INVESTMENT ANSWERS®

4205 Springhurst Blvd.
Suite 102
Louisville, KY 40241
502-690-3434 • Fax: 502-690-3437
855-741-8747 (Toll Free)
www.InvestmentAnswers.net

R. Travis Terlau, CFP®
Investment Advisor
Representative

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FALL 2013

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

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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. ❍❍❍

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Tax Strategies

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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. ❍❍❍

Is Your 401(k) Plan Enough?

According to the Employee Benefits Research Institute, the average 401(k) plan balance at the end of 2010 was just $60,000. The average participant contributed just $6,750 in 2011, with another $3,270 in matching contributions from his/her employer (Source: Vanguard, 2012).

A look at those Americans within 10 years of retirement reveals a slightly better picture. When you add in IRA assets — often rolled over from prior employers' 401(k) plans — Americans age 55 to 64 years have total retirement assets of $120,000, according to the Center for Retirement Research at Boston College. But that still leaves the average American far short of the personal assets needed for a comfortable retirement.

The numbers lead many observers to forecast a grim retirement for most Americans. "The specter of downward mobility in retirement is a looming reality for both middle- and higher-income workers," says Teresa Ghilarducci, a professor of economics at the New School in New York City. "Almost half of middle-class workers, 49%, will be poor or near poor in retirement." (Source: *New York Times*, July 22, 2012)

Despite the inadequacy of most Americans' 401(k) assets, the rules that govern the plans do make it possible to have what you need for a comfortable retirement. To do that, however, you should contribute close to the maximum allowable for as long as you work and earn at least a moderate investment return.

The maximum allowable contribution to a 401(k) plan rose to $17,500 in 2013. In addition, if you're 50 years old or older, you can make an additional catch-up contribution of another $5,500.

But, who today saves the maximum allowed by law? The Center for Retirement Research estimates that in 2010, just under 7% of those who earn $40,000 to $60,000 a year contribute the maximum, while 28% of those who make $100,000 a year or more do.

For those who have to rely on what they save, the answer is to maximize their 401(k) contributions and, if possible, save more by contributing to an IRA.

One key is finding ways to increase the amount you save every year. The other is avoiding years of deep investment losses while finding niches of opportunity to stay ahead of inflation. ❍❍❍

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. That translates to a little more than one month of paychecks for the year. We generally recommend *1 Income Families* to save six months of their earnings. If you are a *2 Income Family*, we generally recommend trying to save three months of their earnings. To be well buffered from a long-term loss of a job or uncovered medical expense, 12 months of income saved could be a reasonable goal. Consider meeting the three-month savings goal and if that's successful for you, consider committing to the six-month goal. Once you're successful with six months of savings, consider that 12-month goal. Our office can help with budgeting so that you can meet a financial goal that is appropriate for you.

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 should potentially be. A household with two incomes often is more secure than a household with just one. Someone who holds a union-protected job has an income that is likely more secure than a commissioned salesman. A college-educated employee is generally more secure than someone who hasn't graduated 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, consider reallocating portions of your assets to help protect against market volatility, especially if your job security can be impacted by downswings. Everyone's risk tolerance and goals are different, so let's talk about options that are appropriate for you.

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 as a financial priority can be the difference in your security down the line, should an emergency hit. The surest way to find the money after you do a budget is to pay yourself first with every paycheck. Authorize a bank transfer from your checking to your savings account monthly. If and when you think you need to tap into that emergency fund, it often helps to take a few days before you act. That way, you're making choices that are potentially more rational than emotional.

For help deciding appropriate strategies for your rainy day funds and other funds, please call our office. We're happy to help. ❍❍❍

Federal Reserve Consumer Credit Report, released October 7, 2013.

Super Sloppy Joes

Recipe adapted from FoodNetwork.com, courtesy of Rachel Ray

I usually am not a fan of any recipe that has packets of seasoning that are processed and individually packaged. It's an MSG thing for us and also a cost issue. But I was in search of an easy to make recipe for our daughter's birthday party, and Sloppy Joes kept coming to mind. This is a ★★★★★ recipe and it had over 600 reviews. I'm no fool. I went for it at the birthday party without ever testing the recipe. It was a hit.

I adapted it by adding ½ cup pureed sweet potato and using ground turkey. I also swapped out the ¼ cup of Brown Sugar and replaced it with 1/8 cup Brown Sugar and 4 Tbs. Blackberry Jam.

1 Tbs. EVOO (extra virgin olive oil)

1¼ pounds ground Beef Sirloin
(I use ground turkey, ground bison, or ground chicken, rather than beef)

¼ cup Brown Sugar
(Optional; I replace with 1/8 cup Brown Sugar and 4 Tbs. Blackberry Jelly)

1 Tbs. McCormick Montreal Steak Seasoning
(I think any prepackaged sirloin seasoning would work)

1 Onion, chopped

1 Red Bell Pepper, chopped

1 Tbs. Red Wine Vinegar

1 Tbs. Worcestershire sauce *(I always add this, no matter which ground meat I use)*

2 cups Tomato Sauce

2 Tbs. Tomato Paste

½ cup Sweet Potato, roasted and pureed *(Optional, but definitely worth it)*

Directions: Preheat a large skillet, add oil and meat. Combine the brown sugar and steak seasoning. Add to the meat and stir to combine on med-high heat. Once the meat is browned, drain the fat, and lower your heat to medium. Add the onion and peppers, red wine vinegar, and Worcestershire. Cook for about 5 minutes. Add tomato paste and sauce, and add (the optional items) sweet potato puree and blackberry jam. Stir to incorporate, and reduce heat to low until the mixture simmers. Cook 5 more minutes. I usually turn off the heat and let it sit for 5 or 10 minutes before I serve it. It helps to meld the flavors together.

Doubling the Recipe: It's important when cooking meat that you use a skillet large enough, to allow the meat to simmer and remain moist while browning. Don't over-cram all of your meat into one skillet if you're doubling the recipe. After I seasoned and browned my meat, I dumped all of it into a larger pot, like a stock pot (6 quart), or a deep sauce pan (3 quart). That's when I added all of the tomato sauce, paste, puree and seasoning and I let the ingredients simmer in the larger pot. It's tomato sauce, so it will splatter.

Investment Answers News

We know the holiday season is quickly arising, which means lots of busy schedules and visits with friends and family. If you would like to introduce Travis to a family member, friend, or co-worker who you think would benefit from our services, the holiday season is a great time to do so. We prioritize being available to meet with our clients and their families while everyone is in town and while you are inevitably discussing important life events and life planning.

Keep an eye on our Facebook page during the holidays, too. We try to offer a variety of informative posts to break up the monotony of the holidays. Some are funny, some are serious, but our goal is that our posts are relevant and helpful. If you're on Facebook, LIKE us there or SHARE posts to your own wall so that others can benefit from the information, as well.

Our annual Circle of Family holiday event is Monday, December 9, at Big Spring Country Club in Louisville. Josh Hillyard is the new Executive Chef at Big Springs, and we are very excited to offer our clients a beautiful venue with delicious food. Our follow-up event will be in early 2014 at Belterra Casino. Keep an eye out for your invitation coming in the mail the first week in November.

Encourage Your Children to Do Estate Planning

Parenting is a never-ending job. Even when your children are grown, there will probably be lessons you'll want to teach them, such as the need for estate planning. Some items to include in that lesson are:

✔ **Explain why estate planning is important.** Your role is not to dictate what they should do with their estate, just to emphasize the need for estate planning. When your children encounter major life events, remind them to review their estate plans.

✔ **Make sure all important estate-planning documents are in place.** At a minimum, every adult should have a will, a durable power of attorney, and a health care proxy. A durable power of attorney designates an individual to control their financial affairs if they become incapacitated, while a health care proxy delegates health care decisions to a third person when they are unable to make those decisions.

✔ **Coordinate estate planning across generations.** If you have a substantial estate, you may want to coordinate your estate-planning efforts with those of your children. A coordinated effort can help minimize estate taxes. ❍❍❍