OCTOBER 2019

THE EDUCATED INVESTOR

A GUIDE TO RETIREMENT PLANNING

Lower Your Tax Bill With Year-End Planning

As the end of the year draws near, the last thing anyone wants to think about is taxes. But if you are looking for ways to minimize your tax bill, there's no better time for tax planning than before year-end. That's because there are a number of tax-smart strategies you can implement now that will reduce your tax bill come April 15.

As the year begins to draw to a close, consider how the following strategies might help to lower your taxes.

Put Losses to Work

If you expect to realize either short- or long-term capital gains, the IRS allows you to offset these gains with capital losses. Short-term gains (gains on assets held less than a year) are taxed at ordinary rates, which range from 10% to 39.6%, and can be offset with short-term losses. Long-term gains (gains on assets held longer than a year) are taxed at a top rate of 20% and can be reduced by long-term capital losses.[1] To the extent that losses exceed gains, you can deduct up to $3,000 in capital losses against ordinary income on that year's tax return and carry forward any unused losses for future years.

Given these rules, there are several actions you should consider:

• Avoid short-term capital gains when possible, as these are taxed at higher ordinary rates. Unless you have short-term capital losses to offset them, try holding the assets for at least one year.

• Take a good look at your portfolio before year-end and estimate your gains and losses. Some investments, such as mutual funds, incur trading gains or losses that must be reported on your tax return and are difficult to predict. But most capital gains and losses will be triggered by the sale of the asset, which you usually control. Are there some winners that have enjoyed a run and are ripe for selling? Are there losers you would be better off liquidating? The important point is to cover as much of the gains with losses as you can, thereby minimizing your capital gains tax.

• Consider taking capital losses before capital gains, since unused losses may be carried forward for use in future years, while gains must be taken in the year they are realized.

When evaluating whether or not to sell a given investment, keep in mind that a few down periods don't mean you should sell simply to realize a loss. Stocks in particular are long-term investments subject to ups and downs. Likewise, a healthy unrealized gain does not necessarily mean an investment is ripe for selling. Remember that past performance is no indication of future results; it is expectations for future performance that count. Moreover, taxes should only be one consideration in any decision to sell or hold an investment.

Unearned Income Tax

A 3.8% tax on “unearned” income went into effect in 2013, effectively increasing the top rate on most long-term capital gains to 23.8%. The tax applies to “net investment income,” which includes interest, dividends, royalties, annuities, rents, and other passive activity income, among other items. Importantly, “net investment income” does not include distributions from IRAs or qualified retirement plans, annuity payouts, or income from tax-exempt municipal bonds. In general, the new tax applies to single taxpayers with a modified adjusted gross income (MAGI) of $200,000 or more and to those who are married and filing jointly with a MAGI of $250,000 or more.

IRAs: Contribute, Distribute, or Convert

One simple way of reducing your taxes is to contribute to a traditional IRA, if you are eligible. Contributions are made on a pretax basis, so they reduce your taxable income. Contribution limits for the 2017 tax year -- which may be made until April 17, 2018 -- are $5,500 per individual and $6,500 for those aged 50 or older. Note that deductibility phases out above certain income levels, depending upon your filing status and if you or your spouse are covered by an employer-sponsored retirement plan.

An important year-end consideration for older IRA holders is whether or not they have taken required minimum distributions. The IRS requires account holders aged 70½ or older to withdraw specified amounts from their traditional IRA each year. These amounts vary depending on your age, increasing as you grow older. If you have not taken the required distributions in a given year, the IRS will impose a 50% tax on the shortfall. So make sure you make the required minimums for the year by year-end.

Another consideration for traditional IRA holders is whether to convert to a Roth IRA. If you expect your tax rate to increase in the future -- either because of rising earnings or a change in tax laws -- converting to a Roth may make sense, especially if you are still a ways from retirement. You will have to pay taxes on any pretax contributions and earnings in your traditional IRA for the year you convert, but withdrawals from a Roth IRA are tax free and penalty free as long as you’re at least 59½ and the converted account has

been open at least five years. If you have a nondeductible traditional IRA (i.e., your contributions did not qualify for a tax deduction because your income was not within the parameters established by the IRS), investment earnings will be taxed but the amount of your contributions will not. The conversion will not trigger the 10% additional tax for early withdrawals.

Regardless of what Congress does in the future, there are many steps you can take today to help lighten your tax burden. Work with a financial professional and tax advisor to see what you can do now to reduce your tax bill in April.

Source/Disclaimer:
[1]Under certain circumstances, the IRS permits you to offset long-term gains with net short-term capital losses. See IRS Publication 550, Investment Income and Expenses.

Evaluating Investment Risk

What we don't know can hurt us. When it comes to investing, investing too conservatively for our goals may be just as damaging as investing too aggressively. How can individuals strike the balance between risk and return in selecting among different types of investments such as stocks, bonds, and mutual funds?

Measuring Fluctuating Values

The tendency of an investment to fluctuate in value is known as volatility. Many people tend to oversimplify volatility: They think an investment is risky if it can change in value and safe if it doesn't change. In reality, there are different degrees of volatility. In addition, volatility is affected by how long the investment is held. Moreover, an investment that doesn't fluctuate in value may still hold other risks.

Five Ways to Measure Volatility

Standard deviation is a statistical measurement that shows the likelihood of above- or below-average returns, as well as their distance from the average return. This is the classic "textbook" measure of volatility. What is being measured is how widely an investment's returns fluctuate over time. Looking over the long term, standard deviation provides strong evidence of the relationship between risk and return.

Adding and subtracting the standard deviation to the mean return gives us the range of returns that we could expect 67% of the time. For example, based on historical performance, in any given month, there should be expected a 67% chance that the annualized return for the S&P 500 will fall somewhere between a gain of 30.1% and a loss of 9.9%. As you can see, this is quite a wide range. At the same time, long-term government bonds would be expected to have a 67% chance of returning between a gain of 15.2% and a loss of 4.0%.[1]

As you might expect, stocks have both the highest level of volatility and the highest average annual return. Treasury bills, generally regarded as the most risk-free investment, combine the lowest volatility with the lowest average returns. In theory, a mutual fund with greater price volatility is more likely than other funds to show larger losses in the future. One problem with this measure is that it assumes that prices are normally distributed over a bell-shaped curve. In practice, they are not. Still, standard deviation can be a useful first step in determining mutual fund risk.

Beta measures volatility of a mutual fund compared to a benchmark (for instance, the S&P 500) that represents the market as a whole. The market is given a beta of 1. A fund with a beta higher than 1 would be more volatile than the market, and would therefore offer greater upside and downside potential. For example, a fund with a 1.2 beta should move 20% more than the market as a whole. If the market goes up 10%, the fund should go up 12%. Similarly, a fund with a beta of 0.8 would be less volatile and increase only 8% in a market that has increased by 10%. The same percentages would hold true if the market declines.

The problem is finding an index that represents many mutual fund portfolios. For example, the volatility of the S&P 500 has little bearing on a gold fund. Nevertheless, the simplicity of beta, a single number that is easily understood, has contributed to its popularity. **Alpha**, a related measure, represents the relationship of beta to performance over the past three years. Here we compare the fund's actual performance with the performance predicted by beta.

Largest monthly loss is the greatest decline in share price for a particular stock or fund for any one-month period. Unlike many measures, this one looks at the performance of the fund's portfolio. It does not, however, compare that return to the market.

Down market refers to the relative performance of a mutual fund during a bear market. Since downside risk is a great concern to many investors, comparing down market returns will indicate how quickly and effectively fund managers deal with inevitable market declines.

Sharpe ratio seeks to measure the relative reward associated with holding risky investments. The higher the ratio, the greater the return for the same amount of risk. With decreasing returns, as the ratio declines, so does the reward for assuming more risk.

Common Sense Risk Management

Despite the SEC's and the mutual fund industry's search for tools to explain investor risk, the complexity of risk remains a daunting obstacle. There is no single number or ratio to provide a comprehensive and predictable result. The best thing for investors to do is to assess their risk tolerance based upon their goals, financial condition, time frames, and comfort levels. In addition to personal preference, there are several rules of thumb.

Total Returns From 1926-2016*

	Stocks	Bonds	T-Bills
Annualized Return	10.1%	5.6%	3.5%
Best Year	60.0 (1935)	42.1 (1982)	14.0 (1981)
Worst year	-41.1 (1931)	-12.5 (2013)	0.0 (1940)
Standard Deviation	18.8	10.4	0.9

*Based on returns for the period from 1926 through 2016. Stocks are represented by the total returns of the S&P 500. Bonds are represented by the total returns of long-term U.S. government bonds, derived from the Bloomberg Barclays Long-Term Government Bond index. T-bills are represented by the Barclays 3-Month Treasury Bellwether index. Past performance is not a guarantee of future results, and it is not possible to invest directly in an index.

Source: DST Systems, Inc.

Choosing Investments to Fit Your Needs

Mutual funds are available that span the risk spectrum. Be realistic about your goals and the time you have to meet them. A single 22-year-old may be able to afford more risk than a 65-year-old retiree. Most investment advisors will pose questions designed to assess your risk tolerance. It's up to you to understand the risks involved in various investments.

Diversification -- Modern Portfolio Theory suggests that putting your eggs in a variety of baskets can reduce overall risks, even if all the baskets themselves are risky. One of the benefits of mutual fund investing is diversification through a wide variety of investments. Stock funds that concentrate either in a small number of stocks or in a single industry will generally experience higher volatility. That's why sector funds offer opportunities for increased returns along with increased risk. Keep in mind, however, that diversification does not assure a profit or prevent a loss.

Long-term investing -- If we go back to standard deviation, we see that volatility is greater over short time periods. Stock returns have averaged 10.1% since 1926.[1] If you were a long-term stock investor, you might have experienced many steep climbs and a few steep drops, but overall you might be ahead. The questions to ask are: What is your time horizon? How much can you afford to lose in the short term? Can you afford not to pursue growth to outpace inflation? And how comfortable are you accepting short-term losses in pursuit of long-term gains?

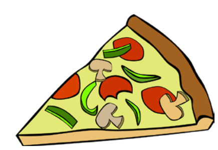
Dollar cost averaging -- If you are a long-term investor, dollar cost averaging may be able to help reduce market timing risk. By investing regular amounts at regular intervals, your cost per share will average out over time. If you believe that the market will rise over the long term, then the expensive shares you buy at the top of one cycle will be offset by the cheaper shares you buy when the market corrects.

Finally, perhaps the best advice is not to invest in anything you don't understand.

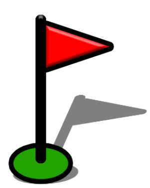
Source/Disclaimer:
[1]Source: DST Systems, Inc. Based on the total returns of the S&P 500 Composite Index, and by a composite of the total returns of longterm U.S. government bonds, derived from yields published by the Federal Reserve, and the Bloomberg Barclays Long-Term Government Bond index, from 1926 through 2016.

October Special Days & Holidays

(Financial Planning Month)



1st- Homemade Cookie Day



4th- National Golf Day

5th- World Teachers Day

8-9th- Yom Kippur

9th- International Beer & Pizza Day

14th- Columbus Day

15-21st- Estate Planning Awareness Week

26th- Pumpkin Day

31st- Halloween

Mummy Brie Dish

What's in Season for October?

Pumkins	Pears	Apples
-Artichokes	-Grapes	-Plums
-Bell Peppers	-Kiwi	-Pomegranates
-Blackberries	-Kumquats	-Rasberries
-Broccoli Rabe	-Lime	-Rutabaga
-Brussels Sprouts	-Melons	-Strawberries
-Celery	-Nectarines	-Summer Squash
-Corn	-Okra	-Sweet Potatos
-Cranberries	-Parsnip	-Tomatos
-Cucumbers	-Peaches	-Winter Squash
-Eggplant	-Peas	-Zuccini

INGREDIENTS:

1 sheet puff pastry, thawed
1 round brie
1 large egg
1 tbsp. milk
2 mini pepperoni
2 sliced black olives

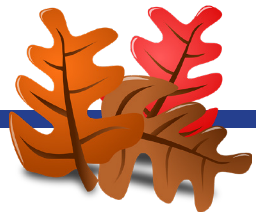
SERVINGS: 4-6 People

TIME: 35 minutes

INSTRUCTIONS:

1. Preheat oven to 400°. On a floured work surface, unroll puff pastry and cut into 1" strips. Wrap strips around brie like a mummy.
2. Whisk together egg and milk and brush over pastry. Transfer brie to a parchment-lined baking sheet.
3. Bake until brie is warmed through and gooey and puff pastry is deeply golden, 20 minutes.
4. For eyes, place two mini pepperonis into two sliced olives. Serve with crackers.

Sources: https://www.delish.com/holiday-recipes/halloween/recipes/a49347/mummy-brie-recipe/; Produceforkids.com



The Sudoku Section

5		6			4	1		
9	1						7	4
4	2				5		8	
			6	7			5	
					1			
			5	9				
		5	2			6		7
		8		5	6		1	

5	8	6	7	3	4	1	2	9
9	1	3	8	6	2	5	7	4
4	2	7	9	1	5	3	8	6
2	3	4	6	7	8	9	5	1
8	5	9	4	2	1	7	6	3
6	7	1	5	9	3	2	4	8
1	4	5	2	8	9	6	3	7
7	9	8	3	5	6	4	1	2
3	6	2	1	4	7	8	9	5

The answers

Source: www.printmysudoku.com