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SENIORS/BOOMERS NEWSLETTER

"THE RETIREMENT EXPERTS"

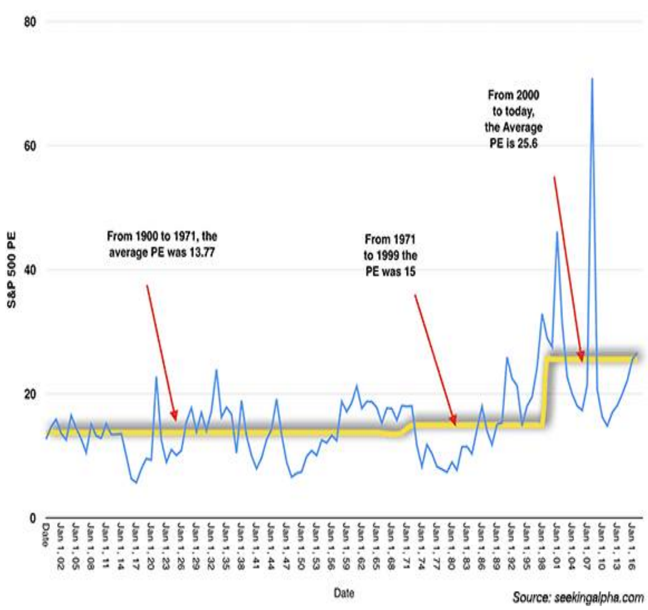
June 2017

The stock market is a 'voting' machine over the short run…..and a 'weighing' machine over the long run **Warren Buffet.**

Another quote made famous by the incomparable Warren Buffet. Some may ask: What is the weighing machine he refers to? Simple. Earnings are what investors put on the scales.

When you get right down to it, earnings are the only reason to buy a stock. If the company is making money, usually so are you. All else being equal, as earnings rise so do stock prices.

Now having said all this, where are we with earnings in today's market? Let's take a look at the prevailing price-to-earnings ratio. This chart illustrates some p/e market history going back to 1900.



So, OK, you're probably thinking this would be a good time to head for the hills. This looks pretty expensive…and so it is…but not for everything. The secret is to buy stocks that, even in this market, are undervalued; have financial strength; and, have the ability to produce solid profits for the foreseeable future.

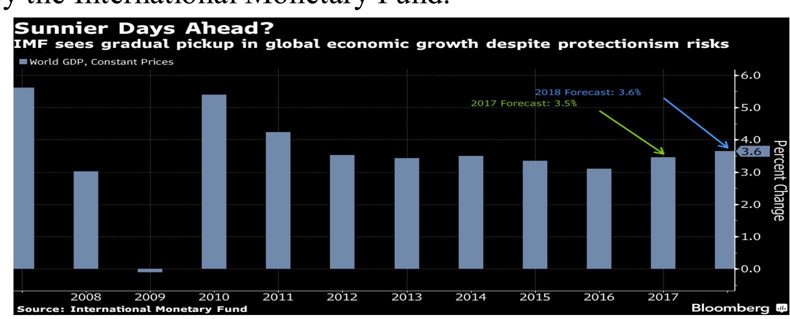
Ironically, I just read an article this morning which screened for stocks using ZACKS stock screener. The filters were:

- Which companies grew sales/share over each of the past 4 quarters?
- Which companies had an acceleration in growth of share?
- Who had improving profit margins over the prior year?

We came up with 10 names. So, although it may be tough…it's not impossible!

Where is the economy headed?

There have been many stock market pundits predicting doom & gloom for the markets. As I've said many times, it all comes down to earnings and the health of the economy. Below is a graph constructed by the International Monetary Fund.



If this holds true, there is no recession in sight, and the show will go on!

You may be wondering why your investment accounts aren't keeping pace with what the market has apparently returned. The S&P 500 is up around 8% YTD…however, the 15 stocks below accounted for half of those gains. Therefore, if you aren't/weren't holding these securities, you likely have not achieved very much at all.

S&P 500, 8.27% total return YTD, 5/24/2017							
TICKER	COMPANY	Contribution To Index	% of Contribution	Cumulative Contribution	% of Cumulative Contribution	Rank	
AAPL	Apple	1.06%	0.13%	1.06%	12.84%	1	
AMZN	Amazon.com	0.47%	0.06%	1.53%	18.51%	2	
FB	Facebook	0.43%	0.05%	1.96%	23.72%	3	
MSFT	Microsoft	0.29%	0.04%	2.25%	27.27%	4	
GOOGL	Alphabet 'A'	0.28%	0.03%	2.53%	30.65%	5	
GOOG	Alphabet 'C'	0.28%	0.03%	2.81%	33.98%	6	
PM	Philip Morris International	0.22%	0.03%	3.02%	36.59%	7	
JNJ	Johnson & Johnson	0.18%	0.02%	3.20%	38.71%	8	
V	Visa	0.17%	0.02%	3.37%	40.73%	9	
CMCSA	Comcast 'A'	0.15%	0.02%	3.51%	42.51%	10	
HD	Home Depot	0.14%	0.02%	3.65%	44.15%	11	
AVGO	Broadcom Limited	0.13%	0.02%	3.78%	45.75%	12	
MCD	McDonald's	0.12%	0.01%	3.90%	47.18%	13	
ORCL	Oracle	0.10%	0.01%	4.00%	48.43%	14	
MDT	Medtronic plc	0.10%	0.01%	4.10%	49.62%	15	top 15 added half the YTD gain

5 Investor Mistakes You Must AVOID

1) NOT TAKING PROFITS.

You must learn to turn your paper profits into real profits. Credo: On Wall Street 'pigs get slaughtered'.

2) NOT KNOWING WHEN TO SELL

If you have an investment that loses 10% of its value, it's time to research it thoroughly and figure out if it's likely to bounce back quickly. If it's not, dump it. If it loses 15%...dump it NOW.

3) OUT-OF-FAVOR-SECTOR

You can own a great company, but if it's sector (eg; energy) is out of favor with the big money…the big money will take everything down…both the good & bad companies. Sell.

4) OVER CONCENTRATION IN 1 STOCK

As good as any one company or mutual fund may be, it is ***never wise*** to have all your eggs in one basket. In fact 10% should be about your maximum. Diversify.

5) BEING EMOTIONALLY ATTACHED

As much as you may love that security that you researched to death and nurtured like a child, there comes a time when its job is done – for better or worse. Again, you have to know when to take profits or reduce your losses. See Mistakes 1, 2, 3 & 4. Sell when you should and diversify as you must.

Succession Planning…failure to do it, could cost you your business

If you, or someone you know, own a substantial interest in a closely-held business, a succession plan may be the single most important component of your retirement and estate plan. Without an effective business succession plan, your death or long-term disability could mean the end of the business you worked so hard to build. Many business owners are so busy running their companies that they forget to plan for the simple steps that will help them maintain or pass on the wealth that they shed a lot of blood, sweat and tears to accumulate.

At death or disability, no asset tends to decrease in value as quickly or completely as a closely-held business. Imagine a restaurant, doctor's office, retail shop or other small business that closes for 60 days. The value of the business may decrease rapidly and substantially – in some cases, completely.

A successful estate plan is one that minimizes estate taxes in the event of your death. When you die, estate taxes will be assessed based on the fair market value of any assets that you own, including all of the assets you would normally find on a personal balance sheet, such as cash, securities, your primary residence and any personal property. Life insurance proceeds AND the value of your business are also included. (Note that estate tax laws change frequently, but these tax rates usually range between 37 percent and 55 percent, and the taxes are generally due to the government within nine months following the date of death.) If your estate is comprised of illiquid assets such as real estate and your business, paying the estate tax bill that will be due after that nine-month period expires could be troublesome and deplete everything you worked hard to pass on to your family.

What about your retirement? Are there one or more buyers ready, willing and able to purchase your interest in the business at a fair price? A well-crafted buy-sell agreement can help families and business associates retain control of a business and protect its value in the event of retirement, death or disability. With proper funding, a buy-sell agreement can help assure there will be a ready market for the business at a time when you or your family may require a source of retirement income, estate liquidity or surviving family living expenses. A buy-sell agreement can also help minimize conflicts that may occur and establish a value for the business for Federal estate tax purposes. To help ensure the viability of your business and the financial security of your family, call me and we can schedule a time to explore the most appropriate design, valuation methods and funding alternatives for your particular business.

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When a Significant Life Event Occurs, It's Time to Review Your IRA Beneficiaries

Many investors commit a common estate planning mistake with their IRA assets. Unfortunately, the mistake sometimes becomes apparent only after the account owner dies—when it comes time to transfer the IRA to the heirs. For the intended beneficiaries, these mistakes can lead to extended headaches and heartaches. They can also result in a significant tax bill, which ultimately could reduce the portion of the IRA that heirs will receive.

There is a simple way to prevent the mistake—update your beneficiary designations after significant life events, and add contingent beneficiaries if you haven't done so already. This too, is a significant part of the estate planning process.

Many people name beneficiaries at the time they opened an IRA, but they never bother to review or update these designations later in life. Because there are several life events that could require a change in beneficiary designations—divorce, re-marriage, the death of a spouse, and the arrival of children or grandchildren—it is important to review and update your beneficiary designations whenever a significant event occurs in your life.

For example, what happens to your IRA should your beneficiary go before you? If you have not changed your primary beneficiary or have not named contingent beneficiaries, your IRA assets could wind up in your estate when you die. Then your heirs could ultimately receive a smaller portion of the account value, due to income taxes, final expenses, and creditor claims.

If your primary beneficiary dies before you, updating your primary beneficiary and naming contingent beneficiaries will help you to transfer your IRA assets efficiently and avoid probate. Furthermore, your heirs could have the opportunity to stretch out their IRA distribution over their lifetimes. This potentially allows the account to grow tax-deferred over the lives of two or more beneficiaries and reduces the income tax due. However, without valid beneficiary designations, they may have to take mandatory, larger distributions over a shorter period of time after your estate is settled.[1]

If you are not sure whom you have named as beneficiaries for your Traditional IRA, Roth IRA, or other accounts; or you want to review the estate and income tax liability your heirs might face, please call me to schedule a complimentary consultation.◆

Can You Make IRA Contributions after 70 ½?

Many clients who are over age 70½ ask us if they can still make contributions to their Individual Retirement Accounts (IRAs) — and if so, what the maximum amount they can deposit is. The answer depends upon your individual situation.

You can contribute to a traditional IRA up until the year that you turn 70½, but not after. For example, if you turn 70½ in 2017, you cannot contribute to a traditional IRA after 2016. There is one notable exception. Federal tax rules will allow the rollover of a lump sum, such as a pension payout, into an IRA, even if you are older than 70½. But you'll want to be careful about the way the transfer is handled. If the lump sum is given to you directly, your employer must withhold a portion of the amount distributed to you. For this reason, you should have the money transferred directly from your employer plan to the new IRA.

You can also contribute to a Roth IRA after you reach the age of 70½, as long as you have earned income and your income does not exceed certain limits (AGI phase-outs start at $118,000 for single taxpayers & $186,000 for married couples). How much can you contribute? Assuming you're over age 50, and qualify for the "catch up" contribution limit, you may contribute $6,500. There is an exception: if your earned income (wages or salary from work) is under $6,500, you may only contribute up to the amount of your earned income.

Although federal and state income taxes are incurred upon the conversion, distributions from your Roth account will not be subject to federal income taxes as long as you are 59½ years of age, and have satisfied a five-year holding period requirement. You should also know that surviving beneficiaries also receive their distributions free of federal income taxes (however, state income taxes might apply in some states). As income distributions from Roth accounts come back to the account owner and beneficiaries free of federal income taxes, they do not affect the income taxes that are sometimes assessed on social security benefits. This can be an important benefit for taxpayers who want to manage their income taxes upon retirement.

It is important to note that partial rollovers into a Roth account can help reduce the income taxes incurred on the conversion. Consider a situation where a taxpayer is holding $100,000 in a traditional IRA and wants to convert this money to a Roth account. Assuming the taxpayer converts $20,000 each year for five years, the conversion tax will actually be spread out over a longer period. This can also sometimes prevent the converted funds from being taxed at higher 28-35% federal tax rates.

The way in which you want to approach this is to work within your tax bracket. In other words, calculate your taxes in advance and convert your IRA up to the top of the bracket.

Roth IRAs can offer some other advantages. In contrast to traditional IRAs, which require you to take required minimum distributions (RMD) after you turn 70½, Roth IRAs don't require the account owner to take RMD at any age. This can be important for taxpayers who are interested in leaving the Roth account to surviving family

You might live to be 100

Live to 100. Sounds great. But what are the downsides? "How can there be downsides?" you may ask. After all, you'd have more time to golf, go fishing, and spend with the grandkids. Well, the risk may be that if you hadn't planned to live that long you could end up running out of money.

So how long of a retirement should you plan for?

According to the IRS, a 70-year old person is expected to live for 17 more years to age 87. However, this is an average. Half of the 70-year old's will live longer and half will not. Therefore, a 70-year old individual who is basing his or her retirement plan and spending habits on living to 87 is rolling the dice.

Furthermore, when you consider that there are more than 70,000 U.S. centenarians who represent the fastest-growing segment of our population, there is reason to take notice.

However, planning too conservatively could be detrimental as well. After all, you don't want to cut your standard of living down to the point that you'll be miserable. And of course, you always have the option to make adjustments in your spending as time goes on.

All of this comes down to two simple facts: You can control how long your money will last, but you only have a limited ability to predict how long you will live. So, what can you do to reduce the risk of running out of money too soon?

A fixed immediate annuity offers an income that will continue for a lifetime, no matter how long you live. And it will help you plan for the possibility of living to 87, 107, or beyond. And, the best news is, the newer annuities may allow your heirs to inherit what you haven't spent/received from the insurance carrier.

Call me for a no-hassle consultation.

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