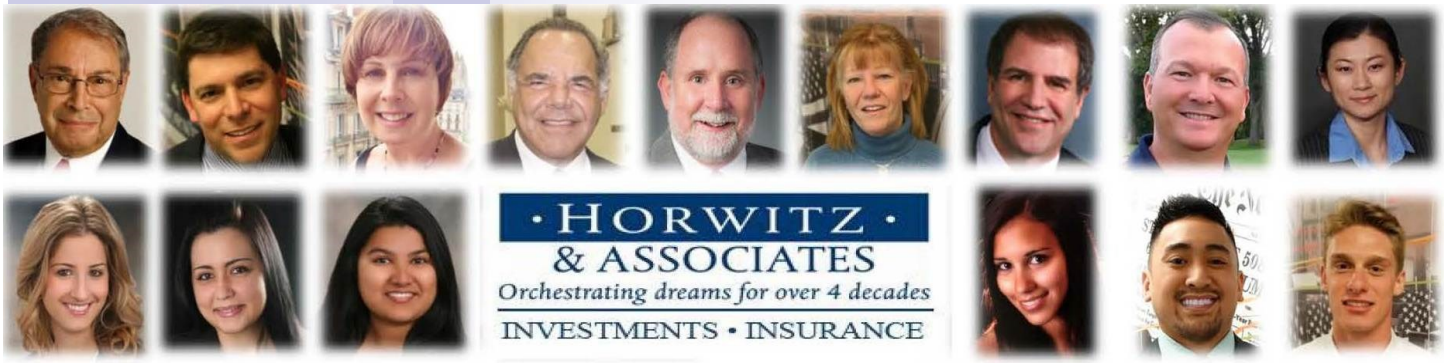
Investment News October 2018



Getting Your Personal Finances in Shape for 2019

Fall is a good time to assess where you stand and where you could be.

You need not wait for 2019 to plan improvements to your finances. You can begin now. The last few months of 2018 give you a prime time to examine critical areas of your budget, your credit, and your investments.

You could work on your emergency fund (or your rainy day fund). To clarify, an emergency fund is the money you store in reserve for unforeseen financial disruptions; a rainy day fund is money saved for costs you anticipate will occur. A strong emergency fund contains the equivalent of a few months of salary, maybe even more; a rainy day fund could contain as little as a few hundred dollars.

Optionally, you could hold this money in a high-yield savings account. A little searching may lead to a variety of choices; here in September, it is not hard to find accounts offering 1.5% or more annual interest, as opposed to the common 0.1% or less. Remember that a high-yield savings account is intended as a place to park money; if you make regular deposits and withdrawals to and from it and treat it like a checking account, you may incur fees that diminish the savings progress you make.[1]

Review your credit score. Federal law entitles you to a free copy of your credit report at each of the three nationwide credit reporting firms (Equifax, TransUnion, and Experian) every 12 months. Now is as good a time as any to request these reports; visit annualcreditreport.com or call 1-877-322-8228 to order them. At the very least, you will learn your credit score. You may also detect errors and mistakes that might be harming your credit rating.[2]

Think about the way you are saving for major financial goals. Has your financial situation improved in 2018, to the extent that you could contribute a little more money to an IRA or a workplace retirement plan now or next year? If you are not contributing enough at work to receive a matching contribution from your employer, maybe now you can.

Also, consider the way your invested assets are held. What are your current and future allocations? Some people have heavy concentrations of equities in their workplace retirement plan, IRA, or brokerage account due to Wall Street's long bull market. If this is true for you, there may be some pain when the next bear market begins. Check in on your portfolio while things are still bullish.

Can you spend less in 2019? That might be a key to saving more and putting more money into your rainy day or emergency funds. If your pay has increased, your discretionary spending does not necessarily have to increase with it. See if you can find room in your budget to possibly cut an expense and redirect the money into savings or investments.

You may also want to set some near-term financial goals for yourself. Whether you want to accomplish in 2019 what you did not quite do in 2018, or further the positive financial trends underway in your life, now is the time to look forward and plan.

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2018 Market Performance 01/01/2018 to 09/28/2018

DJIA ^DJI Up 6.48%
S&P 500 ^GSPC Up 8.50%
NASDAQ ^IXIC Up 16.10%
Russell 2000 ^RUT Up 10.49%

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

Source: http//finance.yahoo.com

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Have You Considered Charitable Gifting?

Could it make the world a better place? Could it make sense, financially?

A gift to charity may also help to improve your tax or financial situation. Here's a brief look at some popular options for charitable gifting, with potentially significant tax advantages.

Charitable Remainder Trusts (CRTs). Taxpayers with highly appreciated assets, such as stock portfolios or real estate holdings, are often hesitant to sell those assets and reinvest the proceeds because of the capital gains taxes linked to the sale. A CRT may give them a solution to this problem.

In exchange for transferring highly appreciated assets into a CRT, you may get: a) income payments from the CRT for a period of years or the rest of your life, b) a tax deduction for the present value of those assets, and c) tax-free compounding of those assets while they are held within the CRT. If the CRT is properly implemented and structured, the highly appreciated assets will eventually be sold from within the trust, exempt from capital gains taxes. Another plus: assets held within a CRT are usually held outside of a person's taxable estate.[1]

After you die, whatever assets remain in the CRT will go to the charity (or charities) of your choice. What about your heirs? You can structure a CRT in conjunction with an irrevocable life insurance trust (ILIT) so that they are not disinherited; they can receive the proceeds from the life insurance policy.[1]

A charitable remainder annuity trust (CRAT) pays out a fixed income each year, representing a fixed percentage of the initial fair market value of the asset(s) placed in the trust. In a charitable remainder unitrust (CRUT), income from the trust can increase as the trust assets gain value with time; the annual payout to the donor represents a fixed percentage of the beginning-of-the-year values of said asset(s).[2]

Charitable lead trusts (CLTs). This is the inverse of a CRT. You transfer assets to the CLT, and it annually pays a percentage of the value of the trust assets to a charity. At the end of the trust term, the remaining assets within the trust go to a non-charitable beneficiary (which could be your heirs or a family trust). By creating a CLT, you could markedly reduce your potential gift or estate tax.[1]

Charitable gift annuities. Universities often promote these charitable gifting agreements to alumni and donors. Basically, you (or you and your spouse) donate money to a university or charity in exchange for a guaranteed lifelong income stream. You may claim a partial charitable tax deduction for the donation. After you pass away, the remaining balance of your donation goes to the university or charity.[3]

Pooled income funds. In this variation on the charitable gift annuity, the assets you donate are unitized and "pooled" with the assets of other donors. Essentially, you are buying "units" in an investment pool, like an investor in a mutual fund. The rate of return on your investment (that is, your share of the net income paid out of the pooled income fund) varies per year.[4]

Pooled income funds often appeal to wealthier donors who don't have a pressing need for fixed annuity payments. You get an immediate income tax deduction for a portion of the gift, which may be spread over a few consecutive tax years. You can also put more assets in a pooled income fund over time, whereas a charitable gift annuity is based on one lump sum gift.[4]

Donor advised funds. A DAF is like a charitable savings account. You make one or more irrevocable contributions of personal assets to it, and it invests and manages those assets. Each year, the DAF makes a percentage of its assets available for grants or other programs, and you advise the fund how to donate that money. DAF contributions are tax deductible under the Internal Revenue Code. Assets in a DAF are positioned to grow tax free.[5]

Scholarships. These can be created at a school in your own name or in memory of a loved one, and you can set the criteria. Commonly, you and a financial professional can work directly with a school to create one.

Life insurance and life estate gifts. If you have an unwanted (or inadequate) permanent life insurance policy that could end up increasing the size of your taxable estate, you might want to explore gifting that policy to a charity or naming a charity as its primary beneficiary. Designating a charity as the beneficiary will route the death benefit to the charity and reduce your taxable estate by the amount of the death benefit. Gifting the policy also accomplishes this, plus it offers you a current income tax deduction for the policy's fair market value (i.e., cash value). Some policies with face values of $1 million or more now have riders that allow 1-2% of the face value to be paid to a qualified charity; often, these riders will not impact the death benefit.[7]

Life estate gifts are an interesting option allowing you to gift a paid-off home or property to a charity, university, or other non-profit, even while you live there. You may take a tax deduction based on the value of the remainder interest of the property, avoid capital gains tax that could result from its sale, and live on the property for the rest of your life.[8]

Give carefully. Remember that some charitable gifts are irrevocable. If you are thinking about making one, remember that the amount of your tax deduction could vary depending on the kind of assets you contribute and your individual tax situation. Trusts are drafted by licensed attorneys who will charge a fee for the service. Be sure to consult qualified financial, legal, and tax professionals for more information before you decide if, when, and how to give.

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Filling Out the FAFSA

There is really no reason to wait.

October is here – the ideal time for college students to apply for financial aid. October 1, in fact, marks the first day a current or future college student can submit a Free Application for Federal Student Aid, or FAFSA, for the 2019-20 academic year. Since some states offer aid on a first-come, first-serve basis, submitting a FAFSA as soon as possible is wise.[1,2]

You can even apply using your phone. Install the new myStudentAid app created by the Department of Education, available for iOS and Android operating systems. While filling out the FAFSA takes time whether you use a PC, tablet, phone, or pen, it may feel easier to start on a phone. In fact, Mark Kantrowitz, publisher of SavingForCollege.com, just remarked to CNBC that the mobile app was "much easier to use, even fun." The FAFSA asks students and parents more than 100 questions, so any degree of "fun" is good. (Thanks to the new app, you can start filling out a FAFSA on a computer and finish it on a phone, and vice versa.)[1,2]

Due to the new phone app, more FAFSAs might be filed this year. Slightly more than 20 million FAFSAs were submitted for the 2014-15 award cycle; in contrast, just over 10 million were filed for 2018-19. This decline might reflect an improved economy and a boost in household wealth, but it may be temporary.[2]

What should your student have handy while filling out the form? After creating an FSA ID (a username, a password), your student will need to reference all kinds of personal information, some of which will be yours. The FAFSA asks for birth dates, Social Security numbers, and driver's license numbers. It asks for financial information: savings account balances, home values, investment account values. (It does not require you to report balances of workplace retirement plan accounts, pension plans, or IRAs.) Untaxed income must be figured; interest income and child support fall into that category.[1]

All FAFSAs now require federal tax information from the year that is two years prior to the current award cycle. In other words, on this year's FAFSA, you need to include federal tax information from 2017. This may not be as arduous as it sounds because you can use the Internal Revenue Service Data Retrieval Tool (irsdataretrievaltool.com). This online tool lets you import your 2017 federal tax information straight into the FAFSA; it is accessed through a "Link to I.R.S." button. (Information input into the Data Retrieval Tool must match what appeared in the federal tax return.)[2,3]

A FAFSA must list at least one college or university that the student currently attends or wants to attend. When multiple schools are listed, grant awards are made to the school listed first. (Colleges and universities can also be removed from a list of multiple schools.)[1]

Anyone who provides data for a FAFSA (a student, a parent, a college access advisor) must also sign that FAFSA. Without the appropriate signatures, the application is invalid. When it comes to these signatures, here is a tip all parents should remember: never hit the "Start Over" button when you log in to add your signature. If you accidentally click on that, all the information that your student has spent hours entering will be erased.[1,2]

Financial questions should not be left blank on the FAFSA. If the answer to a question is "none," put a zero instead of nothing at all. Every monetary amount that includes cents should be rounded to the nearest dollar.[1]

Unsurprisingly, some families want help when filling out the FAFSA. Recognizing this, the Department of Education offers a 66-page guide to completing the form; you will find it at studentaid.ed.gov. It also provides a FAFSA hotline: (800) 433-3243. You may want to chat with a financial professional who focuses on college planning or a university financial aid officer for additional insight.[1]

The FAFSA is often a pathway to considerable financial assistance: grants, work study programs, federal student loans. The average FAFSA applicant for the 2015-16 school year received roughly $8,500. A FAFSA costs nothing to fill out or send around, and there is absolutely nothing to lose in submitting one.[2]

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Smart Financial & Insurance Moves for New Parents

As you start a family, consider these ideas.

Being a parent means being responsible to a degree you never have been before. That elevated responsibility also impacts your financial decisions. You are now a provider and a protector, and that reality may make the following financial moves necessary.

Think about a budget. As a couple, you may have lived for years without budgeting. As parents, this may change. You will face new recurring costs: clothes, toys, diapers, food. Keeping track of weekly or monthly expenses will be handy. (The Department of Agriculture has an online calculator where you can estimate the total cost of raising a child to adulthood. The math may surprise you: the U.S.D.A. puts the average cost at $233,610 for a middle-income family.)[1,2]

Take care of health and life insurance. Your child should be added to your health insurance plan quickly. Most insurance providers require you to notify them of a child's birth within 30 days. You can get started before then; be aware that a Social Security number and birth certificate can take weeks to arrive in the mail. If you are in a group health plan, talk with the human resources officer or benefits administrator at work, and let them know that you want to add a dependent to your health care plan. (If you have coverage through a private plan, your premiums may go up after you notify the carrier.) Under the Affordable Care Act, a parent or legal guardian who has health coverage arranged through the federal or state Marketplace has 60 days from the date of birth or adoption to enroll a child as a dependent on their plan; once that is done, health care coverage for the child will apply, retroactively.[3]

Term life insurance provides an affordable way for new parents to have some financial insulation against a worst-case scenario, and disability insurance (which may be available where you work) provides coverage in the event of an extended illness or injury that stops you from doing your job. If you have a Health Savings Account (HSA), you can contribute more per year when you have a child. The maximum annual contribution for a family is currently set at $6,850 (and for the record, the I.R.S. is allowing families to contribute up to $6,900 in 2018).[4]

Draft a will and review beneficiary designations. A will can do more than declare who receives your assets when you die. It can also name a legal guardian for your child in the event both parents pass away. Additionally, you can specify a guardian of your estate in your will, to manage the assets left to a minor child. While you may have named your spouse or partner as the primary beneficiary of your IRA or investment account, you may decide to change that or at least add your child as a contingent beneficiary.[5]

See if you can save a little for college. The estimated cost of four years at a public university starting in 2036? $184,000, CNBC reports. That may convince you to open a 529 plan or have some other kind of dedicated college savings account with investment options. Most 529 plans require a Social Security number for a beneficiary, so they are commonly started after a child is born, rather than before.[2,6]

Review your withholding status and tax forms. An addition to your family means changes. You may also become eligible for some federal tax breaks, like the Earned Income Tax Credit, the Adoption Tax Credit, the Child Tax Credit, and the Child & Dependent Care Credit.[7]

Keep the big picture in mind. You still need to build retirement savings; you still need to have an emergency fund. Becoming a family might make accomplishing those tasks harder, yet they remain just as important.

After reading all this, you may feel like you need to be a millionaire to raise a child. The fact is, most parents are not millionaires, and they manage. Whether you are wealthy or not, you will want to take care of many or all of these financial and insurance essentials before or after you bring your newborn home.

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