Issue Q3, 2018

AMERICAN PORTFOLIOS DENVER

Investors Quarterly

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What's New With Our Team at American Portfolios Denver

American Portfolios Denver Shares Insight for Third-Party Plan Administrators

Our American Portfolios Denver team, led by Managing Director Kris Tower, was extensively quoted in a feature article from WealthManagement.com on the risks and rewards often associated with third-party plan administration for retirement plan sponsors. You may review our contributions via http://bit.ly/APThirdParty.

American Portfolios Denver Hosts Annual Pool Party for Denver Families

What's better than relaxing at a splash park with your family? For the third consecutive year, our American Portfolios Denver team hosted our annual pool party in July at Pirates Cove Splash Park in Littleton. Great fun and good food was enjoyed by all!

Managing Director Kris Tower Counsels With Congressional Representatives on Behalf of Colorado Families

Our Managing Director Kris Tower traveled to Washington, D.C. during the second quarter as part of his ongoing duties as President of the Colorado chapter of the Financial Planning Association. Kris met with several members of Colorado's congressional delegation to discuss regulation of the financial services industry and tax policy and its affect on Colorado families.

Mr. Kris Tower (pictured far left) with U.S. Representative Ed Perlmutter (center) from Colorado.

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Q2 Review from Our Team

Is the U.S. economy on the edge of another recession?

In the short term, I believe the market is trying to push higher. The tech-heavy NASDAQ Composite, and key measures of mid-sized and small companies touched new highs in June (MarketWatch, July 2018).

Much of the underlying momentum can be traced to faster economic growth, rising corporate profits, and still-low interest rates.

Another factor that lends support: S&P 500 companies repurchased a record $189.1B of their own shares in Q1, according to S&P Dow Jones Indexes Senior Analyst Howard Silverblatt. He expects buybacks to remain strong through the rest of 2018.

But, the Dow Jones Industrials and the S&P 500 Index failed to recapture their January highs. These indexes are made up of the nation's largest companies, some of which derive a significant share of sales from overseas.

Though not far from the January highs, a strong dollar may be putting modest pressure on these stocks. Moderation in overseas growth may also be a factor.

I believe much of the uncertainty stems from escalating trade tensions between the U.S. and its major trading partners. Free trade/fair trade–it's a very complex issue that's being fought with simple soundbites. The President believes America has not been treated fairly, and he is using his authority to selectively levy tariffs against offending nations.

It's a risky strategy that may eventually break down barriers. Or, it could escalate into a series of retaliatory measures that impede the U.S. and global economy.

However, a quick review of the economic data strongly suggests the noise from the trade headlines isn't affecting the U.S. economy, and GDP growth in the second quarter appears poised to surpass 4%.

That being said, the economy is showing signs of being late in an economic expansion, such as low unemployment, rising interest rates, and a flattening yield curve.

The New York Times shared a recent article highlighting the impact of a flattening yield curve, a historically hyper-accurate predictor of pending recessions in the U.S. (*New York Times*, June 2018)

What does this mean for you the investor: our team at American Portfolios Denver is not in the predictions business, but the yield curve is worth noting. **Recessions are normal and shouldn't be feared.** They provide an opportunity for those many years from retirement to invest in markets at lower levels.

For those near or at retirement, it is worth re-visiting the stress test portion of your financial plan. If we have not created a financial plan for you or it has been a few years since you last reviewed your plan, call us to create a stress test of your investment portfolio.

- Kris Tower, Managing Director

Tax Traps to Avoid In Retirement

Three Key Pitfalls that May Prolong or Disrupt Your Financial Goals

Our new Constitution is now established, and has an appearance that promises permanency; but in this world, nothing can be said to be certain, except death and taxes."
- Benjamin Franklin, 1789

Taxes—federal, state, local, sales tax, property tax, gasoline tax, payroll tax, tolls, fees, taxes on capital gains, dividends and interest, gift tax, inheritance tax, and yes, cigarettes and alcohol. There has even been a rising chorus that is calling for a special tax on junk food.

Yes, Ben Franklin nailed it. We can't escape taxes.

If you have already retired, you are aware that taxes don't end with retirement. For those who are nearing retirement, it is important to recognize, plan for, and minimize the tax bite that awaits.

Planning for tax outlays doesn't reduce the discomfort that goes with paying Uncle Sam. However, preparation can reduce the tax bite and help eliminate unexpected surprises.

There are three key areas you may want to review when it comes to taxes and your financial future. As we regularly emphasize, feel free to reach out to our team with specific questions, or consult with your tax advisor.

1. Estimated quarterly taxes may be required.

If you have never been self-employed, you are likely accustomed to having federal, state (if your state has an income tax), and payroll taxes withheld from each paycheck.

When you stop working, there are no more W-4s to complete and no one is withholding taxes for you. But, that doesn't absolve you of your year-end tax liability.

You can make estimated payments each quarter. You can also have taxes withheld from your pension, social security, or IRA distribution. If you have yet to file for Social Security, you may choose to have Social Security withhold 7%, 10%, 12% or 22% of your monthly benefit for taxes. Or, you may decide not to have anything withheld.

Whatever you decide, make sure enough is withheld or your estimated quarterly payments are sufficient. Otherwise, you may face a penalty. Does it sound complicated? You don't have to go it alone. Tax planning is a part of retirement planning.

2. Social Security may be taxed.

If you file as an individual and your combined income (adjusted gross income + nontaxable interest + half of your Social Security benefits) is between $25,000 and $34,000, you may have to pay income tax on up to 50% of your benefits.

If the total is more than $34,000, up to 85% of your benefits may be taxable.

If you file a joint return and you and your spouse have a combined income that is between $32,000 and $44,000, you may have to pay income tax on up to 50% of your benefits. If combined income is more than $44,000, up to 85% of your benefits may be taxable. (SSA.gov Benefits Planner: Income Taxes and Your Social Security Benefits).

Additionally, 13 states-Colorado, Connecticut, Kansas, Minnesota, Missouri, Montana, Nebraska, New Mexico, North Dakota, Rhode Island, Utah, Vermont and West Virginia–tax Social Security.

3. Beware of the required IRA minimum distribution.

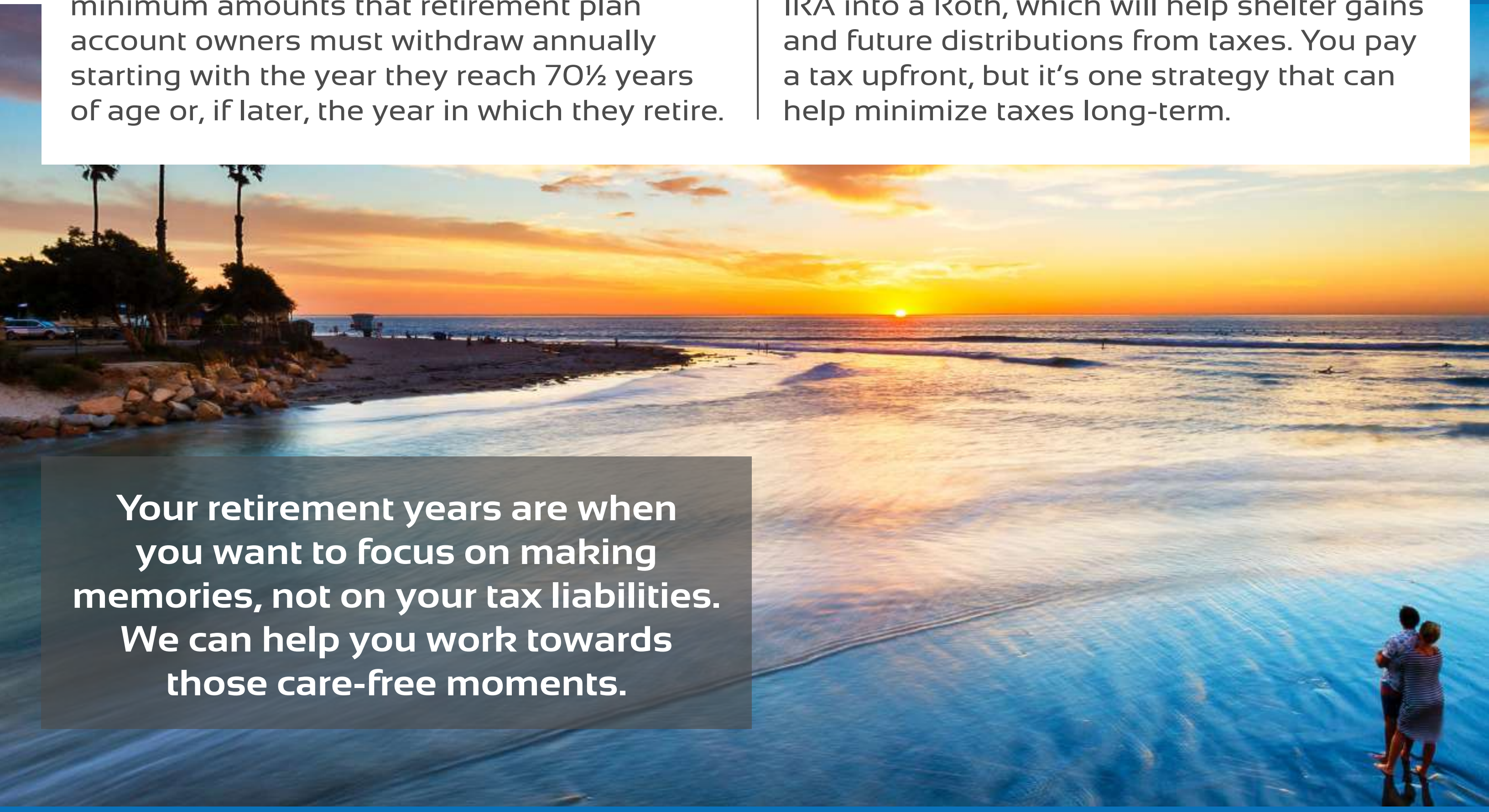
Failure to take the required distribution could subject you to a steep penalty.

Required minimum distributions (RMDs) are minimum amounts that retirement plan account owners must withdraw annually starting with the year they reach 70½ years of age or, if later, the year in which they retire. However, if the retirement plan account is an IRA or the account owner is a 5% owner of the business sponsoring the retirement plan, RMDs must begin once the account holder is 70½, regardless of whether he or she is retired (IRS: Retirement Plan and IRA Required Minimum Distributions FAQs).

Distributions are not required from a Roth IRA fund. The first payment can be delayed until April 1 of the year following the year in which you turn 70½. For all subsequent years, including the year in which you were paid the first RMD by April 1, you must take the RMD by December 31 of the year.

The RMD rules also apply to SEP IRAs and Simple IRAs, 401(k), profit-sharing, 403(b), 457(b), profit sharing plans, and other defined contribution plans.

If you expect to have large RMDs that could push you into a higher tax bracket, it may be beneficial to begin taking distributions prior to 70½. Or, you could convert some of your IRA into a Roth, which will help shelter gains and future distributions from taxes. You pay a tax upfront, but it's one strategy that can help minimize taxes long-term.



Start a Conversation

Our team with American Portfolios Denver serves clients across the Rocky Mountain region and beyond through our main office and affiliated advisors. Reach out to our team to start a conversation today about your financial goals.

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