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Callahan Financial monthly information Newsletter.

Please enjoy and if it spurs questions, we would love to help answer them for you.

Share this with your friends, family and co-workers. Ultimately, we would love to work with them too:)

October 2014

Callahan Financial Newsletter

Keeping you current

Prepare Now for a Year-End Investment Review

Getting organized for your year-end investment review with your financial professional may help make the review process more efficient. Here are some suggestions for making your meeting as productive as possible.

Decide what you want to know

One of the benefits of a yearly investment review is that it can help you monitor your investment portfolio. A key component of most discussions is a review of how your investments have performed over the last year. Performance can mean different things to different people, depending on their individual financial goals and needs. For example, an investor who's focused on long-term growth might define "performance" slightly differently than an investor whose primary concern isn't overall growth but trying to maintain a portfolio that has the potential to produce current income needed to pay ordinary living expenses.

Consider in advance what types of information are most important to you and why. You may want to check on not only your portfolio's absolute performance but also on how it fared compared to some sort of benchmark. For example, you might want to know whether any equity investments you held outperformed, matched, or underperformed a relevant index, or how your portfolio fared against a hypothetical benchmark asset allocation. (Remember that the performance of an unmanaged index is not indicative of the performance of any specific security, and indices are not available for direct investment. Also, asset allocation cannot guarantee a profit or eliminate the possibility of loss, including the loss of principal.)

Almost as important as knowing how your portfolio performed is understanding why it performed as it did. Was any overperformance or underperformance concentrated in a single asset class or a specific investment? If so, was that consistent with the asset's typical behavior over time? Or was last year's performance an anomaly that bears watching or taking action? Has any single investment grown so much that it now represents more of your portfolio than it should? If so, should you do a little profit-taking and redirect that money into something else?

Are any changes needed?

If your goals or concerns have changed over the last year, you'll need to make that clear during your meeting. Your portfolio probably needs to evolve over time as your circumstances change. Making sure you've communicated any life changes will make it easier to adjust your portfolio accordingly and measure its performance appropriately next year.

If a change to your portfolio is suggested based on last year's performance--either positive or negative--don't hesitate to ask why the change is being recommended and what you might reasonably expect in terms of performance and potential risk as a result of a shift. (However, when looking at potential returns, remember that past performance is no guarantee of future results.) Don't be reluctant to ask questions if you don't understand what's being presented to you; a little clarification now might help prevent misunderstandings and unrealistic expectations that could have a negative impact in the future.

Also, before making any change, find out how it might affect your investing costs, both immediate and ongoing. Again, a few questions now may help prevent surprises later.

Think about the coming year

Consider whether you would benefit next April from harvesting any investment losses before the end of the year. Selling a losing position could generate a capital loss that could potentially be used to offset either capital gains or up to $3,000 of ordinary income on your federal income tax return.

If you've amassed substantial assets, you could explore whether you might benefit from specialized assistance in dealing with issues such as taxes, estate planning, and asset protection. Finally, give feedback on the review process itself; it can help improve next year's session. *Note: All investing involves risk, including the potential loss of principal, and there can be no guarantee that any investing strategy will be successful.*

10 Basic Tax To-Dos for the Rest of 2014

AMT "triggers"

You're more likely to be subject to the AMT if you claim a large number of personal exemptions, deductible medical expenses, state and local taxes, and miscellaneous itemized deductions. Other common triggers include home equity loan interest when proceeds aren't used to buy, build, or improve your home, and the exercise of incentive stock options.

IRA and retirement plan contributions

For 2014, you can contribute up to $17,500 to a 401(k) plan ($23,000 if you're age 50 or older) and up to $5,500 to a traditional or Roth IRA ($6,500 if you're age 50 or older). The window to make 2014 contributions to an employer plan generally closes at the end of the year, while you typically have until the due date of your federal income tax return to make 2014 IRA contributions.

Here are 10 things to consider as you weigh potential tax moves between now and the end of the year.

1. Make time to plan

Effective planning requires that you have a good understanding of your current tax situation, as well as a reasonable estimate of how your circumstances might change next year. There's a real opportunity for tax savings when you can assess whether you'll be paying taxes at a lower rate in one year than in the other. So, carve out some time.

2. Defer income

Consider any opportunities you have to defer income to 2015, particularly if you think you may be in a lower tax bracket then. For example, you may be able to defer a year-end bonus or delay the collection of business debts, rents, and payments for services. Doing so may enable you to postpone payment of tax on the income until next year.

3. Accelerate deductions

You might also look for opportunities to accelerate deductions into the 2014 tax year. If you itemize deductions, making payments for deductible expenses such as medical expenses, qualifying interest, and state taxes before the end of the year, instead of paying them in early 2015, could make a difference on your 2014 return.

Note: *If you think you'll be paying taxes at a higher rate next year, consider the benefits of taking the opposite tack--looking for ways to accelerate income into 2014, and possibly postponing deductions.*

4. Know your limits

If your adjusted gross income (AGI) is more than $254,200 ($305,050 if married filing jointly, $152,525 if married filing separately, $279,650 if filing as head of household), your personal and dependent exemptions may be phased out, and your itemized deductions may be limited. If your 2014 AGI puts you in this range, consider any potential limitation on itemized deductions as you weigh any moves relating to timing deductions.

5. Factor in the AMT

If you're subject to the alternative minimum tax (AMT), traditional year-end maneuvers such as deferring income and accelerating deductions can have a negative effect. Essentially a separate federal income tax system with its own rates and rules, the AMT effectively disallows a number of itemized deductions, making it a significant consideration when it comes to year-end tax planning. For example, if you're subject to the AMT in 2014, prepaying 2015 state and local taxes probably won't help your 2014 tax situation, but could hurt your 2015 bottom line. Taking the time to determine whether you may be subject to AMT before you make any year-end moves can save you from making a costly mistake.

6. Maximize retirement savings

Deductible contributions to a traditional IRA and pretax contributions to an employer-sponsored retirement plan such as a 401(k) could reduce your 2014 taxable income. Contributions to a Roth IRA (assuming you meet the income requirements) or a Roth 401(k) plan are made with after-tax dollars, so there's no immediate tax savings. But qualified distributions are completely free from federal income tax, making Roth retirement savings vehicles appealing for many.

7. Take required distributions

Once you reach age 70½, you generally must start taking required minimum distributions (RMDs) from traditional IRAs and employer-sponsored retirement plans (an exception may apply if you're still working and participating in an employer-sponsored plan). Take any distributions by the date required--the end of the year for most individuals. The penalty for failing to do so is substantial: 50% of the amount that should have been distributed.

8. Know what's changed

A host of popular tax provisions, commonly referred to as "tax extenders," expired at the end of 2013. Among the provisions that are no longer available: deducting state and local sales taxes in lieu of state and local income taxes; the above-the-line deduction for qualified higher-education expenses; qualified charitable distributions (QCDs) from IRAs; and increased business expense and "bonus" depreciation rules.

9. Stay up-to-date

It's always possible that legislation late in the year could retroactively extend some of the provisions above, or add new wrinkles--so stay informed.

10. Get help if you need it

There's a lot to think about when it comes to tax planning. That's why it often makes sense to talk to a tax professional who is able to evaluate your situation, keep you apprised of legislative changes, and help you determine if any year-end moves make sense for you.

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Why Not Make Your Next Trip a Volunteer Vacation?

One option for finding volunteer vacation opportunities in the United States or overseas is the nonprofit organization Just Give. To view a list of resources for potential volunteers, visit the organization's website, [www.justgive.org.](http://www.justgive.org)

Is your idea of a perfect vacation spending time alone on a beach with a good book? Or would you prefer a more active vacation where you are part of a group, constantly challenging yourself, and using your talents and skills to help others? If the latter sounds more appealing, then a volunteer vacation might be right for you.

Why take a volunteer vacation?

Having the chance to give back, meet new people, form friendships, and immerse yourself in a different culture are some of the top reasons to take a volunteer vacation. And no matter why and where you choose to travel, you'll have experiences that are not available to the average tourist.

A volunteer vacation also allows you to work with others who share your interests. For example, if you love the outdoors, you can work with park rangers on a national parks project in the United States or travel with a conservation group to Peru. Or if you've always wanted to work with children, you can find a service project at an orphanage in Haiti, or volunteer at a camp for children with special needs in Hawaii.

Who can serve as a volunteer?

Whether you're a solo traveler, a retiree, a student, a family with younger children, or a grandparent with teenage grandchildren, you can find a suitable volunteer opportunity. Many vacations don't require any experience--just a willingness to help and enjoy the camaraderie of working with individuals from your host community and members of your volunteer group. However, you'll get more out of your trip if you find one that matches your interests, skill set, and stamina level. Though you can choose to travel to a remote location or an underdeveloped country, you can also make a difference in a less adventurous setting. For example, you can help teach English at a school in a major city, work on an art conservation project in a museum, or care for injured animals at a zoo. The choice is yours.

What can you expect from your trip?

Trip length varies, but many last from one to four weeks. During that time, you'll be expected to devote a substantial number of hours to project work.

Yet volunteer vacations aren't all work and no play. Trips generally incorporate rest days or leisure periods where you're free to explore on your own or participate in a group tour, giving you unique insight into the area and a chance to unwind.

How much will your trip cost?

Some people are surprised to learn that there's a cost associated with volunteering, but you'll generally need to pay for your own travel expenses. Your trip may cost hundreds or thousands of dollars, depending on your destination, itinerary, and accommodations.

You may be able to offset part of the cost of your trip by deducting certain trip-related expenses when you file your federal income tax return. To get any tax benefits, your trip must be sponsored by a qualified organization (check with the charity or the IRS); the personal element of your trip must be insignificant (i.e., the time spent on pleasure, recreation, or vacation); and you must itemize your income tax deductions. You can generally deduct actual unreimbursed costs related to your volunteer service (such as airfare, lodging, and meals) but you can't deduct the value of your time or services. These are just general guidelines--for more information, ask your tax advisor and review IRS publication 526, Charitable Contributions.

What questions should you ask?

Before you sign up for a volunteer vacation, it's very important to make sure that you're traveling with an organization you trust. Trips may be sponsored by churches, national or global nonprofit volunteer organizations, or for-profit companies. Here are some of the questions you should ask before signing up. Some of this information may be found in literature provided by the sponsoring organization:

- How long has the group or organization been conducting volunteer vacations?
- How large is the volunteer group?
- How experienced are the team leaders? How well do they know the culture and the area?
- Will training be necessary, and if so, when and where will it be provided?
- What does the trip fee cover? Airfare? Meals? Transportation to the work site?
- Are costs or fees refundable? Make sure you read all policies and understand what will happen if you're unable to travel.
- What about insurance? You may be asked to provide proof of health insurance, or if traveling overseas, purchase medical and emergency evacuation coverage.
- How do you prepare, and what will you need to bring? You should be given a checklist of tasks to complete before your trip, and packing guidelines.

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Should I co-sign my daughter's private student loan?

Today, many students turn to private lenders to help cover the cost of college. Unfortunately, private student loans don't carry many of the same protections as federal student loans. As a result, you should be aware of the risks associated with acting as a co-signer for these types of loans.

According to the Consumer Financial Protection Bureau, approximately 90% of all private student loans were co-signed in 2011 (Source: Consumer Financial Protection Bureau, Mid Year Update on Student Loan Complaints, April 2014). Private lenders often require a co-signer if a borrower has little or no credit history. In addition, having a co-signer often allows a borrower to obtain a lower interest rate for a loan.

When co-signing any loan, you need to be aware that as co-signor, you are being asked to guarantee the loan. In other words, if your daughter doesn't make her loan payments, the lender can go after you for payment of the loan. Depending on the loan terms, a lender can even demand full payment of a loan from a co-signer if the borrower misses just one payment. In addition, a lender can attempt to collect a loan that is due by using traditional debt collection methods, including wage garnishment.

Before you co-sign your daughter's loan, you'll want to consider whether you will be able to afford to pay her loan if she is unable to make her loan payments. In addition, you should find out how co-signing the loan will impact your current creditworthiness.

Finally, if you do end up co-signing your daughter's loan, you should also find out whether the loan document contains a provision regarding automatic defaults or "auto defaults." An "auto default" situation arises when the co-signor for a loan dies or declares bankruptcy and the lender demands the full amount of the loan to be paid back immediately by the borrower. If the loan does have an "auto default" clause, your daughter should be fully aware of the possible consequences and take steps once she has graduated and is in repayment to pursue a co-signer release for the loan.

I just learned that my credit- and debit-card information was part of a data breach. What should I do?

Now, more than ever, consumers are relying on the convenience of credit and debit cards to make everyday purchases, such as gas and groceries, and to make online purchases. With this convenience, however, comes the risk of having your account information compromised by a data breach.

In recent years, data breaches at major retailers have become commonplace across the United States. Currently, most retailers use the magnetic strips on the backs of credit and debit cards to access account information. Unfortunately, the account information that is held on these magnetic strips is also easily accessed by computer hackers.

While many U.S. banks and financial institutions are in the process of replacing the older magnetic strips with more sophisticated and secure embedded microchips, it will take time for both card issuers and retailers to get up to speed on these latest card security measures.

In the meantime, if you find that your account information is at risk due to a data breach, you should make it a priority to periodically review your credit card and bank account activity. If you typically wait for your monthly statement to arrive in the mail, consider signing up for online access to your accounts--that way you can monitor your accounts as often as needed. If you see suspicious charges or account activity, you should contact your bank or credit-card company as soon as possible.

In most cases, your bank or credit-card company will automatically issue you a new card and card number. If not, request to have new cards and card numbers issued in your name. As an additional precaution, you should also change the PIN associated with the cards.

Whether you will be held liable for the unauthorized charges depends on whether the charges were made to your credit- or debit-card account and how quickly you report them.

For more information on your rights if you are affected by a data breach, visit the Federal Trade Commission and Consumer Financial Protection Bureau websites.

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