In This Issue...

Horsetooth Financial

www.HorsetoothFinancialLLC.com

220 Willow Street, Unit 101
Fort Collins, CO 80524
(970) 377-3570
Toll Free (800) 275-6412

Michael G. Hall

Horsetooth Financial Outlook

SUMMER 2018

Estate Planning for Complicated Family Situations

In our modern and increasingly complex society, planning for the future is not always straightforward. Divorce and remarriage, blended families, children with disabilities, or even a financially irresponsible child can complicate estate planning to the point where procrastination is tempting. If any of these situations apply to you, the reality is you should have a well-thought-out estate plan in place. While accommodating all of your loved ones is a delicate balancing act with many variables to consider, the reward is peace of mind in knowing your spouse and children will be cared for in the best possible way following your death.

If You Are Divorced

Your top priorities are updating your beneficiaries, last will, trusts (along with the executor/ trustee), durable power of attorney, and healthcare proxy. Likewise, because you no longer have the benefit of combining your estate and inheritance tax exemptions with a spouse, you may need to consider more strategic estate planning to avoid estate taxes.

If there are children involved, you have even more decisions including guardians of any minor children. Typically, you will not want your former spouse or his/her new blended family to receive any of your assets.

While you can name anyone as your beneficiary on life insurance policies, annuities, retirement accounts (if permitted by your plan), IRAs, and health savings accounts, your children typically cannot receive these funds until they turn 18. In the meantime, your children's appointed guardian, such as their surviving parent, could be designated by the court to manage these monies until they reach adulthood. Proper estate planning can avoid any mishandling of those funds and provide you with the reassurance that your children will be financially protected.

One way to ensure this outcome is to set up a trust with an appointed trustee, such as a grandparent, aunt, or godparent.

Continued on page 2

4 Steps to Boost Financial Confidence

When it comes to being in control of your money, confidence is one of the most important attributes you can have. Below are four simple suggestions that can help you increase your financial confidence:

1. Get organized. Not too long ago, it didn't take much work for the average person to organize their finances. Unless you were very wealthy, money matters were fairly straightforward. You could easily store all your financial information in a single accordion file.

Today, things are more complicated. Credit cards, home-equity lines of credit, student loans, 401(k) plans and IRAs, 529 plans for college expenses — the list of things to keep track of seems endless. It's easy for things to get lost or overlooked. Getting organized will give back a feeling of control.

There are numerous strategies for getting organized. The best approach for you depends on your specific situation and personality. Some people stick with that old-fashioned accordion file. Others go completely digital, taking advantage of apps and online document storage to keep

Continued on page 3

FR2017-1113-0002

Estate Planning

Continued from page 1

If You Have Remarried

While remarrying is a beautiful reminder that second chances really do exist, this can often complicate estate planning — particularly when at least one spouse has children from another marriage. The first step is to sit down with your spouse and discuss what you both feel is fair for each other and your children, perhaps categorizing what is yours, mine, and ours to reach a decision.

Because of state marital estate laws, unless you have a prenuptial agreement in place, your current spouse has legal entitlement of up to half of your estate, regardless of what your will may designate.

Assuring that your surviving spouse is provided for while leaving a legacy for your children can be a frail matter; it's important to have a plan intact that assures both your spouse and children receive what you intend. You might consider a trust, such as a marital trust, qualified terminable interest property trust (QTIP), or irrevocable life insurance trust (ILIT), which can provide lifetime income to your surviving spouse while simultaneously ensuring that your heirs receive the remaining proceeds.

If You Have a Special-Needs Child

Understandably, parents of a special-needs child are often so distracted with accommodating their child's immediate needs that important financial matters are sometimes overlooked. The consequences of putting off estate planning are far worse in these situations.

The two most important factors to consider are preserving your child's eligibility for Medicaid and other essential benefits while continuing to provide the best possible lifestyle for them. However, without a proper action plan, an inheritance could disqualify your special-needs child from vital benefits.

To avoid this situation, parents often leave special-needs children out of the inheritance equation, listing other siblings or a designated guardian as heirs with the intention that their special-needs child will be provided for as he/she continues to receive necessary medical benefits. The truth is, misuse of intended funds is always a possibility, as intentions and reality often do not mesh. A much more reassuring path is to consider a special-needs trust, which can assure your child continues to qualify for medical benefits while providing a sound financial future that can include special trips, therapeutic lessons, and life enhancing activities.

An Irresponsible Adult Child

It's quite common for parents to worry that a child could get into serious trouble when presented with a large sum of money. This depends on a variety of factors, such as age at the time of inheritance, lifestyle, or even addiction issues. Consider establishing a trust — such as a spendthrift trust or incentive trust — where the appointed trustee can limit your child's inheritance to several installments throughout the course of his/her lifetime (even on an annual basis if you so wish), place conditions such as good behavior on the disbursements, or even appropriate the funds for something as specific as college tuition.

Please call to discuss this topic in more detail. ❍❍❍

Distributing Personal Possessions

Organizing and planning an estate is not a simple process. After deciding who should receive major assets like your house, business, investments, and retirement accounts, you may need to use a variety of vehicles to distribute those assets, such as wills, gifts, and trusts. Dealing with major assets may be so time consuming that you don't even think about your personal possessions, leaving distribution decisions up to your heirs. But disputes over personal possessions are more apt to cause conflict among heirs than disputes over money. Some items to consider include:

- ❍ **Take time to think about who should receive treasured personal possessions.** You might want to detail your wishes in a separate letter to your heirs to prevent disagreements. Indicate why you are distributing possessions in that manner.
- ❍ **Ask your heirs what possessions are important to them.** Otherwise, you may inadvertently give a treasured possession to one child without realizing its importance to another child. Children may then try to read motives into your decisions that didn't actually exist.
- ❍ **Don't distribute assets based on arbitrary criteria.** You don't necessarily have to give your jewelry to your daughter or tools to your son. Your son might want to pass on some of your jewelry to his wife or daughter. Likewise, don't give your most valued possessions to your oldest child without considering younger siblings.
- ❍ **Devise a method.** You probably won't want to decide how every personal possession should be distributed. After you have determined how to distribute your most valued possessions, detail a method for heirs to distribute the rest of your possessions. It can be as simple as having heirs take turns selecting items or flipping a coin if more than one person is interested in an item. ❍❍❍

4 Steps

Continued from page 1

everything straight. Whatever solution you choose, you need to know all the details of your finances.

2. Get educated. Simply taking the time to learn more about finances and managing your money can do wonders for how you feel about your life. Basic financial literary isn't really covered in most schools' curriculum, so many otherwise savvy adults are clueless in this area. Fortunately, increasing your financial literacy is not hard, it just requires a little bit of effort. Many community colleges, churches, and nonprofit groups offer classes, or you can sign up for a class online. Or consider watching videos or reading articles that review financial concepts.

3. Get a financial plan. Making financial decisions on a day-to-day basis with no larger purpose or focus in mind may work for some people, but it's not likely to help you become financially confident. To achieve true financial confidence, you need a plan. Setting goals and making meaningful progress toward those goals will boost your financial self-esteem. Having a financial plan will also help you prepare to cope with an uncertain world. In fact, people who engage in financial planning are more likely to report that they live comfortably and are on track to meet their financial goals.

Why is a financial plan so important? It brings together all the threads of your financial life. Having a solid financial plan in place that covers everything from preparing for emergencies to planning for retirement is key to boosting your financial confidence.

4. Get help. Getting reliable advice from an outside expert will improve your financial confidence. Just like a doctor supports and guides you in making decisions about your health and a personal trainer is there to encourage and motivate you to get fit, a financial advisor is there to make sure you're sticking to your financial plan. Even if you're organized and financially savvy, there are many decisions that are difficult to make on your own, from deciding how much to save for retirement to choosing investments for your portfolio. If you're unsure about what to do next, please call. ❍❍❍

Encourage Your Child to Fund an IRA

Once your child starts working, help him/her develop good savings habits by encouraging him/her to fund an individual retirement account (IRA). Even if your child only contributes for a few years, an IRA can provide significant funds for retirement.

Your child must have earned income to contribute to an IRA and may only contribute the lesser of earned income or the maximum IRA contribution. The maximum limit is $5,500 in 2018.

Assume your 16-year-old daughter starts working part-time. If she contributes $2,000 to an IRA from the ages of 16 to 22, she will contribute $14,000 over seven years. With no further contributions, the IRA could potentially grow to $527,437 on a tax-deferred or tax-free basis by age 65. That assumes earnings of 8% compounded annually, but does not include any income taxes that might be due.

If your child continues $2,000 IRA contributions until age 65, she would make total contributions of $98,000 and may accumulate investments of $1,145,540. *(These examples are provided for illustrative purposes only and are not intended to project the performance of a specific investment vehicle.)*

Although most children will be eligible to contribute to both a traditional deductible IRA and a Roth IRA, you should probably encourage your child to fund a Roth IRA, which has several advantages:

❍ **Roth IRAs are more flexible.** Your child can withdraw all or part of his/her contributions at any time without paying federal income taxes or penalties. Thus, if your child later decides to use contributions for college, a car, a down payment on a home, or some other purpose, contributions can be withdrawn with no tax consequences.

❍ **Earnings accumulate tax free, plus qualified distributions can be withdrawn tax free.** A qualified distribution is one made at least five years after the first contribution and after age 59½. There are also certain circumstances where earnings can be withdrawn without paying income taxes and/or the 10% federal income-tax penalty. If your child allows the funds to grow until at least age 59½, all contributions and earnings can be withdrawn without paying any federal income taxes.

❍ **A traditional deductible IRA offers little tax benefit to a child.** When your child first starts working, he/she will typically pay a low marginal tax rate on his/her income. So even though the Roth IRA contribution is not tax deductible, your child typically receives little or no tax benefit from deducting the traditional IRA contribution anyway.

If you can't convince your child to use his/her own money to fund the IRA, consider reimbursing him/her as part of your annual gift tax exclusion for any IRA contributions. ❍❍❍

FINANCIAL DATA

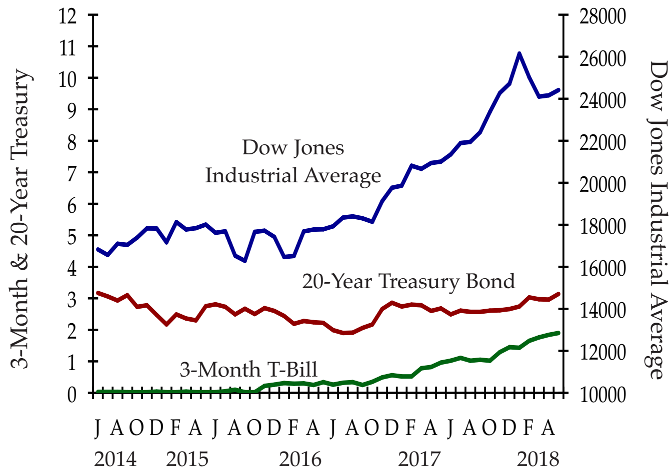
Indicator	Mar-18	Apr-18	May-18	Dec-17	May-17
	Month-end				
Prime rate	4.75	4.75	4.75	4.50	4.00
Money market rate	0.35	0.41	0.47	0.33	0.33
3-month T-bill yield	1.76	1.84	1.90	1.45	0.96
20-year T-bond yield	2.97	2.96	3.14	2.66	2.68
Dow Jones Corp.	3.70	3.88	3.89	3.13	3.04
30-year fixed mortgage	4.01	4.19	4.21	3.51	3.46
GDP (adj. annual rate)#	+3.20	+2.90	+2.30	+2.90	+1.20

	Month-end			% Change	
Indicator	Mar-18	Apr-18	May-18	YTD	12 Mon.
Dow Jones Industrials	24103.11	24163.15	24415.84	-1.2%	16.2%
Standard & Poor's 500	2640.87	2648.05	2705.27	1.2%	12.2%
Nasdaq Composite	7063.44	7066.27	7442.12	7.8%	20.1%
Gold	1323.85	1313.20	1305.35	0.7%	3.1%
Consumer price index@	249.00	249.60	250.50	1.5%	2.5%
Unemployment rate@	4.10	4.10	3.90	-4.9%	-11.4%
Index of leading ind.@	108.70	109.00	109.40	2.8%	6.4%

— 3rd, 4th, 1st quarter @ — Feb, Mar, Apr Sources: *Barron's, Wall Street Journal*

4-YEAR SUMMARY OF DOW JONES INDUSTRIAL AVERAGE, 3-MONTH T-BILL & 20-YEAR TREASURY BOND YIELD

JUNE 2014 TO MAY 2018



Past performance is not a guarantee of future results.

THE GROWTH VS. VALUE CONUNDRUM

We have clearly entered a period of investment in the U.S. stock markets where once again, there has been a departure of growth vs. value stocks as representative drivers of various market indices. The last time this notably occurred was in the 1990s.

This is typical in a positive bull market environment that develops over time. Growth stocks usually are judged on their sustained above-average "rate" of growth and command of market share and innovation in newer fields of investment. They generally do not focus on dividends as a priority and tend to be more volatile as investors monitor recent events closely. Growth stocks usually trade at a premium to the market indices average.

Value stocks are companies that are often trading at a perceived "discounted" value to their peers, the general market, or versus future earnings. A growth stock can become a value stock if they are beset with temporary market or company events that disrupt their business cycle, management change or direction, and other negative earnings events. Many value stocks are in industries that are well known, mature, and predictable, yet with more moderate growth expectations. Dividends are an important component of total return to the investor. Value stocks often trade at a discount to the market indices average.

With those brief descriptions in hand and as the market optimism continues, it is important to understand what the primary drivers of the indexes are (e.g., S&P 500 and DJIA) in daily reporting and for the purposes of allocating investments. More concentration in growth will create more volatility in portfolios. The ideal combination is growth at a value price; and in my opinion, those who can identify those opportunities is what separates good long-term money managers over time.

In June, 2017, *CNBC* broadly reported that a tech "bubble" had been created in the market by valuations of tech leaders and especially the FAAMG stocks (Facebook, Amazon, Apple, Microsoft, Google). At that point in 2017, they suggested that too few stocks were producing the growth performance and not producing adequate earnings. Today, all these companies are significantly higher.

In that article, *CNBC* made comparison of the FAAMG stocks to the 2000 tech bubble leaders: Microsoft, Cisco, Intel, Oracle, and Lucent. In 1999, those companies averaged nearly 60 times two-year forward earnings. Today, we are again seeing growth stocks dominate the performance returns of the S&P and DJIA as FANG stocks (Facebook, Amazon, Netflix, and Google), which represent about 11% of the total S&P 500 market cap, and the growing tech sector now represents about 24% of the overall S&P 500. The four FANG stocks average a one-year price/earnings expectation of roughly 52, but other industry technology leaders, like Microsoft and Apple, trade at a P/E of 25 and 14.5, respectively.

There are many positive factors currently driving corporate profitability: global growth, tax reform, and tremendous technology advancement (healthcare, electric cars, gene editing technology, energy, communication tech, etc.) that didn't exist in the 1990s. For the next three to five years, I believe technology of all types will increase as representatives and percentages of the S&P and DJIA. However, I do believe valuation matters; and as our robust economy lifts the other world economies, even better investment values should develop in the global markets outside the U.S.

In summary, the U.S. market is not cheap by historical standards, but it is supported by many positives. There is a variation of growth and value stock valuations that has widened, and the overall reported "market" performances are being driven by fewer companies. If the U.S. economy can continue to elevate its GDP growth, the market should be able to broaden the benefits of growth to more representative companies.

As always, I recommend consistent review of your account as your life evolves and we conduct our periodic discussions. Thank you for your Trust and Confidence!