inflation. For 2016, the maximum you can put in is $18,000—or $24,000, if you're age 50 or older. Your company may encourage you to fund a 401(k) by offering matching contributions based on a stated percentage of your compensation.

Both employee and employer contributions to your account will grow and compound on a tax-deferred basis until you take money out, usually during retirement. If you start early enough and save diligently, you can accumulate a sizable nest egg during your working career.

Suppose that you contribute $12,000 a year and your employer provides a 3% match of your contributions. If you are 20 years away from retirement and earn an 8% return annually, you will accumulate $858,990 before you retire. But sometimes, adding to your contributions at the end of each year can help you do even better. Note: This example is hypothetical. Actual results will vary and are not guaranteed.

During the year, Social Security tax is deducted from your paychecks. For 2016, you'll pay 6.2% on that first $118,500 of wages. Once you clear this Social Security wage base for the year, you can increase your 401(k) deferrals instead of pocketing the extra money. Because your take-home pay isn't reduced, you won't feel any pain.

How much will it help? Suppose, in the previous example, that you're able to increase your annual deferrals by $3,000 a year. With the same 8% annual return over 20 years, your nest egg will grow to $1,073,738—or $214,748 more than if you had spent your year-end payroll tax savings!

Even if your wages don't exceed the Social Security wage base this year, you should try to earmark more of your salary for retirement savings—a top priority no matter what your financial circumstances. ●

How To Downplay The Kiddie Tax

From a tax-planning standpoint, it's often good to get investments out of the hands of highly taxed parents and into the accounts of children or grandchildren who are in much lower tax brackets. If you are willing and able to afford parting with your stocks and bonds, this can result in overall savings on current taxes while also removing assets from the parents' taxable estate.

However, there's one problem with this simple solution: a tax-law provision known as the kiddie tax could negate many of the advantages of giving investments to your offspring.

Generally, investment income is taxed to the person who receives it—the owner of the assets. So if you move stocks or mutual funds into the names of your children, they (rather than you) will be taxed, often at a much lower tax rate than yours. Suppose you're paying at the highest possible rates—you're in the top 39.6% income tax bracket and you also owe the 3.8% surtax on net investment income. That gives you a combined federal tax rate of 43.4%, whereas your son or daughter might be in the 10% or 15% tax bracket for ordinary income. On an investment generating $10,000 a year, having a child own it could potentially save your family the difference between 43.4% and 10%, or $3,340 in tax cost.

But then there's the kiddie tax. For a child who is your dependent and under age 19, or a full-time student under age 24, unearned income from investments that exceeds a specified threshold—$2,100 in 2016—is taxed at the parents' tax rate. So in the example of an investment generating $10,000 a year, $7,900 of the income could end up being taxed at the 43.4% rate, and then your family would lose all but $701 of the overall tax savings.

Nevertheless, there are several ways you can mitigate the effects of

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Assuring Family Values For Generations

You've worked hard to achieve success in business and your personal financial life. Now, it makes sense to take steps to preserve the wealth you've accumulated, so your descendants can enjoy some of the benefits of your hard work. You may also want to communicate the personal values you've lived by. A dynasty trust can do all of that—minimize estate taxes, provide protection for your family, distribute assets in a way that reinforces your values, and perpetuate itself for generations to come.

Unlike corporations, partnerships, and other business entities, most trusts are not perpetual. Most kinds of trusts are established with a finite term that is either a specified length of time or is tied to an event—for example, a beneficiary reaching the age of majority. Indeed, under the common law "rule against perpetuities" and many modified state law versions of the rule, a trust's duration must be limited. However, some states do permit properly structured trusts—dynasty trusts—to have a term spanning several generations or to last indefinitely.

The basic structure of a dynasty trust is relatively simple. You transfer selected assets—these can be a combination of stocks, bonds, and real estate—into a trust managed by an independent trustee, usually a financial professional or an institution. The trust may be created as an "inter vivos" transfer during your lifetime, or as a testamentary transfer through your will. Once established, such a trust is irrevocable. You can't directly control it or change beneficiaries.

The trustee is responsible for investing trust assets. Depending on the trust's rules, income may continue to accumulate inside the trust or it may be paid out to beneficiaries, usually your children and other descendants. The trustee may also have discretion to use trust principal for the health, education, support, or maintenance of the beneficiaries or for other specified circumstances. But the goal is for the trust to be managed so that it will preserve most of its assets for the benefit of future generations.

One chief objective of a dynasty trust may be to minimize taxes. Transferring assets to the trust removes them from your taxable estate. Under the American Taxpayer Relief Act (ATRA), you can contribute up to $5 million to the trust (indexed to $5.45 million for 2016) —or $10 million as a couple (indexed to $10.9 million for 2016) —without owing gift or estate taxes. Not only does ATRA retain this generous exemption for 2016 and thereafter, it permanently extends the provision allowing "portability" of exemptions between spouses.

Although transferring assets through the trust to your grandchildren could trigger a generation-skipping tax (GST), there's also now a $5 million GST exemption (indexed to $5.46 million for 2016) to shelter the transfer from this tax—but there's no portability of GST exemptions.

A dynasty trust can also be set up to help perpetuate values you hold dear. If you want your heirs to adopt your strong work ethic or your charitable inclinations, your trust might impose requirements related to those values that beneficiaries must fulfill in order to receive funds. There could be rules related to working at particular kinds of jobs, demonstrating a commitment to charity, or meeting other kinds of ethical or religious benchmarks. Your trust can be set up to help heirs avoid the "trust baby" syndrome that has often plagued wealthy families and to prevent spending sprees by irresponsible children or grandchildren.

A third objective in setting up a dynasty trust may be to provide protection from creditors. Because the trust, rather than its beneficiaries, owns the assets, creditors of your heirs won't have access to the assets. Additionally, a dynasty trust's indefinite or perpetual term means that protection will also be long lasting. This feature can also safeguard assets against claims by a divorcing spouse.

Keep in mind that while you can't control a dynasty trust directly, you may reserve the right to hire and fire trustees and to provide guidance about investment policy. If you still think a dynasty trust might benefit your family, it could be important to act soon, while the current estate tax provisions are in effect. Moreover, federal officials have said they would like future rules to limit the duration of dynasty trusts. We can work with you and your attorney to see how a dynasty trust might be integrated into your overall financial plan. ●

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the kiddie tax. For instance:

- Keep an eye on the annual threshold. You might limit the asset transfer to an amount that would generate no more than about $2,000 in unearned income. Once the child is old enough to avoid the kiddie tax, you could give more.
- Aim to keep investment income at a minimum—for example, by holding municipal bonds or stocks that don't pay dividends. Again, that could change once the child is no longer subject to the kiddie tax.

- Consider other ways to transfer income—perhaps by hiring your son or daughter to work for your company. Because wages are earned income, that amount won't count toward the kiddie tax threshold.

In any event, be aware of the possible tax ramifications of family income-shifting. It can be a sound technique for many parents, but you need to consider your own situation, with help from your tax advisor. ●

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Market Timing Is An Inexact Science

The Standard & Poor's 500 (S&P 500), a leading stock market benchmark, was poised to record one of the worst Januarys in history before a late recovery occurred. Due in part to plunging oil prices and concerns over the global economy, stocks were slammed early in 2016. At one point, the S&P 500 was down 11%, before the index rose 2.48% on January 29, leaving it with a 5% decline for the month.

Clearly, this was more volatility than usual, which was both good news and bad news for market timers.

Market timing is the practice of selling stocks and mutual fund shares ahead of projected declines and buying back those investments when the investor expects the stock market to climb. It's a tempting proposition, and when it works, it can reduce losses and position a portfolio for future gains. However, it usually doesn't work, and getting the timing wrong can result in big losses, from selling shares that would have recovered or from being out of the market when prices rebound.

Market timing appeals to investors who think it can bring them the best of all possible worlds—letting them buy low and sell high. But even investors who know what they're doing and who have all of the resources to help them make intelligent, well-informed decisions are just as likely to fail as they are to succeed. For less experienced investors, it can truly be a recipe for disaster.

Not only is the stock market volatile, it is unpredictable. Unexpected events have an impact, either positive or negative, on a company, industry, or sector. Market timers think they know better than others what's coming next. Although they may guess right sometimes, they're bound to be wrong, too. To compound the problem, those who are successful once may start to think they are invincible. Of course, they're not.

But just because market timing is generally a losing game doesn't mean you always have to sit idly by while markets fluctuate. Tactical adjustments, such as adjusting your asset allocation, may be in order depending on what's in your portfolio, what your goals are, and your investing timetable. However, by investing for the long term and periodically rebalancing your portfolio, you can focus on specific objectives in a consistent manner. This could be especially important following a period of extreme volatility such as the one the markets experienced in January. Working toward your long-term goals also takes emotions out of the investing equation.

When you engage in market timing, you effectively have to be right twice—getting out of the market at the right time, before a downturn, and then getting back in before the market rallies. That's much less likely to pay off than staying in the market over the long haul—which also happens to be a lot easier on the nerves. ●

10 Common Scams

(Continued from page 1)

your emotions. Of course, 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 is often 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 personal information (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. ●

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