RESOLUTE FINANCIAL

Fee Only Financial Planning & Investment Management

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Resolute Connections

In this month's newsletter you will find several articles that are timely for end of the year planning and the current market conditions: *Tax Opportunities Before Year-End, Making IRA Contributions in Retirement, and The Secret to Controlling Volatility*. In addition, *Flexible Powers* is a quick read that may be helpful for those dealing with elderly relatives, while *Independence Day* discusses a recent development that may be very positive for the long-term growth of the U.S. economy; for the first time ever, America is now energy independent.

If you have any questions about anything we have covered in the articles, or a specific situation please feel free to give us a call, or visit our website, www.ResoluteFinancial.com.

Tax Opportunities Before Year-End

Every year, U.S. taxpayers face a number of year-end deadlines which, if ignored, can be costly and even punitive. In the latter category, consider people over age 70 1/2 who forget to take the full required minimum distribution from their IRA or 401(k). If they get the calculation wrong, or forget the distribution altogether before December 31, they face a 50% penalty on the amount they should have taken.

Here, a best practice is to sit down weeks before the deadline, and consider which parts of your portfolio you want to prune back, or what you would need to sell in order to rebalance your asset allocations back to their targeted percentages. If you don’t need some or all of the distribution (which is not uncommon), you don’t have to spend it; you can reinvest extra money in a taxable portfolio.

Of course, the tax year also ends December 31, which means if you have losses in your portfolio (and chances are, you do) you have to claim them before the end of the year. “Claiming,” in this case, means selling for a loss, and buying a similar replacement asset in your portfolio. You book the losses and use them to offset an equivalent amount of capital gains or up to $3,000 of ordinary income. If this is a low-income year, you might consider taking advantage of the 0% tax bracket for long-term capital gains (below $38,600 for single taxpayers or $77,200 for joint filers) and harvest some gains from your portfolio. But remember, if you’re looking to offset your harvested losses, many mutual funds will be distributing capital gains in December.

If you want to get a tax deduction for charitable contributions for 2018, then they need to be made before December 31. The challenge here is that the deduction is only available to people who itemize their deductions, and the new, higher standard deduction means that many people won’t be itemizing. To get above the threshold, some people are bunching many years’ worth of charitable contributions into a single year, making a donation to a donor-advised fund. This raises their total contribution amount in that year high enough so the donation becomes deductible again.

Making IRA Contributions in Retirement

Here’s a question that a lot of older Americans ask themselves from time to time: I’m over age 65. Can I still make a contribution to an IRA or a Roth IRA? Can I reinvest some or all of my required minimum distribution in an IRA or a Roth IRA?

The answer, generally, is that you can continue to make annual IRA or Roth IRA contributions, up to a total of $6,500, only if you have earned income sufficient to cover the contribution. In other words, if you live totally on Social Security, annuity payments, portfolio income, required minimum distributions and/or a pension plan, then you cannot contribute. Income from rental properties is also considered passive income.

But if you earn $5,000 in a year through self-employment or from an employer, then you can make a $5,000 contribution, and no more. If you earn more than $6,500, you can make the full contribution. The caveat is that once you pass age 70/1/2, you can no longer make contributions to a traditional IRA; only to a Roth.

And there are income limits that apply no matter what your age. You can make your deductible traditional IRA contribution, assuming you are below age 70 1/2, if your modified adjusted gross income is below $63,000 (single filer) or $101,000 (joint), with phaseouts thereafter that limit and finally eliminate your ability to deduct the contribution. Single filers earning less than $120,000 or joint filers below $189,000 can make the full Roth contribution, and their ability to contribute phases out after that.

Complicated? Of course, it is. The traditional and Roth IRAs were created by Congress, after all.

The Secret to Controlling Volatility

Would you like to lower the volatility of your investment portfolio? There's an easy solution.

No, the solution we're thinking of is not to retreat to cash—which, even in times of low inflation, is a strategy doomed to steadily lose the buying power of your portfolio. All that does is guarantee a downside.

Diversification will only get you so far. Downside risk doesn't go away just because you're holding multiple asset classes, as everyone learned all over again in 2008-9.

The actual answer is: look at your portfolio less often.

Come again? Volatility is actually a time-based concept. Your portfolio goes up or down literally several times a second during every day, and of course you would go crazy if you watched it second-by-second. So maybe instead you check daily. But why daily? Why not monthly? Or, since you know it's a bad idea to sell out when the markets go down, why tempt fate and look even that often?

A recent report looked at monthly historical returns data for four combinations of global stocks and bonds going all the way back to January of 1926, up until December 2017: 30/70, 50/50, 70/30 and 100/0. The portfolios were rebalanced back to their original asset mixes every year, and 1% a year in management fees were taken out. The result shows what kind of volatility you would have experienced if you had looked just once a month, once a year, once every five years or once every ten years.

Across all four portfolios, if you looked at all of them once a month, you would see a negative return about once every three months. If you looked once every 12 months, you would only see a negative return about every 6 years. And if you only looked once every 5 years, about 90% of the time you'd see a positive return. That is, 9 out of ten times, your portfolio's value would have been higher than the last time you checked.

And if you only looked once every ten years, pretty much every time, for all the portfolios, you would see a positive return. (Just once, the 100/0 portfolio showed a small negative performance number.)

Can you do this? Well, you don't check on the value of your house every day, week, month or even year, do you? The value of your house may well be fluctuating wildly every week, but you're blissfully unaware of this, because you're not getting a weekly appraisal. Chances are, your experience with this valuable and important investment is that when it comes time to sell, after multiple years of ownership, the value is greater than what you paid for it. It seems like no volatility at all.

The point here is: once you have the right investments and the right mix of investments, there really isn't any point in checking in on your performance in the short term. You have a professional to do that—and chances are the professional won't be acting on short term information either.

Flexible Powers

When a person comes down with any of various forms of dementia, it means he or she requires additional amounts of care. It also means eventually taking away the checkbook and access to credit cards, to prevent the person with diminishing capacity from responding to Nigerian email pitches or late-night infomercials.

For these situations, the instrument of choice is the power of attorney—a legal document that allows people who recognize that they're declining mentally to appoint a trusted agent to make financial decisions on their behalf. This trusted person is expected to place the person with dementia's interests ahead of his/her own.

There are several types of document to consider:

The general power of attorney allows the agent to perform almost any act that the Alzheimer's patient would be doing, such as opening financial accounts and managing personal finances.

A durable power of attorney designates a person to act on the patient's behalf while the patient is well and functioning, and maintains that power after the patient becomes incapacitated.

A limited power of attorney gives the agent specific powers limited to a certain area—such as the authority to sell a home.

Most financial planners believe that everyone should have a power of attorney document drawn up long before any sign of dementia crops up, so that the document is in place when needed. And then you hope it never will be needed—just like you hope to prolong as long as possible being able to collect your life insurance or disability insurance proceeds.

Independence Day

Very quietly, the United States economy crossed a remarkable milestone. As of October, America is now energy-independent for the first time. For comparison purposes, the U.S. was spending a whopping 4% of its total gross domestic product to buy foreign oil and gas as recently as 2008.

This news will not be cheered by environmentalists: the dramatic shift is the result of an increase in crude oil and natural gas production from American wells. The U.S. is now the largest exporter of petroleum products in the world—bigger than (#2) Russia and (#3) Saudi Arabia—and analysts expect output to accelerate from here.

However, there has been a small but significant acceleration in renewable energy: today, according to a recent article in Fortune magazine, roughly 18% of all electricity in the U.S. is produced by solar, wind and hydroelectric dams. Renewables' share of U.S. energy consumption has doubled since 2008, while coal's share has fallen from 48% to 30%.

Energy independence, of course, has many implications for the American economy. One is that, as we are reading that the OPEC oil cartel is planning to lower output in an effort to raise global oil prices, the U.S. economy will be largely immune from the rising costs. Another is that the U.S. balance of trade with the rest of the world will be on a more positive footing. And perhaps a third is that, for the first time, total U.S. energy consumption is actually falling, albeit slightly, as energy efficiency initiatives are taking hold.

Source:
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For more information on these topics or for a free consultation, contact Resolute Financial, LLC at (978) 463-8771 ext. 1003.

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