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We hope you find these articles both interesting and informative. Thank you for your continued trust in us as your advisory team!

Best Regards --

The SFP Wealth Team

## November 2019

Ten Year-End Tax Tips for 2019

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# The SFP Wealth Advisor

## Retirement Plan Edition

### Earnings Season: What Investors Can Take Away from Corporate Reports



Publicly traded companies are required to report their financial performance to regulators and shareholders on a quarterly basis. Earnings season is the often-turbulent period when most companies

disclose their successes and failures.

U.S. companies included in the S&P 500 index suffered year-over-year earnings declines in the first two quarters of 2019.<sup>1</sup> Rising wages and higher material costs (partially due to tariffs imposed on traded goods) had started to cut into profit margins.<sup>2</sup>

Earnings reports are closely watched because they reveal a corporation's bottom line. However, they generally reflect past performance and may have little to do with future results.

#### Performance lingo

A quarterly report includes unaudited financial statements, a discussion of the business conditions that affected financial results, and some guidance about how the company expects to perform in the following quarters. Financial statements reveal the quarter's profit or net income, which must be calculated according to generally accepted accounting principles (GAAP). This involves subtracting operating expenses (including depreciation, taxes, and other expenses) from net income.

Earnings per share (EPS) represents the portion of total profit that applies to each outstanding share of company stock. EPS is often the figure that makes headlines, because the financial media tend to focus on whether companies meet, beat, or fall short of the consensus estimate of Wall Street analysts. A company can beat the market by losing less money than expected, or can log billions in profits and still disappoint investors who were counting on more.

An earnings surprise — whether EPS comes in above or below expectations — can have an immediate effect on a company's stock price.

#### Shaping perception

In addition to filing regulatory paperwork, many companies announce their results through press releases, conference calls, and/or webinars so they can influence how the information is judged by analysts, financial media, and investors.

Pro-forma (or adjusted) earnings may exclude nonrecurring expenses such as restructuring costs, interest payments, taxes, and other unique events. Although the Securities and Exchange Commission has rules governing pro-forma financial statements, companies have leeway to highlight the positive and minimize the negative. There may be a vast difference between pro-forma earnings and those calculated according to GAAP.

Many companies also take steps to manage expectations. Issuing profit warnings or positive revisions to previous forecasts may prompt analysts to adjust their estimates accordingly. Companies may also be able to time certain business moves to help meet quarterly earnings targets.

The media hype surrounding an earnings surprise can sometimes draw attention away from important details that may be revealed in a company's quarterly report. Factors such as sales growth, research and development, new products, consumer trends, government policies, and global economic conditions can all affect a company's longer-term prospects.

*The return and principal value of stocks fluctuate with changes in market conditions. Shares, when sold, may be worth more or less than their original cost. The S&P 500 is an unmanaged group of securities that is considered to be representative of the U.S. stock market in general. The performance of an unmanaged index is not indicative of the performance of any specific investment. Individuals cannot invest directly in an index.*

<sup>1</sup> FactSet, August 9, 2019

<sup>2</sup> Reuters, April 9, 2019



# Ten Year-End Tax Tips for 2019



## **Timing of itemized deductions and the increased standard deduction**

*Recent tax law changes substantially increased the standard deduction amounts and made significant changes to itemized deductions. It may now be especially useful to bunch itemized deductions in certain years; for example, when they would exceed the standard deduction.*

## **IRA and retirement plan contributions**

*For 2019, you can contribute up to \$19,000 to a 401(k) plan (\$25,000 if you're age 50 or older) and up to \$6,000 to traditional and Roth IRAs combined (\$7,000 if you're age 50 or older). The window to make 2019 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 (not including extensions) to make 2019 IRA contributions.*

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

### **1. Set aside 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 if you'll be paying taxes at a lower rate in one year than in the other. However, the window for most tax-saving moves closes on December 31, so don't procrastinate.

### **2. Defer income to next year**

Consider opportunities to defer income to 2020, 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 current 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 2020) could make a difference on your 2019 return.

### **4. 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. For example, if you're subject to the AMT in 2019, prepaying 2020 state and local taxes probably won't help your 2019 tax situation, but could hurt your 2020 bottom line. Taking the time to determine whether you may be subject to the AMT before you make any year-end moves could help you avoid a costly mistake.

### **5. Bump up withholding to cover a tax shortfall**

If it looks as though you're going to owe federal income tax for the year, especially if you think you may be subject to an estimated tax penalty, consider asking your employer (on Form W-4) to increase your withholding for the remainder of the year to cover the shortfall. The biggest advantage in doing so is that withholding is

considered as having been paid evenly throughout the year instead of when the dollars are actually taken from your paycheck. This strategy can also be used to make up for low or missing quarterly estimated tax payments. With all the recent tax changes, it may be especially important to review your withholding in 2019.

### **6. Maximize retirement savings**

Deductible contributions to a traditional IRA and pre-tax contributions to an employer-sponsored retirement plan such as a 401(k) can reduce your 2019 taxable income. If you haven't already contributed up to the maximum amount allowed, consider doing so by year-end.

### **7. Take any 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 for the employer sponsoring the 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 any amount that you failed to distribute as required.

### **8. Weigh year-end investment moves**

You shouldn't let tax considerations drive your investment decisions. However, it's worth considering the tax implications of any year-end investment moves that you make. For example, if you have realized net capital gains from selling securities at a profit, you might avoid being taxed on some or all of those gains by selling losing positions. Any losses over and above the amount of your gains can be used to offset up to \$3,000 of ordinary income (\$1,500 if your filing status is married filing separately) or carried forward to reduce your taxes in future years.

### **9. Beware the net investment income tax**

Don't forget to account for the 3.8% net investment income tax. This additional tax may apply to some or all of your net investment income if your modified adjusted gross income (AGI) exceeds \$200,000 (\$250,000 if married filing jointly, \$125,000 if married filing separately, \$200,000 if head of household).

### **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 and help you determine if any year-end moves make sense for you.



### **How much will you spend this year?**

*In October 2018, the National Retail Federation projected that consumers were planning to spend more than \$1,000 on holiday-related purchases over the entire season, which was a 4% increase over 2017. For 2019 figures, typically released in late October, please visit the [organization's website](#).*

### **There's an app for that, too?**

*You can even find an app that will help you locate your car in the shopping mall parking lot.*

## **Tips for Managing Your Holiday Spending**

Like almost everything else these days, the holidays have become a barrage of options and choices, with nearly limitless opportunities to overspend. Here are some tips to help you make sure your family's spending remains in check this holiday season.

### **Develop a spending strategy**

First and foremost, **develop a budget.**

Involving family members will help you establish and maintain realistic expectations at the outset. Remember to include not just gifts, but also holiday meals and parties, travel, greeting cards and stamps, gift wrap, decorations, and any other category you deem necessary. This is also a good time to commit to using cash or charging no more than you can pay off in one month.

Next, **devise a method of tracking all your purchases**, receipts, gift recipients, and the locations of hidden gifts that you might otherwise forget about. This will make life easier as the chaos ramps up.

**Review your credit cards** to see if you have any perks. Could you use earned points for travel, or cash-back and gift card rewards to help defray costs?

**Track down old gift cards** and put them to use now. If you think you'll never use them, trade them in for cash on a discounted gift card website. There, you can sell your old cards and even buy new e-gift cards at a discounted rate, which you can then give as gifts or use for your own purchases.

**Put technology to work for you.** You can find apps that offer cash back if you shop online; alert you to online coupons available at nearby stores; round up your purchases to the nearest dollar and put the difference into a savings account; and track your online purchases, scan other stores for better prices, and then automatically email the original stores on your behalf to take advantage of the price-match guarantees. There are myriad options available, so be sure to check reviews and privacy/security measures before downloading.

### **Think creatively**

**Gifts.** Take time to carefully scan all promotional materials before you head out the door or open a browser, because great deals are often available for limited periods of time. For example, some stores have offered generous gift cards in exchange for buying certain products on Black Friday.

Consider giving experiences rather than gifts, which happiness experts say could lead to more sustained levels of well-being. In fact, you

may find that you'll spend less overall by giving one or two memorable experiences instead of the usual pile of items.

Create meaningful yet inexpensive gifts, such as photo books, calendars, and family recipe books, using online apps and services. This idea is especially appropriate for gifts from children to older family members.

For larger or extended families, make a game out of gift giving. Consider a "Yankee swap," or implement a gift exchange, where everyone is randomly assigned a person for whom they buy one special gift. Or consider having the entire family chip in a certain amount per person and donating to a favorite charity or sponsoring another family in need.

**Food.** Nonperishable holiday-related goods typically go on sale in late fall, so plan ahead and stock up. Also keep an eye out for specials; for example, some grocery stores offer a free turkey around Thanksgiving when you spend a certain amount on groceries.

### **Party planning, decorations, gift wrap.**

Consider buying the bulk of these supplies at deep-discount stores and splurging on a few special highlight items, such as napkins with an elaborate design, centerpieces of fresh flowers, or fancy bows. If you live in an area where evergreens, autumn berries, and pine cones are plentiful, take advantage of this potentially sophisticated, yet *completely free*, decor. Or create even more memories by hosting an ornament-making party. Use old costume jewelry or other items to make ornaments and decorations with sentimental value.

**Travel.** During one of the busiest travel times of the year, deals can be hard to find. Here are some tips:

- Be flexible. If you can postpone your celebration until after the holidays, you may be able to save substantially on travel costs. (You can also shop the post-holiday sales for gifts!)
- Avoid airline baggage fees by using carry-on luggage.
- Use fare-tracking apps to find the best deals.
- Cost-compare alternative modes of travel, such as train and ridesharing.

### **It's never too early to start saving**

Finally, get a jump on next year's festivities by stocking up on supplies during post-holiday sales, opening a savings account with a goal of saving at least as much as you spend this year, and shopping as early as possible to spread spending throughout the year.

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## Should parents "go for broke" on youth sports?

Many parents encourage their kids to play organized sports because they believe the experience will be good for their physical and mental well-being. Athletic participation often provides an opportunity to instill discipline and develop social skills that could have a positive impact on their children's futures.

But kids play has morphed into big business. In 2018, the size of the U.S. youth sports market was estimated to be about \$17 billion.<sup>1</sup>

The costs can really add up at more competitive levels, when payments for professional instruction, specialty equipment, and travel kick into high gear. On average, families with children who competed on elite teams spent an average of \$3,167 per player in 2018, up from \$1,976 in 2013.<sup>2</sup>

Lofty hopes and dreams might inspire some parents to overspend on youth sports. In fact, surveys suggest that many parents are willing to make big financial sacrifices to cover athletic costs, possibly even taking on credit card debt or delaying retirement.<sup>3</sup> Unfortunately, some parents may have unrealistic expectations, such as those who are confident their children

will become professional athletes, despite the very long odds against it.

Parents who assume that investing in athletics will pay off with college scholarships are also likely to end up disappointed. Only about 2% of high school athletes benefit from athletic awards, and few of them are "full rides." Coaches often have more roster spots to fill than available scholarships, so many athletes receive partial awards that may cover only a small fraction of tuition costs.<sup>4</sup>

Although most parents have good intentions, there may be some unhealthy side effects. According to a 2016 research study, young athletes whose families devoted a large portion of their household income to sports felt more pressure to succeed and were less likely to enjoy the experience.<sup>5</sup> And even if their kids love to play, parents should attempt to keep the costs in an affordable range so that other important financial goals (such as saving for college and retirement) are not neglected.

<sup>1</sup> WinterGreen Research, 2018

<sup>2-4</sup> *The Wall Street Journal*, April 21, 2019

<sup>5</sup> *Family Relations*, April 2016



## What health services aren't covered by Medicare?

Original Medicare — Part A hospital insurance and Part B medical insurance — offers broad coverage, but many services are not covered.

Some may be fully or partially covered by a Part C Medicare Advantage Plan, which replaces Original Medicare, or a Medigap policy, which supplements Original Medicare. Both are offered by Medicare-approved private insurers. (You cannot have both a Medicare Advantage Plan and a Medigap policy.)

Whether you are looking forward to Medicare in the future or are already enrolled, you should consider these potential expenses.

### Deductibles, copays, and coinsurance.

Costs for covered services can add up, and — unlike most private insurance — there is no annual out-of-pocket maximum. Medicare Advantage and Medigap plans may pay all or a percentage of these costs and may include an out-of-pocket maximum.

**Prescription drugs.** For coverage, you need to enroll in a Part D prescription drug plan or a Medicare Advantage plan that includes drug coverage.

**Dental and vision care.** Original Medicare does not cover routine dental or vision care. Some Medicare Advantage and Medigap plans may offer coverage for either or both of these needs. You might also consider private dental and/or vision insurance.

**Hearing care and hearing aids.** Some Medicare Advantage plans may cover hearing aids and exams.

### Medical care outside the United States.

Original Medicare does not offer coverage outside the United States. Some Medicare Advantage and Medigap plans offer coverage for emergency care abroad. You can also purchase a private travel insurance policy.

**Long-term care.** Medicare does not cover "custodial care" in a nursing home or home health care. You may be able to purchase long-term care (LTC) insurance from private insurers.

*A complete statement of coverage, including exclusions, exceptions, and limitations, is found only in the LTC insurance policy. It should be noted that LTC insurance carriers have the discretion to raise their rates and remove their products from the marketplace.*