

Investor Insights & Outlook

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Investment Updates

Inflation Can Vary by Category

Inflation is Insidious

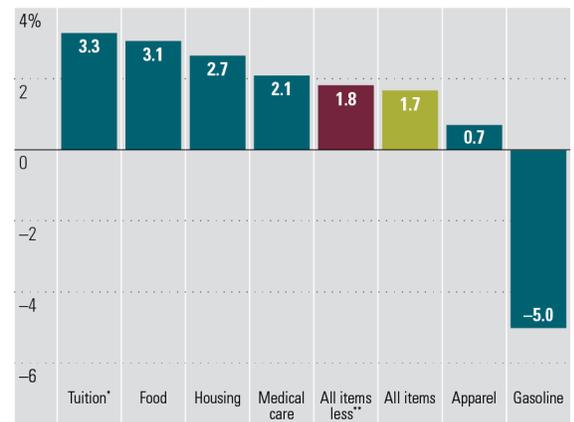
- ▶ No one ever seems to agree with what the inflation rate really is.
- ▶ Regardless of the so-called rate of inflation, it impacts everyone.
- ▶ Inflation hurts seniors and those on fixed income more than those younger and still working.
- ▶ Stocks, (especially dividend payers) can be a sound inflation hedge.
- ▶ Integrity portfolios are designed to help keep you ahead of inflation.

The general inflation number (the “All items” category) may be a good measure for the economy at large, but the cost of certain goods and services could rise much faster than the average cost of living.

For the past year, tuition, food, housing, and medical care have all experienced much higher inflation rates than the headline number. Gasoline prices, on the other hand, have been declining and are now near four-year lows.

People who need to focus on savings for college or medical care may be left short, as the cost for such items often tends to rise at a faster rate than the average cost of living. Those investors might not be able to keep pace with rising costs if they do not take their real inflation rate into account when planning their investment goals.

Consumer Price Index Components, Year-Over-Year Change



*other school fees and child care **less food and energy

Source: Bureau of Labor Statistics, Morningstar calculations. Data as of October 2014.



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Advisor's Corner

Charles Blozinski, CFP offers his clients the advantage of over 25 years of experience in financial services. He provides to his clients independent, unbiased financial advice in a fee-only environment. Charles is President and CEO of Integrity Financial Planners. The firm is a registered investment advisor in the State of Oregon.

Tips for Preparing Your Taxes

Waiting a bit to file your taxes makes sense.

- ▶ Many people rush to file their returns only to find they receive additional tax documents.
- ▶ This results in having to file an amended return.
- ▶ Different financial institutions have different delivery requirement deadlines.
- ▶ If you have questions or you're not sure if you have all necessary tax documents, just give us a call.

It's that time of year again. While many people cannot say they enjoy preparing their income-tax returns, you'll like it even less if you make mistakes and pay more tax, penalties, and interest than you need to. Here are some things to watch out for as you prepare this year's return or ready your tax documents for your accountant.

Qualified Dividends versus Nonqualified Dividends:

Nothing can be more frustrating than receiving a corrected 1099 from your brokerage company. The 1099 is used to report various types of income other than wages, salaries, and tips. If you receive one after you had already filed your taxes, you might have to amend your return.

The problem is that mutual fund companies are required to submit tax information by the end of January, and in some cases they might not have the correct breakdown of qualified and nonqualified dividends by then. Because the tax treatment of qualified dividends might result in you paying less income tax, a revised 1099 might be to your advantage (although in many cases, only by a small amount). So it might pay to wait a bit before filing your tax return if you expect to receive a 1099.

Capital Gains and Losses: When you sell an investment for less than you paid for it, you realize a capital loss. The bright side is that capital losses can help you save on taxes. You can use capital losses to offset capital gains in your portfolio. You'll need to know if your gains and losses are short term or long term. If you held an investment a year or less, it will be a short-term gain or loss. If you held an investment longer than a year, it will be a long-term gain or loss.

In 2014, short-term capital gains are taxed at ordinary income-tax rates from 10% to 39.6%. Long-term capital gains, meanwhile, are taxed at lower, preferential tax rates from 0% to 20%.

Municipal Bond Income: If you own municipal bonds, interest income you receive is exempt from federal income tax. That income may or may not be exempt from state income tax. If the bonds are issued in your state of residence, you usually won't have to pay state

and local taxes on the interest. You can find out for sure by contacting your state or the brokerage company at which you hold your securities.

Does that mean all money you receive from municipal bonds isn't subject to taxes? Not necessarily. If you own a municipal-bond fund that paid out capital gains, that money is taxable on your federal and most state returns. In addition, if you own municipals that are classified as "private-activity" bonds, you may be subject to the Alternative Minimum Tax. You may want to consult an accountant about this type of bond. To see if you have both interest income as well as capital gains distributions, check the 1099 forms you received.

Exclude Interest from U.S. Government Securities: Don't forget to exclude the interest from government securities on your state income tax return. You can exclude all income from "direct" government securities (for example, Treasuries). Some states also allow you to exclude income from "indirect" securities (for example, agency bonds like GNMA and FNMA securities). To know for sure, contact your state or the brokerage firm at which you hold your bonds.

Some mutual fund companies can be very good about sending information on the percentage of your funds that are invested in government securities. But there have also been situations where the fund company will only provide this information if you ask.

If you didn't obtain this type of breakdown when you received your 1099 statements, visit your fund company's website to find the information, or call the fund's customer-service line.

Concerned About Longevity? Three Mistakes to Avoid

Integrity's #1 priority: Make Your Money LAST

- ▶ Nothing is more important at Integrity Financial than making sure clients don't outlive their money.
- ▶ As clients live longer, it's critical to have the correct strategies in place to compliment a long and productive life.
- ▶ At Integrity, we're focused on helping you implement those strategies.

Longevity is often cheered as an achievement, but the downside of living well beyond one's average life expectancy is that it can strain (or worse, completely deplete) an individual's financial resources. The first step in addressing longevity risk is to evaluate just how great the odds are that either you or your spouse will have a much longer-than-average life span. Health considerations, family longevity history, employment choices, and income level may all be factors. If you've assessed these considerations and are concerned about longevity risk—or if you've determined that you'd simply rather be safe than sorry—here are three key mistakes to avoid.

Mistake 1: Holding a Too-Conservative Portfolio.

When investors think about reducing risk in their portfolios, they often set their sights on curtailing short-term volatility—the risk that their portfolios will lose 10% or even 20% in a given year. But a too-conservative portfolio (one that emphasizes cash and bonds at the expense of stocks) can actually enhance shortfall risk while keeping a lid on short-term volatility. But, right now, interest rates have much more room to move up than they do down, which may reduce the opportunity for bond-price appreciation during the next decade. With such low returns, retirees with too-safe portfolios may not even outearn the inflation rate over time.

Mistake 2: Not Delaying Social Security Filing.*

Because it provides an inflation-adjusted income stream for the rest of your life, Social Security is designed to provide you with at least some money coming in the door even if your investment portfolio runs low (or out) during your later years. If you file early (you're eligible to do so as early as age 62), you permanently reduce your annual benefit from the program.

Delayed filing, on the other hand, has the opposite effect, amping up the value of your hedge. Not only will your benefits last as long as you do, but they'll be higher, perhaps even substantially so, as well. Those who delay filing until age 70 may receive an annual benefit that's more than 30% higher than what they would have received had they filed at full retirement age (currently 66) and more than 50% higher than

their benefit had they filed at age 62.

Mistake 3: Not Adjusting Withdrawal-Rate Assumptions. Just as savings rates are the main determinant of success during the accumulation years (much more than investment selection, in fact), spending rate is one of the central determinants of retirement plans' viability.

The 4% rule, which indicates that you can withdraw 4% of your total portfolio balance in year 1 of retirement, then annually inflation-adjust that dollar amount to determine each subsequent year's portfolio payout, is a decent starting point in the sustainable withdrawal-rate discussion. But it's important to tweak your withdrawal rate based on your own situation. If you have a sparkling health record and it looks likely that you'll be retired longer than the 30-year withdrawal period that underpins the 4% rule, you may be better off starting a bit lower.

In a similar vein, it's important to not set and forget your retirement-plan variables, such as your spending rate and your asset allocation, because retirement progresses and new information becomes available about your health and potential longevity, market valuations, and so forth.

This is for informational purposes only and should not be construed as legal, tax, or financial planning advice. Please consult a legal, tax, and/or financial professional for advice specific to your individual circumstances. Asset allocation and diversification are methods used to help manage risk. They do not ensure a profit or protect against a loss. Returns and principal invested in securities are not guaranteed, and stocks have been more volatile than bonds.

*Source: Social Security Administration.

Retirement Distribution Pitfalls: Not Reinvesting RMDs You Don't Need

RMDs make most of my clients Grumpy

- ▶ Many clients would never take a distribution from their IRAs and would love for the money to continue to grow tax sheltered.
- ▶ An RMD ensures that Uncle Sam gets his due.
- ▶ At Integrity, we can show you how you can satisfy your RMD and still keep your stocks and bonds invested.

Accumulation is a key facet of reaching your retirement goals. However, we tend to see far less about portfolio drawdown, or decumulation—the logistics of managing a portfolio from which you're simultaneously extracting living expenses during retirement. This can be even more complicated than accumulating assets.

Pitfall: One of the big mistakes of retirement distribution can be not reinvesting RMDs you don't need. Retirees may experience a situation where the amount they must withdraw from 401(k)s and IRAs for required minimum distributions can take them over their desired distribution threshold. The RMD rules require that people initially withdraw less than 4% of assets at age 70 1/2, but distributions can quickly step up into the 5%, 6%, and 7% range.

Workaround: What people might not realize is that

there's nothing saying they have to spend their RMDs; they can reinvest in a taxable account if they'd like that money to stay invested in the market. This can be a wise strategy for retirees who are concerned with legacy planning or long-term care needs down the line. It's possible to build a taxable account that has many of the tax-saving features of a tax-deferred account.

401(k) plans and IRAs are long-term retirement savings vehicles. Withdrawal of pre-tax contributions and/or earnings will be subject to ordinary income tax and, if taken prior to age 59 1/2, may be subject to a 10% federal tax penalty. Funds in a traditional IRA grow tax-deferred and are taxed at ordinary income tax rates when withdrawn. This is for informational purposes only and should not be considered tax or financial planning advice. Please consult with a financial or tax professional for advice specific to your situation.

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