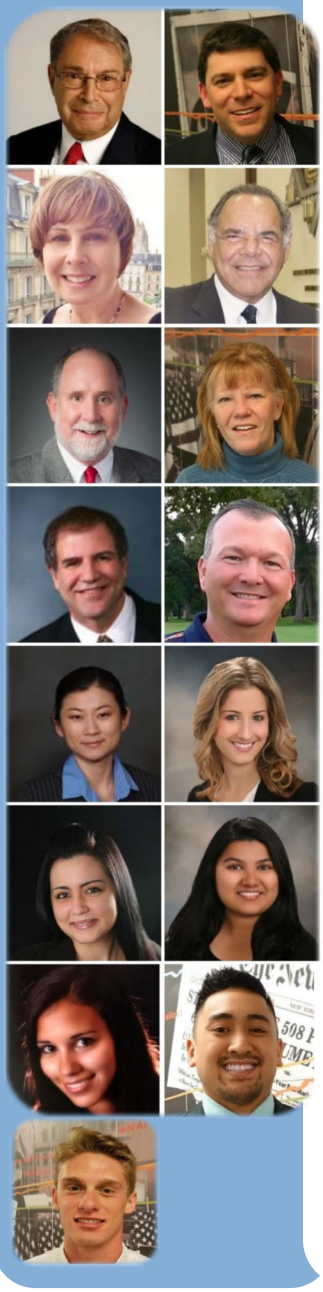
· HORWITZ ·
& ASSOCIATES
Orchestrating dreams for over 4 decades

Investment News

May 2019



Why DIY Investment Management Is Such a Risk

Paying attention to the wrong things becomes all too easy.

If you ever have the inkling to manage your investments on your own, that inkling is worth reconsidering. Do-it-yourself investment management is generally a bad idea for the retail investor for myriad reasons.

Getting caught up in the moment. When you are watching your investments day to day, you can lose a sense of historical perspective. This may be especially true in longstanding bull markets, in which investors are sometimes lulled into assuming that the big indices will move in only one direction.

Listening too closely to talking heads. The noise of Wall Street is never-ending and can breed a kind of shortsightedness that may lead you to focus on the micro rather than the macro. As an example, the hot issue affecting a sector today may pale in comparison to the developments affecting it across the next ten years or the past ten years.

Looking only to make money in the market. Wall Street represents only one avenue for potentially building your retirement savings or wealth. When you are caught up in the excitement of a rally, that truth may be obscured. You can build savings by spending less. You can receive "free money" from an employer willing to match your retirement plan contributions to some degree. You can grow a hobby into a business or even switch jobs or careers.

Saving too little. For a DIY investor, the art of investing equals making money in the markets, not necessarily saving the money you have made. Subscribing to that mentality may dissuade you from saving as much as you should for retirement and other goals.

Paying too little attention to taxes. A 10% return is less sweet if federal and state taxes claim 3% of it. This routinely occurs, however, because just as many DIY investors may play the market in one direction, they also may skimp on playing defense.

Failing to pay attention to your emergency fund. You may need more than six months of cash reserves. Many people may not have anywhere near that, and some DIY investors give scant attention to their cash position.[1]

Overreacting to a bad year. Sometimes the bears appear. Sometimes stocks do not rise 10% annually. Fortunately, you have more than one year in which to plan for retirement (and other goals). Your long-run retirement saving and investing approach – aided by compounding – matters more than what the market does during a particular 12 months. Dramatically altering your investment strategy in reaction to present conditions can backfire.

Equating the economy with the market. They are not one and the same. Moreover, some investments and market sectors can do well or show promise when the economy goes through a rough stretch.

Focusing more on money than on the overall quality of life. Managing investments – or the entirety of a very complex financial life – on your own takes time. More time than many people want to devote; more time than many people initially assume. That kind of time investment can subtract from your quality of life – another reason to turn to other resources for help and insight.

Citations.

1 - cnbc.com/2019/03/18/how-much-to-save-for-emergencies-comes-down-to-income-spending-habits.html [3/18/19]

INSIDE THIS ISSUE:

Your Financial Co-Pilot

If anything happens to you, your family has someone to consult.

If you weren't around, what would happen to your investments? In many families, one person handles investment decisions, and spouses or children have little comprehension of what happens each week, month, or year with a portfolio.

In an emergency, this lack of knowledge can become financially paralyzing. Just as small business owners risk problems by "keeping it all in their heads," families risk problems when only one person understands investments.

A trusted relationship with a financial professional can be so vital. If the primary individual handling investment and portfolio management responsibilities in a family passes away, the family has a professional to consult – not a stranger they have to explain their priorities to at length, but someone who has built a bond with mom or dad and perhaps their adult children.

You want a professional who can play a fiduciary role. Look for a financial professional who upholds a fiduciary standard. Professionals who build their businesses on a fiduciary standard tend to work on a fee basis or entirely for fees. Other financial services industry professionals earn much of their compensation from commissions linked to trades or product sales.[1]

Commission-based financial professionals don't necessarily have to abide by a fiduciary standard. Sometimes, only a suitability standard must be met. The difference may seem minor, but it really isn't. The suitability standard, which hails back to the days of cold-calling stock brokers, dictates that you should recommend investments that are "suitable" to a client. Think about the leeway that can potentially provide to a commission-based professional. In contrast, a financial professional working by a fiduciary standard always has an ethical requirement to act in a client's best interest and to recommend investments or products that clearly correspond to that best interest. The client comes first.[1]

You want a professional who looks out for you. The best financial professionals earn trust through their character, ability, and candor. In handling portfolios for myriad clients, they have learned to watch for certain concerns and to be aware of certain issues that may get in the way of wealth building or wealth retention.

Many investors have built impressive and varied portfolios, but lack long-term wealth management strategies. Money has been made, but little attention has been given to tax efficiency or risk exposure.

As you near retirement age, playing defense becomes more and more important. A trusted financial professional could help you determine a risk and tax management approach with the potential to preserve your portfolio assets and your estate.

Your family will want nothing less. With a skilled financial professional around to act as a "co-pilot" for your portfolio, your loved ones will have someone to contact should the unexpected happen. When you have a professional who can step up and play a fiduciary role for you, today and tomorrow, you have a financial professional whose service and guidance can potentially add value to your financial life.

If you're the family member in charge of investments and crucial financial matters, don't let that knowledge disappear at your passing. A will or a trust can transfer assets, but not the acumen by which they have been accumulated. A relationship with a trusted financial professional may help to convey it to others.

Citations.

1 - kiplinger.com/article/retirement/T023-C032-S014-choosing-a-financial-adviser-fiduciary-dimension.html [3/22/19]

MARKET PERFORMANCE
01/01/2019 to 04/30/2019

DJIA ^DJI Up 14.00%
S&P 500 ^GSPC Up 17.51%
NASDAQ ^IXIC Up 22.01%
Russell 2000 ^RUT Up 17.99%

* Index performance does NOT include any fees (Gross of fees)

Source: http//finance.yahoo.com

Consider an IRA Charitable Rollover

If you want a tax break and want to help a nonprofit, this may be a good move.

Have you ever wanted to make a major charitable gift? Would you like a significant federal tax break in acknowledgment of that gift? If so, an IRA charitable rollover might be a good option.

If you are age 70½ or older and have one or more traditional IRAs, you may want to explore the potential of this tax provision. In the language of federal tax law, it is called a Qualified Charitable Distribution (QCD) – a direct transfer of up to $100,000 in IRA assets to a qualified charity.[1]

An IRA charitable rollover may help you lower your adjusted gross income (AGI). That may be a goal in your tax strategy, especially if your AGI is large enough to position you for increased Medicare premiums, greater taxation of your Social Security benefits, or exposure to the 3.8% investment income tax and the Medicare surtax.

Up to $100,000 may be excluded from your gross income during the year in which you make the gift. The gifted amount also counts toward your Required Minimum Distribution (RMD).[1,2]

By the way, this $100,000 annual QCD limit is per individual taxpayer. If you are married, you and your spouse may gift up to $200,000 in a year through IRA charitable rollovers. Imagine lowering your household's AGI by as much as $200,000 in a tax year.[2]

The Internal Revenue Service will not let you claim the amount of a QCD as a deduction on Schedule A. (That would amount to a double tax break.)[1]

You need not be rich to do this. When many people first learn about the IRA charitable rollover, they think it is only for multimillionaires. That is a misconception. Even if you do not think of yourself as wealthy, a QCD could prove a significant element in your tax strategy.

How does it work? Logistically speaking, an IRA charitable rollover has to unfold in a certain way. The custodian or trustee overseeing your IRA must either make the gift to the charity for you or give you a check made payable to the charity for the amount of the gift.[2]

Do not simply take a distribution from your IRA and then write a check to the charity. That does not qualify as a QCD. If you make this mistake, the money you have taken out of your IRA will simply be included in your gross income for the year, and you may not even be able to claim a charitable contribution deduction for your efforts.[2,3]

An IRA owner must be age 70½ or older to do this; the gifted assets must come from an IRA, or multiple IRAs, and are subject to RMD rules. (SEPs and SIMPLE IRAs are ineligible if an employer contribution has been made for the particular year.)[1,2]

The charity or nonprofit involved must pass muster with the I.R.S. It must be a public charity eligible for charitable contribution deductions; that is, it must qualify as 501(c)(3) eligible. It cannot be a donor-advised fund or a private foundation. The charity should provide you with a letter of acknowledgement of your gift, for federal tax purposes. If that letter is not quickly sent to you, be firm in requesting it. It should state that you have received no gift, reward, or benefit from the charity in exchange for your contribution.[2,3]

If you pledge a donation to a qualified charity or nonprofit, an IRA charitable rollover can be used to satisfy your pledge.[2]

This tax break has been a boon to charities and IRA owners alike. Correctly performed, a charitable IRA rollover may help to lessen tax issues while benefiting qualified nonprofit organizations.

Citations.
1 - investopedia.com/taxes/can-i-use-money-my-ira-donate-charity/ [11/21/18]
2 - forbes.com/sites/bobcarlson/2018/04/13/why-retirees-should-make-charitable-contributions-from-their-iras [4/13/18]
3 - forbes.com/sites/frankarmstrong/2018/10/19/tax-magic-for-seniors-the-qcd [10/19/18]

We hope you enjoy our newsletter!
Please e-mail us any topics you would like to see covered in future newsletters.

We welcome your referrals and feedback. Please feel free to share this newsletter with your family and friends.

The Chapters of Retirement

The five phases of life after 50 & the considerations that accompany them.

The journey to and through retirement occurs gradually, like successive chapters in a book. Each chapter has its own things to consider.

Chapter 1 (the fifties). At this stage of life, retirement becomes less like a far-off dream and more like a forthcoming reality. You begin to think about when you can retire and about taking the right steps to retire comfortably.

During your fifties, you may contend with "lifestyle creep" – the phenomenon of your household expenses growing along with your pay raises. These increased expenses may include housing costs, education costs, health care costs, and even eldercare costs. Despite these financial strains, the inflow of new money into retirement accounts must not cease; your retirement plan assets should not be drawn down through loans or withdrawn too early.[1]

Chapter 2 (the early sixties). The anticipation builds at this point; you start to think about the process of retiring and the precise financial and lifestyle steps involved. You also begin to think about the near future – not only what you will do next, but how you will do it.

You may have to act on your plans to volunteer or start an encore career earlier than you think. If you do not have a set plan for the next chapter, a phased retirement may give you more of an opportunity to determine one.

This is also a time to dial down risk in your portfolio, especially if a bear market occurs right before you retire. You have little time to recover from a downturn.

Chapter 3 (the start of retired life). The first year or so of retirement is akin to a "honeymoon phase" – you have the time and perhaps the money to pursue all kinds of dreams. The key is not to spend wildly. Lifestyle creep also affects new retirees; free time often means more chances to spend money.

Chapter 4 (the mid-sixties through the late seventies). This is when some people get a little restless. It is also when some people find their retirement savings growing disturbingly smaller. You may get bored with an all-leisure, all-the-time lifestyle and decide to volunteer or work on your own terms, health permitting. You may want to adjust your retirement income strategy or see if new streams of income can be arranged.

Chapter 5 (eighty & afterward). The last chapter of retirement is one frequently characterized by the sharing of legacies and life lessons, a new perspective on the process of living and aging, and deeper engagement (or reengagement) with children and grandchildren. This is also the time when you should think about your financial legacy and review or update your estate plan, so that when you leave this world, things are in good order, and your wishes are followed.

Before and during your retirement, it is wise to keep in touch with a financial professional who can guide and consult you when questions about income, investments, wealth protection, and wealth transfer arise.

Citations.
1 - forbes.com/sites/camilomaldonado/2018/08/23/slippery-slope-lifestyle-creep [8/23/18]

HORWITZ & ASSOCIATES
1650 LAKE COOK ROAD
SUITE 190
DEERFIELD, ILLINOIS 60015

(224) 632-4600 PHONE
(224) 632-4590 FAX
WWW.HORWITZADVISORS.COM

EDWARD HORWITZ—
ED@HORWITZADVISORS.COM

GERALD HORWITZ—
GAH@HORWITZADVISORS.COM