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Consider These Tax Strategies

As year-end rapidly approaches, it's a good time to take a look at your tax situation. You still have time to take action that could reduce your income tax liability for 2013. Here are some tips to consider:

✔ **Sell stocks with losses to offset capital gains.** If you have capital gains income but are holding stocks with losses, consider selling those stocks to offset the capital gains. Excess losses may be used to offset up to $3,000 of ordinary income, and the unused portion can be carried forward until utilized.

✔ **Contribute the maximum amount to your 401(k) plan.** Make sure you are contributing as much as possible to your 401(k) plan. Unless you have a Roth 401(k), contributions are made from pretax dollars. The maximum contribution to a 401(k) plan in 2013 is $17,500, plus individuals age 50 and over can make an additional catch-up contribution of $5,500, if permitted by the plan.

✔ **Decide which type of IRA to contribute to and then do so as soon as possible.** Decide whether you should contribute to a traditional deductible or Roth IRA. Although you have until April 15, 2014, to make your 2013 contribution, contribute as soon as possible to allow your funds to compound tax deferred or tax free for a longer time. The maximum IRA contribution in 2013 is $5,500, with an additional $1,000 catch-up contribution for individuals age 50 or older.

✔ **Replace loans that generate personal interest with mortgage loans or home-equity loans.** Personal interest cannot be deducted on your tax return, while mortgage interest and home-equity loan interest can, as long as the mortgage does not exceed $1,000,000, and the home-equity

Continued on page 2

Planning Year-Round

Many people confuse tax planning with tax preparation and only think about the subject when preparing their annual tax return. However, there is little you can do to actually lower your tax bill when preparing your return. If your goal is to reduce income taxes, you need to be aware of tax planning opportunities throughout the year.

Take time early in the year, perhaps as part of the tax preparation process, to assess your tax situation, looking for ways to reduce your tax bill. During the year, consider the tax consequences before making important financial decisions. This will prevent you from finding out later that there was a better way to handle the transaction for tax purposes.

Look at your tax situation again in the fall, which gives you plenty of time before year-end to implement any additional tax-planning strategies. At that point, you'll also have a better idea of your expected income and expenses for the year. You may then want to use strategies you hadn't considered earlier in the year, such as selling investments at a loss to offset capital gains. ❍❍❍

Tax Strategies

Continued from page 1

loan does not exceed $100,000.

✔ **Determine whether you should bunch income or expenses for 2013.** Depending on your overall tax situation, it may make sense to accelerate or defer income and expenses. Some deductions that can be accelerated or deferred include payment of property taxes, estimated state taxes, medical expenses, and charitable contributions. Income that can typically be deferred includes self-employment income and year-end bonuses or commissions.

✔ **Donate appreciated stock held over a year to a charitable organization.** You can deduct the stock's fair market value as a charitable contribution without paying the capital gains tax.

✔ **Sell assets on the installment basis.** You can use this method to sell certain capital assets, particularly real estate, which will typically allow you to recognize the gain as the installments are collected, rather than in total in the year of sale. You may also want to consider a like-kind, or section 1031, exchange, which allows you to defer any tax.

✔ **Consider transferring appreciated assets to children.** If the children are in the 10% or 15% tax bracket, they can sell the asset and pay no capital gains taxes. These transfers can be made as part of your annual tax-free gifts, with a maximum tax-free transfer of $14,000 in 2013 ($28,000 if the gift is split with your spouse). However, be aware of the kiddie tax rules, which apply to all children under age 19 and to students under age 24. If the earned income of an individual over age 17 exceeds half of his/her support, the kiddie tax does not apply. The kiddie tax refers to the manner in which unearned income is taxed for children. In 2013, the first $1,000 of unearned income is tax free, the second $1,000 is taxed at the child's marginal tax rate, and any remaining unearned income is taxed at the parents' marginal tax rate. Once the individual exceeds the age limits, all unearned income is taxed at his/her marginal tax rate.

✔ **Familiarize yourself with all types of income tax deductions, exemptions, and credits.** There are a wide variety available, and you should be aware of any that apply to you. Each has different eligibility criteria, so you need to be familiar with all of them to determine which will work best in your situation.

✔ **Consider your long-term planning needs.** In addition to lowering income taxes for 2013, you also want to find strategies to lower taxes in future years. Thus, it is a good time to review your entire tax situation to see if other changes are warranted.

Please call if you'd like to review your tax situation in more detail. ❍❍❍

Long-Term Portfolio Management

Are you an investor or a trader? If you're a trader, then knowing what the indicators are showing month-to-month can be critical to your success. On the other hand, if you're in the markets for the long haul and looking to capture the benefits of long-term trends in the markets, indicators shouldn't matter to you as much. Instead, you should focus on the tools that maximize your long-term rate of return while managing the risks you take. The basic tools for long-term portfolio management are:

Asset allocation. A long-term asset allocation strategy aims at determining an optimal mix of stocks, bonds, and cash equivalents in your portfolio to suit how much risk you're willing to take for the potential rate of return you want and need to meet your objectives. The benefit of investing in all three asset classes is diversification — spreading investments among assets that have different cycles of return.

Portfolio rebalancing. The technique is relatively simple: once a year (or some other predetermined time period), compare the percentage of your assets in each class to your strategy. Then sell some assets from the categories that are larger than your strategy calls for and use the proceeds to buy more assets that decreased in value. The principle is that rebalancing forces you to sell high and buy low.

Dollar cost averaging. The method is to invest a set amount of money on a recurring basis in each asset class. By continuing to make purchases when prices decline, you buy more shares than you do when prices are high. Keep in mind that dollar cost averaging neither guarantees a profit nor protects against loss in a prolonged declining market. Because dollar cost averaging involves continuous investment regardless of fluctuating price levels, investors should carefully consider their financial ability to continue investment through periods of low prices.

Between the strategies of trading actively and managing your portfolio for the long term is a technique called "tactical asset allocation." This involves moving significant chunks of your portfolio from one asset class to another, depending upon changing prospects for risk and reward in each asset class.

Trading involves market timing which, in turn, depends on reading market and economic indicators with precision. It can be very difficult to do well.

To determine the approach for you, please call. ❍❍❍

Building and Managing Your Rainy Day Fund

According to a study released by the Federal Reserve this year, Americans rank a rainy day fund as their top priority for saving money.

The study found that the average size of Americans' ideal rainy day fund is between 9% and 14% of their income — which translates to a little more than one month of paychecks.

The findings are surprising because for years studies by mutual fund and insurance companies have ranked retirement funding as Americans' number-one concern, not savings. But what many might find most surprising is how much Americans feel they need to put aside for an emergency.

The common advice among planners is that to be well protected against the loss of a job or large uncovered medical expenses, six to 12 months of income is needed.

Considering that some 12 million Americans are still unemployed and that the average length of unemployment is more than nine months, it appears that the common advice is worth heeding. The truth is, however, that how big your own emergency fund needs to be depends on your own unique circumstances.

So what is the right amount and where should you keep it? Here are some considerations:

How secure is your income? The rule of thumb here is: the less secure your job is, the bigger your rainy day fund needs to be. A household with two incomes is more secure than a household with just one. Someone who holds a union-protected job has an income that is more secure than a commissioned salesperson, and a college-educated, white-collar employee is generally more secure than someone who hasn't finished high school.

How flexible is your lifestyle? If you spend a lot on luxuries and entertainment, you may find it easier to absorb a sudden loss in your income than someone who lives modestly. Big spenders might find it psychologically harder to cut back to the bare necessities; but if they can, they can get by with a fund that's a smaller percentage of their annual income than people who live modestly.

Are your expenses stable and predictable? If your home and car are in good shape, you've had all the children you plan to, and everyone in your household is in good health, you may not need a large emergency fund. The opposite is true if your family is still growing, you've put off major repairs, and/or health is an issue.

How much of your fund is in volatile investments? If the bulk of your rainy day money is in the stock market, you should protect yourself against downswings, because your job is liable to be less secure exactly when they occur. You can find some of that protection in the stock market by diversifying, but you'll also need to have more set aside.

How much are you counting on retirement savings? Retirement accounts are the last place you should turn to for emergency funds. The main reason is that you're still going to need those funds some day, and by spending them early, you're eating into your retirement fund. Nevertheless, federal law allows you to make preretirement hardship withdrawals without penalty for certain specific reasons. They include deductible medical expenses, disability, and to pay health insurance premiums if you're unemployed. But note: while withdrawals aren't subject to the usual 10% preretirement penalty, they are subject to income tax, so your funds won't go as far as you might think.

Make Your Rainy Day Fund a Top Priority

Having a rainy day fund should be one of your first financial priorities. The surest way to find the money to create it is to pay yourself first with every paycheck: authorize your bank to transfer a set amount from your checking account to a savings account, or go to the bank to make a deposit as soon as you've been paid. Think safety above all else when choosing how to invest your emergency fund.

For help deciding how much you need in your rainy day fund and the best places to keep your money, please call. ❍❍❍

News and Announcements

Today's investment environment faces many challenges. As the government decides to taper their bond purchase program, markets will have to adjust back to a normal free market trading system.

Over the past three years, the government has been spending $87 billion dollars a month on repurchasing long-term bonds with the incentive to drive interest rates to historical lows. As a result, investors who would normally invest in fixed instruments such as CDs are now taking risk by investing in the stock market. The markets have consequently reached historical highs. There is usually an inverse relationship between stocks and bonds in normal markets.

Over the past decade, as interest rates continued to lower, the bond portion of most portfolios have performed quite well and added stability to accounts. With the discussion of tapering, the markets have been jittery, and bonds appear to be moving in the same direction as the stock market. The unknown is what will happen to stock market performance as the government tapers, and most likely, bonds will perform negatively as interest rates rise.

We recognize that investing into a diversified portfolio and holding on to the investments in the portfolio may no longer be a viable way of investing. As a result, Gotleib and Associates has established a fee-only investment advisory division called Bridge Wealth Advisors. We are fortunate to be one of 40 financial advisory firms within the United States to partner with a technology company to assist us in actively managing our portfolios.

This technology provides us with a disciplined systematic process to help clients minimize market losses and retain more profits. This process helps us filter out emotional responses to the ever-growing amount of daily information. Although we recognize not all of our clients will be able to participate in this program, we do encourage you to call our office to determine if this is appropriate for you.

As always, we are here to address any questions or concerns you may have.

Investment advice offered through Bridge Wealth Advisors, a registered investment advisor. Bridge Wealth Advisors and Gotleib & Associates are separate entities from LPL Financial.

Tax Tips for the Unemployed

File your tax return. If you've been unemployed for some time, it can be easy to forget to file a tax return.

File early. When you lose a job, file your tax return for the tax year as soon as you can, because you may have a refund coming.

Your termination benefits are taxable. If you received severance pay, those amounts are fully taxable and will be included on the W-2 form.

Unemployment compensation is taxable. If you filed for and received unemployment benefits, remember that they are taxable.

Make use of tax-free state benefits. Neither food stamps nor state public assistance are taxed by the IRS.

Deduct your job-hunting expenses. If you're looking for a new job in the same line of work, your job-hunting expenses may be deductible.

Give yourself a tax break. Depending on your income level, losing your job may make you eligible for some additional tax breaks, so make sure to review your tax situation carefully. ❍❍❍

Financial Thoughts

Ten million Americans have errors on their credit reports that could raise their cost of borrowing. That's 2.2% of all credit reports (Source Federal Trade Commission, 2013).

U.S. home values increased an average of 6.3% in 2012. They are expected to rise by 5.6% in 2013. The median home price in December 2012 was $180,000, compared to $221,000 in 2006.

The average equity per homeowner was $87,000 in 2011, compared to $170,000 in 2006 (Source: *Money*, April 2013).

The average salary earned by a full-time employed male college graduate one year after graduation is $42,918, while a full-time employed female graduate earns $35,296 (Source: American Association of University Women, 2013).

Approximately 81% of all charitable tax deductions are contributed by taxpayers earning more than $100,000 per year (Source: Urban Institute's National Center for Charitable Statistics, 2013).

Since 2006, the average number of banks in the U.S. has decreased by 19.5% (Source: Federal Deposit Insurance Corporation, 2013). ❍❍❍