Financial Decision Partners

Financial Planning & Investment Management

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Common Investment Mistakes -- And How to Avoid Them

Investing is too often driven by emotion. Even the most seasoned investors can make bad decisions based on "gut instincts" or something they heard around the water cooler. Here are some of the more common investment mistakes and how you can avoid them.

- **Go with the herd.** If everyone else is buying it, it must be good, right? Wrong. Investors tend to do what everyone else is doing. Generally speaking, they can be overly optimistic when the market goes up and overly pessimistic when the market goes down. For instance, in 2008, the largest monthly outflow of U.S. domestic equity funds occurred *after* the market had fallen over 25% from its peak. And in 2011, the only time net inflows were recorded was *before* the market slid over 10%.[1] Don't do what everyone else is doing. Instead spend more time creating -- and sticking to -- your investment plan.
- **Buy on tips from friends or pundits.** Who needs professional advice when your new co-worker can give you some great tips? With all the experts out there crowding the airwaves with their recommendations, why not take their advice? No one has ever been 100% correct about forecasting the market. Do your own research and make decisions based on your own factors, including time horizon and risk tolerance.
- **Invest all of your money on one high-flying stock.** Sure, if you had invested all your money in Google 10 years ago, you might be a millionaire today. But what if, instead, you poured all of your assets in Enron, Conseco, WorldCom, Washington Mutual, or Lehman Brothers? All were high flyers at one point, yet all have since filed for bankruptcy, making them perfect candidates for the downwardly mobile investor. Diversify your investments.[2]
- **Hold on to your losers.** Suppose you bought a stock five years ago, and since then, it has lost 70% of its value. What do you do? Hang on to it hoping that someday it will at least break even? What if it is a dog? Admitting you made a bad decision can be tough to swallow. But if the signs point to your investment being a loser, sell and be done with it.
- **Sell when the market is down, and buy when the market is up.** The temptation to sell is always highest when the market drops the furthest. And it's what many inexperienced investors tend to do, locking in losses and precluding future recoveries. The reverse is true when the market rises. Responding to the market's ups and downs is a surefire way to lock in losses. Stay steady and keep your long-term goals in mind.
- **Stay on the sidelines until the markets "calm down."** Since markets almost never calm down, this is the perfect rationale to never get in. In today's world, that means settling for a miniscule "safe" return that may not even keep pace with inflation. Investing involves risk. Set a course that allows you to potentially grow your assets while assuming a comfortable amount of risk.

Source/Disclaimer:
[1]Sources: ICI; Standard & Poor's. The stock market is represented by the S&P 500, an unmanaged index considered representative of large-cap U.S. stocks. These hypothetical examples are for illustrative purposes only and are not intended as investment advice.
[2]Diversification does not ensure a profit or protect against a loss.

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Year-End Planning to Help You Lower Your Tax Bill

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. And, with the higher rates put in place with the passage of the American Taxpayer Relief Act of 2012, being tax efficient is more important than ever.

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 gains when possible, as these are taxed at higher ordinary rates. Unless you have short-term 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 losses before gains, since unused losses may be carried forward for use in future years, while gains must be taken in the year they are realized.

Unearned Income Tax

A new 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.

What's to Come?

While there are currently no major changes in federal tax rules planned for 2014 that have been approved by Congress, 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.
This communication is not intended to be tax advice and should not be treated as such. Each individual's tax situation is different. You should contact your tax professional to discuss your personal situation.

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*.

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Understanding the Affordable Care Act: Essential Health Benefits

Beginning in 2014, the Affordable Care Act (ACA) will greatly expand the health care benefits for the millions of Americans with no health coverage or who are underinsured.

The ACA has identified 10 "essential health benefits," which must be covered by non-grandfathered health plans. Even those with "full" insurance are expected to benefit from the act, as only 2% of insurers currently provide all 10, but more are expected to expand their coverage.[1]

The 10 essential benefits are:

1. Ambulatory patient services, also known as outpatient care. However, details about the plans' networks and access to doctors will vary on a state-by-state basis.
2. Emergency services. Emergency room visits will no longer require preauthorization, and you can no longer be charged for going out of network.
3. Hospitalization. Your insurer must cover your hospitalization, although you could be required to pay up to 20% of the bill if you haven't reached your out-of-pocket limit.
4. Maternity and newborn care. Insurers will now have to provide prenatal care, childbirth, and care for the newborn infants as part of their standard coverage.
5. Mental health and substance use disorder services. Many plans do not currently cover these services. In some states, coverage may be limited to a certain number of visits.
6. Prescription drugs. All individual and small-group plans will cover at least one drug in every category and class in the United States Pharmacopeia. Drugs will also be counted toward your annual out-of-pocket maximum limits.
7. Rehabilitative and habilitative services. The law is a boon to those with chronic diseases, who will now be covered for therapies to help them overcome their long-term disabilities. It also requires the coverage of rehab therapies as well as medical equipment, such as walkers and wheelchairs.
8. Laboratory services. This includes prostate exams and Pap smears. You can still be billed for partial costs of diagnostic lab tests as well as more extensive screenings, such as an MRI.
9. Preventive and wellness services. The law requires insurers to cover all of the 50 preventive services recommended by the U.S. Preventive Services Task Force at no extra cost. Those services include diabetes screening, high blood pressure screening, mammograms, and colorectal cancer screening.
10. Pediatric services, including oral and vision care. Dental and vision care is considered an essential benefit for children aged 18 and younger whose parents or guardians get insurance through the individual or small-group plans.

Additionally, most plans -- obtained through an employer or on the marketplace -- cannot deny coverage or charge more because of a pre-existing health condition.

Out-of-Pocket Spending Limits Delayed on Some Plans

The amount of money people will have to pay out-of-pocket each year for medical and prescription drug costs will be capped at $6,350 for individuals and $12,700 for a family. But these limits will not be in effect until 2015 for plans that use more than one service provider to give insurers and employers more time to comply.

Source/Disclaimer:
[1]Source: HealthPocket, August 2013.

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Financial Planning Tips for Singles

Living the single life no longer is an anomaly: According to the U.S. Census Bureau, nearly 40% of households nationwide are maintained by a single person.[1] Being single affects many areas of financial planning, including retirement, financing health care later in life, and other key issues.

If you are single, or expect to be as a result of a pending divorce, consider the following as you plan your finances.

Retirement

An increasing percentage of preretirees are planning for retirement on their own. What steps should solo planners take to shore up their finances for a comfortable retirement?

- **Set long-term retirement savings goals.** If you have access to an employer-sponsored retirement plan, contribute as much as you can afford. For 2013, the maximum employee contribution is $17,500, and workers aged 50 and older can contribute an additional $5,500 catch-up contribution.
- **Consider funding an IRA.** For 2013, the maximum contribution is $5,500, and investors aged 50 and older can contribute an additional $1,000.
- **Invest as much as you can.** Investing as much as you can afford for retirement over the long term is beneficial because you will not have the luxury of falling back on a partner's pension. In addition, your household will have one Social Security check to fund retirement expenses.

Parenting

- **Fund for your children, but don't forget yourself.** If you have children, your financial planning could be especially challenging because you may be required to fund tuition, child care, and other costs on one salary. As you raise your family, be sure not to shortchange your needs. Put away something for retirement, even if it is only a small amount each week. Over time, this amount may compound and serve as the basis of your retirement nest egg. Be sure to appoint a guardian for your children in the event that you are not able to care for them.

Insurance and Health Care

- **Review your options for disability insurance and long-term care insurance.** It is critical to purchase these types of insurance while you are healthy and the premiums are affordable. These insurance purchases increase the chances that you will have adequate cash flow if you are not able to work because of a disability, or if you require assistance with activities of daily living later in life.
- **Prepare for health care expenses.** You may need to direct a lawyer to draft a health care proxy in which you designate a loved one to make medical decisions on your behalf if you are not able to do so yourself.

Housing

- **Think carefully about the type of housing situation that suits your needs.** Carrying a single-family home, especially in an expensive housing market, frequently is difficult on one income. Be sure that your home is affordable enough to permit you to invest for retirement and other financial goals.

Your situation may present additional considerations, but the suggestions mentioned here may help you manage your finances successfully.

Source/Disclaimer:
[1]Source: U.S. Census Bureau, *America's Families and Living Arrangements*, August 2013.

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