Oxford
FINANCIAL PARTNERS

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OXFORD PUBLISHES *POWER OF 5 INVESTING®* BOOK

By Erik Christman
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If you've been a client of ours for any time at all, you've certainly heard about Power of 5 Investing®. This is the phrase we use to describe our unique system designed to help clients towards achieving retirement success. Our special approach is now described in the book *Power of 5 Investing®: 5 Powerful Principles for Retirement Investing*. The book is now available for sale on Amazon.com.

We have believed for some time that what we do here at Oxford is something special, and we see the book as our opportunity to share that success story with a wider audience. In recent weeks, I have had the opportunity to share the book and its five key principles with media personalities and public relations consultants across the country, and their reactions have been the same: They say the book contains powerful, timeless principles written in an easy to understand manner. That's so gratifying to hear, as we have always sought to demystify retirement investing here at Oxford. We seek to partner with our clients in helping them through this retirement journey.

Make no mistake…markets have been particularly volatile lately, and many people are concerned about their retirement. Clients of Oxford know that portfolios should be built in anticipation of volatility, not in reaction to it. We have worked very hard in recent years to ensure our clients have sufficient reserves to weather the inevitable stormy markets.

Whatever the future holds, I rest easier knowing that our clients are following the powerful lessons of Power of 5 Investing®.

A copy of *Power of 5 Investing®: 5 Powerful Principles for Retirement Investing* has been delivered to all of our clients. If you or someone you know would like to learn more about how we have helped hundreds of retirees plan for their own retirements, we invite you to visit www.powerof5investing.com to download a free chapter from the book!

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POWER OF 5 INVESTING®

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With offices in Cincinnati and Denver, Oxford Financial Partners serves clients across more than 20 states. Our clients range from those who are just starting to think about and plan for retirement to those who are in retirement and want to ensure their funds are sufficient and their long-term wishes intact. No matter where you are in your retirement journey, we can partner with you to help towards making your goals a reality.

Our investment management services are driven by some fundamental beliefs that are borne of leading-edge research and a quarter century of experience. Our entire investment philosophy has been distilled into a proprietary investing system and nationally acclaimed book entitled ***Power of 5 Investing®: 5 Powerful Principles for Retirement Investing.***

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INVESTMENT REVIEW

We have come a long way since the financial crisis of 2007 and 2008. As we all remember, speculation and falling home prices triggered a chain of events that led to the deepest recession in decades. Since then, contrary to an army of pessimists and doomsayers, world economies and investment markets have been returning to normal. Confidence and liquidity have slowly returned as unemployment rates have improved. Global equity prices have surged.

As the economic recovery continued, at least one thing was not quite normal. Markets had become remarkably calm. History tells us that a periodic 10% decline in equity prices is common. Over the last 100+ years, a 10% correction has occurred about once per year. As of mid-2015, such a decline had not occurred in almost four years.

As the third quarter began, the Fed openly discussed raising interest rates for the first time since 2006. The Chinese economy, long a driver of economic expansion, began to cool. Against this backdrop, equity markets gave up modest gains and headed south. While the year-to-date declines are still modest, from peak-to-trough, most equity indices finally experienced a 10% correction. Of course, there has been much said in the media about what this short-term movement means for now and what it portends for the future. Respectfully, we think they are looking at the wrong thing.

A wise investor once compared short-term market movements to a person walking a dog. He said, "Imagine an excitable dog on a very long leash in New York City, darting randomly in every direction. The dog's owner is walking from Columbus Circle, through Central Park, to the Metropolitan Museum. At any one moment, there is no predicting which way the pooch will lurch. But in the long run, you know he's heading northeast at an average speed of three miles per hour. What is astonishing is that almost all of the observers, big and small, seem to have their eye on the dog, not the owner." That distinction is a key component to our method of financial planning.

Domestic Equities: Domestic equities dealt with a number of headwinds in the third quarter. In addition to the China and interest rate concerns, the continuing decline in commodity prices were on the minds of investors. The S&P GSCI Spot Crude Index fell another 24.2% for the quarter. As the booming shale fields of Texas and North Dakota cooled, people wondered if the American energy renaissance would continue. If not, what affect would it have on the multitude of industries supplying transportation and services to the industry? The S&P 500 dropped 6.4% for the quarter. Year-to-date, the index is down 5.3%. The Russell 2500, a gauge of smaller domestic stocks, fell 10.3% for the quarter. For the year, the index is down 6.0%. It should be noted that falling energy prices do have a bright side. Falling prices put money back into the pockets of consumers, thus potentially stimulating other parts of the economy.

International Equities: While some of the issues with Greece and Ukraine settled down, investors found other things to worry about. Moving from the geo-political to the economy, some investors sold. The MSCI EAFE index fell 10.2% for the quarter. Like the domestic markets, this represented giving back the gains of earlier in the year. So, even with the bad quarter, the index is down only 5.3% for the year. Emerging markets, which are often tied to commodity-based economies, were hit the hardest. The MSCI Emerging Markets Index fell 17.9% and is down 15.5% year-to-date.

Fixed-Income: Bond prices bumped along weighing the positive and negative effects of falling commodity prices and a Fed potentially ready to finally begin raising rates. In the end, it was a stand-off. The Barclays Aggregate, a broad measure of the domestic bond market, managed to eke out a 1.2% gain for the year. That brings the calendar year performance up to 1.1%. Investors should bear in mind that rising interest rates, when they do finally come, are not necessarily a bad thing. Years of higher coupons and reinvestment are likely to overcome any price erosion over time.

Investors are always confronting uncertainty. That is the nature of investing. What makes this even more difficult is that the uncertainties are ever-changing. Over the past few years, we have grappled with an impaired economy, struggling to regain its strength. This recovery was sustained with the help of government intervention and artificially low interest rates. We made it through.

Over the next several years, the challenges will be different. Now that the crisis has passed, we must eventually adjust to the withdrawal of fiscal stimulus. This will likely mean that, somewhere along the way, interest rates will return to more normal levels. This will not necessarily be a bad thing. It could mean that the economy is finally strong enough to stand on its own. There will be fits and starts along the way as we make the transition. We will make it through those as well.

Our analogy about the man walking the dog might seem simple and quaint. The underlying principles are profound, if properly applied. First, observe the entire situation and separate the few important factors from the overwhelming noise. Secondly, use the information available to quantify and monitor possible outcomes. Lastly, and perhaps most importantly, during times of great distraction, remember that there is a person at the core of your analysis.

It is possible that the current return of volatility in the markets will continue. We are ready for that. Our principles will get us through whatever comes. After all, this is just a return to the normal state of the markets. Fortunately, there are things we can do. We listen carefully to your goals. Then, we apply our unique discipline and intelligent allocation toward helping you accomplish them. This is our approach in all market environments.

We will be in touch soon. In the meantime, if anything has changed or if you need anything, please let us know.

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Source of data — Morningstar, U.S. Department of Commerce, Wall Street Journal, St. Louis Federal Reserve, Bloomberg, The Federal Reserve. The performance of an unmanaged index is not indicative of the performance of any particular investment. It is not possible to invest directly in any index. Past performance is no guarantee of future results. This material represents an assessment of the market environment at a specific point in time and is not intended to be a forecast of future events, or a guarantee of future results. 3 year performance data is annualized. Bonds have fixed principal value and yield if held to maturity and the issuer does not enter into default. Bonds have inflation, credit, and interest rate risk. Treasury Inflation Protected Securities (TIPS) have principal values that grow with inflation if held to maturity. High-yield bonds (lower rated or junk bonds) experience higher volatility and increased credit risk when compared to other fixed-income investments. REITs are subject to real estate risks associated with operating and leasing properties. Additional risks include changes in economic conditions, interest rates, property values, and supply and demand, as well as possible environmental liabilities, zoning issues and natural disasters. Stocks can have fluctuating principal and returns based on changing market conditions. The prices of small company stocks generally are more volatile than those of large company stocks. International investing involves special risks not found in domestic investing, including political and social differences and currency fluctuations due to economic decisions. Investing in emerging markets can be riskier than investing in well-established foreign markets.
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IMPORTANT YEAR-END INFORMATION

By Patrick Walsh
CFP®
Associate Planner

If you are going to want a distribution other than what is already scheduled from your IRA, want to make charitable donations, or any other "has to be done before year-end" event, please notify us no later than December 1 to ensure that it gets done before year-end. This will give us time to send the paperwork to you, get it back, and get it processed. We cannot make promises after that date.

As a reminder, if your scheduled IRA distribution normally occurs during the middle or end of the month, your December distribution will be processed during the first couple of weeks in December (the exact date has not yet been determined). This is done in order to ensure that there are no complications with your December distribution, due to the high volume of requests the back office receives at year-end. You will not be receiving another distribution after that until your regularly scheduled date in January. Also, if you want a distribution to occur in early January 2016, please contact us in early December so that we can send you the paperwork to avoid any delays in processing your requests on a timely basis.

REQUIRED MINIMUM DISTRIBUTIONS FOR 2015

As a reminder, if you are over the age of 70 ½ or have an Inherited IRA, the IRS requires you to take a Required Minimum Distribution (RMD) from your IRA accounts. Throughout the year, we review this amount for those required to take distributions from their Lincoln Financial IRA accounts. Most clients have scheduled IRA distributions that will satisfy the requirements.

However, anyone who has a remaining RMD requirement for 2015 will be contacted by our office in November. In addition, on an annual basis during the month of February, we notify all clients (both current and any new clients who will be required to take an RMD in the new year) of the dollar amount they need to withdraw from their Lincoln Financial IRA accounts.

POTENTIAL YEAR-END TAX IDEAS

The Gifts That Give Back

If you itemize your deductions, consider donating money or property to charity before the end of the current tax year in order to increase the amount you can deduct on your taxes. As an aside, now is also a good time to consider making non-charitable gifts. You may give up to $14,000 in 2015 (twice that amount for a married couple) to as many individuals as you want without incurring any federal gift tax consequences. If you gift an appreciated asset, you won't have to pay tax on the gain; any tax is deferred until the recipient of your gift disposes of the property.

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Postpone the Inevitable

To reduce your taxable income this year, consider maximizing pretax contributions to an employer-sponsored retirement plan such as a 401(k). You won't be taxed on the contributions you make now, and you may be in a lower tax bracket when you do eventually withdraw the funds and report the income. (Note that if you take withdrawals from the plan before age 59 ½, you'll generally be subject to a 10 percent pe nalty tax in addition to any income tax due, unless an exception applies.)

If you qualify, you might also consider making either a tax-deductible contribution to a traditional IRA or an after-tax contribution to a Roth IRA. In the first instance, a current income tax deduction effectively defers income – and its taxation – to future years (as with a retirement plan, an additional 10 percent penalty tax will apply to withdrawals made prior to age 59 ½ in addition to any income tax due, unless an exception applies). In the second instance, while there's no current tax deduction allowed, qualifying distributions you take later will be tax free. You'll generally have until the due date of your federal income tax return to make these contributions.

Tax planning can be complicated. Consider seeking the assistance of a tax professional to determine what year-end tax planning moves, if any, are right for your individual circumstances.

THE PERFECT GIFT

By Kim Stark
Family Wealth Advisor

As crazy as it seems, the holiday season will be here before we know it. I just saw my first Christmas commercial. Can't say it puts me in the spirit while it's 85 degrees outside, but this early date provides plenty of time for you to consider the perfect gift. This won't be as exciting as the Nutcracker, but keep reading and hopefully you will discover information that could be of value.

Client: What kind of a gift were you thinking of, Kim?
In the financial world (the IRS part of it), a gift is something that you give away forever and the recipient doesn't have to give you anything in return of equal value. This can include cash, stocks, bonds, jewelry, gold, etc. If you sell something to someone for less than its fair market value, that can be considered a gift. The same applies if you forgive a debt or make a loan interest-free or below the market interest rates.

Client: Ok, sounds good so far. How much can I/we gift?
In 2015, you can give a gift of $.01 to $14,000 during the calendar year. This would include certain types of property, including stocks and bonds. If you are married, you can do gift splitting. As an extreme example, if spouses have ten children, one spouse can gift each one $14,000 and the other spouse can also gift $14,000 for a total of $280,000 without violating the rules or affecting your lifetime exclusion that we'll discuss further down. For the gift splitting to work, each spouse must consent to it by filing IRS Form 709 (Gift Tax Return) when filing their taxes for that year.

Client: Whom can I make a gift to?
You can give to whomever you wish. Children, grandchildren, the UPS driver, even your favorite financial advisors. (Kidding, we are not allowed to accept gifts – bah humbug, but thanks for the thought.)

Client: What if I want to make a gift to a charitable organization or a political organization recognized by the IRS?
Any gifts made to them do not count against your annual exclusion. There are limits on the charitable donations that can be used if you itemize deductions, and there are laws governing how much can be given to a political organization, so be sure to know the facts first!

Client: What if I want to give money to my spouse to buy that sparkling new convertible or jewelry?
(Hint, hint. I hope my spouse is reading this.) Don't forget the big red ribbon around it. Not only will you be one of the nicest spouses on earth, you can spend as much on that convertible or any other gift you want for your spouse. There is no limit as long as your spouse is a U.S. citizen.

Client: We are going to help pay for our grandkid's tuition. We also have a friend who is not able to pay some medical bills that we wanted to help with. These amounts will probably exceed the $14,000.
No problem. You can pay medical expenses of <u>any amount for anyone</u> as long as you make the payments directly to a health care provider. In terms of tuition, you can pay <u>any amount for anyone</u> as long as payments are made directly to the educational institution. As an example, if grandparents want to help with a grandchild's education that will cost more than the exclusion amounts, they can pay the school directly rather than giving the money to the student or parent. (You are welcome kids and grandkids. Yellow roses are my favorite).

Client: What if we wanted to give our kids $100,000 for a down payment on a home?
First, we suggest you strongly consider making it a gift, not a loan. Giving it as a loan could have an impact on the borrower's ability to qualify for a mortgage. Typically, mortgage lenders will let people use money received from gifts to cover a down payment or closing costs, or add to their savings. If money is being borrowed, the homebuyer is required to disclose that loan, which could alter their evaluation of the borrower's debt-to-income ratio, affecting the homebuyer's ability to pay back a mortgage. So, what is the method for providing the $100,000 and not exceeding the allowances? Let's assume there is a grandpa, grandma, adult son, daughter-in-law and grandson. Grandpa could give $14,000 to the son, $14,000 to the daughter-in law and $14,000 to the grandson. Grandma can do the same. That comes to $84,000. That is the limit for this year. January 1 next year, an additional $16,000 can be gifted – divided appropriately. Can't wait until next year for the extra $16,000? Don't panic, there's a solution. The suspense will keep you reading.

Client: Ok, so obviously there are tax issues somewhere. What type of tax reporting will we need to do? How much will this cost me or the recipient in taxes?
As long as you don't exceed the $14,000 annual gifting allowance, no paperwork is needed; no taxes are due by either party – Happy Holidays! Even better, with high dollar amount limitations, gifts made to qualified charitable organizations can be used as an itemized deduction on your tax return (political campaigns cannot). Happy, Happy Holidays!

In ADDITION to being able to gift $14,000 per year, there is a lifetime exclusion which applies to federal estate AND gift taxes combined. For estates of those who die in 2015, you can leave up to $5.43 million that is free of federal taxes. There is also a feature termed "portability," which simply means that your spouse is allowed a separate exemption, giving couples a total exemption of $10.86 million. The provision lets any unused exemption from the spouse who dies first be given to the surviving spouse. This ends the suspense I mentioned above of how to gift more than the annual gifting limits without paying taxes. The gift that exceeds the $14,000 will go against the $5.43 million estate tax exemption. If you give gifts above the annual allowance, your CPA must file an IRS Form 709 (Gift Tax Return) in order to have the overage applied towards your lifetime tax exemption, thereby reducing the exemption available for estate taxes. There's a lot of leeway there before concern about reducing the exemption available for estate taxes.

The lifetime exclusion that applies to federal estate and gift taxes is indexed annually for inflation.

As with all things involving the government, there are lots of "ifs, ands or buts" between the lines that are a whole lot longer and provide more detail. "Complicated" is how the IRS describes the tax code regarding the gift tax. As always, it pays to have professionals on your side who can help make it less complicated based on your specific wishes. Don't go it alone.

It's a new world we live in, so let me clarify my use of the word "spouse" that I've consistently used in this article. According to the IRS: "For federal tax purposes, the terms 'spouse,' 'husband,' and 'wife' include individuals of the same sex who were lawfully married under the laws of a state whose laws authorize the marriage of two individuals of the same sex and who remain married." I assume that language will change with the new laws that have recently passed, but the general concept will be the same.

The best gifts I receive are my family, friends, good health and working with very special clients and coworkers. Happy Holidays to all.