A quarterly, financial planning newsletter
for the clients of Liberty Financial Group, Inc.

3rd Quarter, 2016

THE $TRATEGIST

What To Do Next?

By Thomas M. Wargin, CFP®, CFA

These are indeed "interesting times." For most of the last 18-24 months, we have been focused on the continuing drop in corporate earnings as a precursor to a downturn in the economy and the effects on the stock market. Of course, a day doesn't go by without hearing or seeing the financial media drumbeat about the Fed's decision to raise interest rates… or not, and the effects that either may have on the bond market.

Aside from those fundamental factors, we also watch the technical data on the market itself, e.g. new highs, advance-decline lines, etc. We are currently caught in a dilemma. The technical data still looks pretty good this late in a bull market even though the economic data is faltering. It reminds me a little bit of 1997-2000. The market kept going up, but everything was getting pricey and we couldn't find decent new investments. It lasted for three years, which seemed like ten to us. Could we see this same action for the next 2-3 years?

For the other side of the coin, if we look at the worst investment possible at this time, which everyone knows is cash or savings, could that turn out to be the best choice if the economy slides or the market gets hit? If that happens, you'll be happy to have more cash to take advantage of opportunities as they arise.

However, if the market momentum remains strong, it will continue to climb the "wall of worry" and make new highs. How to integrate these two opposite ideas into a portfolio is our task at hand.

We do know that with the market at these levels, future returns will be lower than average. Think mid-single digits. What goes up will come down. We can't say when with any degree of accuracy. Our crystal ball is foggy!

Planning Notes

By June A. Schroeder, RN, CFP®

File for financial aid even if you don't need it! According to a report in the *Wall Street Journal*, financial aid specialists encourage those who don't need the aid to file a FAFSA anyway. The reason: it can improve admission chances! Colleges build freshman classes that include students who do not need aid as well as those who do. Also, some colleges will not consider merit aid – which is not based on need- unless a FAFSA has been filed. Plus, filing a FAFSA is required for students to qualify for low-interest federal student loans: some parents may want their kids to bear some of the cost and it's not a bad idea to do this in case of a change in family finances.

Use 529 funds to buy a computer for a student enrolled in an eligible college and he/she must be the primary user. Software and Internet access can be paid for through 529 plans as well. Plans cannot be used for equipment for high school students.

Sometimes you can reduce prescription costs by changing your

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Non-Spouse Inherited IRAs

By Kirk Hackbarth, CPA, CFP®

Individuals often make mistakes when inheriting an IRA from a non-spouse individual (i.e. father, mother, sister etc.). The kneejerk reaction is to liquidate the account and take the cash. However, this action could lead to a large tax bill. Before doing anything hasty, it's prudent to evaluate the options below so you can make the best financial decision for your particular situation:

- Cash out the IRA immediately and pay income taxes on the taxable portion of the distribution (could push you into a higher tax bracket).
- If original account owner was under age 70½, you can delay distributions until December 31 of the fifth year after the year of the original account holder's death. At that time all the assets must be distributed.
- Take out required minimum distributions over your own (single) life expectancy. Taking distributions from an inherited IRA based on your life expectancy will minimize the annual tax hit and maximize tax-deferred growth.

Alternatively, if you as the beneficiary don't need the cash, then the best option might be to transfer the assets to an inherited IRA in your own name. (Inherited IRAs cannot be commingled with other types of IRA assets, unless you are the spouse, a common misunderstanding.)

Benefits of an inherited IRA:

- Assets can grow tax-deferred (also called the stretch option).
- Distributions from non-spouse inherited IRAs are not subject to the 10 percent early distribution penalty, regardless of the age of the beneficiary at the time the distribution occurs. (Withdrawing more than is required is ok with the IRS since they receive their tax money sooner!)
- You can designate your own beneficiary.

The mechanics of actually transferring the inherited IRA funds can be a bit tricky. Moving the inherited IRA funds must be executed by what's called a trustee-to-trustee transfer. The funds will go directly from one IRA custodian to another. The beneficiary of the inherited IRA must never take possession of the funds or that immediately becomes a taxable event.

This type of transfer is a function we do for our clients and their heirs as part of our planning services. Call us if you inherit any funds so we can plan for the best option in your case.

Planning Notes, cont.

pharmacy. Shopping around is made much easier by GoodRx.com. Type in the name of the drug and this site will show you prices at pharmacies in your area. You can order a member card (no personal data is required) and print coupons from your computer or display on your smart phone. This site recently saved me $65 on an eye-drop for one of my dogs and I found a lower price at Walgreen's than at Walmart! Let me know how it works for you.

Client Alerts

By Shannon Nook, RP®

Fall and Winter Office Hours

Monday-Thursday 8:30am-5:30pm
Friday 8:30am-5pm
Later appointments are available by request.

Medicare Open Enrollment Through December 7

Be sure to check the changes in the coverage of your Advantage plan or Part D drug plan. You may find it to your benefit to make a switch as there are reported changes in areas such as co-pays and drug tiers which could increase your costs. A good place to contact if you need some help in figuring out what are the best options for you is www.65incorporated.com. They don't sell insurance, just advice.

Charitable Donations: Timing is Key

It is time to get those contributions in so they are deductible for this year. If you mail a check to your favorite charity on December 31, you can write it off on this year's tax return. But if you charge the donation on a credit card, the write-off can only be claimed in the year the charge is posted to your account, so mailing late is not a good idea! Also, pledges don't count until paid.

We are pleased to announce the addition of Kirk Hackbarth, CPA, CFP®, to our Liberty team. He is a seasoned financial advisor and his emphasis will be on personal planning, investment allocation and tax. Be sure to meet him at your next visit and see his article on non-spouse inheritance (above). His full bio and picture went out to you via email or snail mail a few weeks ago. Call us if you missed it!