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INVESTMENT HOUSE, LLC

Financial Solutions Under One Roof

What Baseball Can Teach You about Financial Planning



Spring training is a tradition that baseball teams and baseball fans look forward to every year. No matter how they did last year, teams in spring training are full of hope that a new season will bring a fresh start. As this year's baseball season gets under way, here are a few lessons from America's pastime that might help you reevaluate your finances.

Sometimes you need to proceed one base at a time

There's nothing like seeing a home run light up the scoreboard, but games are often won by singles and doubles that get runners in scoring position through a series of base hits. The one base at a time approach takes discipline, something that you can apply to your finances by putting together a financial plan. What are your financial goals? Do you know how much money comes in, and how much goes out? Are you saving regularly for retirement or for a child's college education? A financial plan will help you understand where you are now and help you decide where you want to go.

It's a good idea to cover your bases

Baseball players minimize the odds that a runner will safely reach a base by standing close to the base to protect it. What can you do to help protect your financial future? Try to prepare for life's "what-ifs." For example, buy the insurance coverage you need to make sure you and your family are protected--this could be life, health, disability, long-term care, or property and casualty insurance. And set up an emergency account that you can tap instead of dipping into your retirement funds or using a credit card when an unexpected expense arises.

You can strike out looking, or strike out swinging

Fans may have trouble seeing strikeouts in a positive light, but every baseball player knows that striking out is a big part of the game. In fact, striking out is much more common than getting hits. The record for the highest career

bating average record is .366, held by Ty Cobb. Or, as Ted Williams once said, "Baseball is the only field of endeavor where a man can succeed three times out of ten and be considered a good performer."

In baseball, there's even more than one way to strike out. A batter can strike out looking by not swinging at a pitch, or strike out swinging by attempting, but failing, to hit a pitch. In both cases, the batter likely waited for the right pitch, which is sometimes the best course of action, even if it means striking out occasionally.

So how does this apply to your finances? First, accept the fact that you're going to have hits and misses, but that doesn't mean you should stop looking for financial opportunities. For example, when investing, you have no control over how the market is going to perform, but you can decide what to invest in and when to buy and sell, according to your investment goals and tolerance for risk.

Warren Buffett, who is a big fan of Ted Williams, strongly believes in waiting for the right pitch. "What's nice about investing is you don't have to swing at pitches," Buffett said. "You can watch pitches come in one inch above or one inch below your navel, and you don't have to swing. No umpire is going to call you out. You can wait for the pitch you want."

Note: *All investing involves risk, including the possible loss of principal.*

Every day is a brand-new ball game

When the trailing team ties the score (often unexpectedly), the announcer shouts, "It's a whole new ball game!" Or, as Yogi Berra famously put it, "It ain't over 'til it's over." Whether your investments haven't performed as expected, or you've spent too much money, or you haven't saved enough, there's always hope if you're willing to learn both from what you've done right and from what you've done wrong. Pitcher and hall-of-famer Bob Feller may have said it best. "Every day is a new opportunity. You can build on yesterday's success or put its failures behind and start over again. That's the way life is, with a new game every day, and that's the way baseball is."

March 2014

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Filing Your 2013 Federal Income Tax Return

What's New in the World of Higher Education?

Cartoon: Do You Know the Way to Retirement?

Filing Your 2013 Federal Income Tax Return

For most people, the due date for filing a 2013 federal income tax return is April 15, 2014. Here are a few things to keep in mind this filing season.

Lots of changes to consider

While most individuals will pay taxes based on the same federal income tax rate brackets that applied for 2012, a new 39.6% federal income tax rate applies for 2013 if your taxable income exceeds \$400,000 (\$450,000 if you're married filing jointly, \$225,000 if married filing separately). If your income crosses that threshold, you'll also find that a new 20% maximum tax rate on long-term capital gain and qualifying dividends now generally applies (in prior years, the maximum rate was generally 15%).

You may also need to account for new taxes that took effect in 2013. If your wages exceeded \$200,000 in 2013, you were subject to an additional 0.9% Medicare payroll tax--if the tax applied, you probably noticed the additional tax withheld from your paycheck. If you're married and file a joint tax return, the additional tax kicks in once the combined wages of you and your spouse exceed \$250,000 (if you're married and file separate returns, the tax kicks in once your wages exceed \$125,000). One thing to note is that the amount withheld may not accurately reflect the tax owed. That's because your employer calculates the withholding without regard to your filing status, or any other wages or self-employment income you may have received during the year. As a result, you may end up being entitled to a credit, or owing additional tax, when you do the calculations on your return.

And, if your adjusted gross income (AGI) exceeds \$200,000 (\$250,000 if married filing jointly, \$125,000 if married filing separately), some or all of your net investment income may be subject to a 3.8% additional Medicare contribution tax on unearned income. Additionally, high-income taxpayers (e.g., individuals with AGIs greater than \$250,000, married couples filing jointly with AGIs exceeding \$300,000) may be surprised to see new limitations on itemized deductions, and a possible phaseout of personal and dependency exemptions.

New home office deduction rules

If you qualify to claim a home office deduction, starting with the 2013 tax year you can elect to use a new simplified calculation method. Under this optional method, instead of determining and allocating actual expenses, you simply

multiply the square footage of your home office by \$5. There's a cap of 300 square feet, so the maximum deduction you can claim under this method is \$1,500. Not everyone can use the optional method, and there are some potential disadvantages, but for many the new simplified calculation method will be a welcome alternative.

Same-sex married couples

Same-sex couples legally married in jurisdictions that recognize same-sex marriage will be treated as married for all federal income tax purposes, even if the couple lives in a state that does not recognize same-sex marriage. If this applies to you, and you were legally married on December 31, 2013, you'll generally have to file your 2013 federal income tax return as a married couple--either married filing jointly, or married filing separately. This affects only your federal income tax return, however--make sure you understand your state's income tax filing requirements.

2013 IRA contributions--still time

You generally have until April 15 to contribute up to \$5,500 (\$6,500 if you're age 50 or older) to a traditional or Roth IRA for 2013. With a traditional IRA, you may be able to deduct your contribution (if you or your spouse are covered by an employer plan, your ability to deduct some or all of your contribution depends on your filing status and income). If you make contributions to a Roth IRA (your ability to contribute depends on your filing status and income) there's no immediate tax benefit, but qualified distributions you take in the future are completely free from federal income tax.

Filing for an extension

If you're not going to be able to file your federal income tax return by the due date, file for an extension using IRS Form 4868, *Application for Automatic Extension of Time To File U.S. Individual Income Tax Return*. Filing this extension gives you an additional six months (to October 15, 2014) to file your return. Don't make the mistake, though, of assuming that the extension gives you additional time to pay any taxes due. If you don't pay any taxes owed by April 15, 2014, you'll owe interest on the tax due, and you may owe penalties as well. Note that special rules apply if you're living outside the country or serving in the military outside the country on April 15, 2014.



2013 is the last year to take advantage of:

- Increased Internal Revenue Code (IRC) Section 179 expense limits (\$500,000 maximum amount decreases to \$25,000 in 2014) and "bonus" depreciation provisions
- The \$250 above-the-line tax deduction for educator classroom expenses
- The ability to deduct mortgage insurance premiums as qualified residence interest
- The ability to deduct state and local sales tax in lieu of the itemized deduction for state and local income tax
- The deduction for qualified higher education expenses
- Qualified charitable distributions (QCDs), allowing individuals age 70½ or older to make distributions of up to \$100,000 from an IRA directly to a qualified charity (distributions are excluded from income and count toward satisfying any required minimum distributions (RMDs) for the year)

What's New in the World of Higher Education?



The appeal of MOOCs

The combination of quality courses, robust online learning technology, and the wide availability of broadband, coupled with the very high cost of a traditional college education, makes it likely that the popularity of MOOCs--which stands for "massive open online courses"--will only grow in the future, whether people enroll to earn serious credentials or simply for their own enjoyment and curiosity.

Whether your son or daughter is expecting college decisions any day now or whether you're planning ahead for future years, here's what's new in the world of higher education.

Costs for 2013/2014

Question: What goes up every year no matter what the economy at large is doing? Answer: The cost of college. The reasons are many and varied, but suffice it to say that this year, like every year, college costs increased yet again.

For the 2013/2014 year, the average cost at a 4-year public college is \$22,826, while the average cost at a private college is \$44,750, though many private colleges charge over \$60,000 per year (Source: The College Board, Trends in College Pricing 2013). Cost figures include tuition, fees, room and board, books, and a sum for transportation and personal expenses.

What's a parent to do? For starters, check out net price calculators. Now required on all college websites, net price calculators can help families estimate how much grant aid a student might be eligible for at a particular college based on his or her individual academic and financial profile and the school's own criteria for awarding institutional aid. You'll definitely want to spend some time running numbers on different net price calculators to see how schools stack up against one another on the generosity scale.

New rates on federal student loans

Last summer, new legislation changed the way interest rates are set for federal Stafford and PLUS Loans. Rates are now tied to the 10-year Treasury note, instead of being artificially set by Congress. For the current academic year (July 1, 2013, through June 30, 2014), the rates are:

- 3.8% for undergraduate students borrowing subsidized and unsubsidized Stafford Loans
- 5.4% for graduate students borrowing unsubsidized Stafford Loans
- 6.4% for parents borrowing PLUS Loans

The rates are determined as of June 1 each year and are locked in for the life of the loan.

A renewed focus on IBR

Federal student loans are the preferred way to borrow for college because they offer a unique repayment option called "income based repayment," or IBR. Under IBR, a borrower's monthly student loan payment is based on income and family size and is equal to 10% of discretionary income. After 20 years of on-time payments, all remaining debt is generally forgiven (loans are forgiven after 10 years for

those in qualified public service).

Enrollment in the program has been relatively modest, but last fall, the Department of Education contacted borrowers who were having difficulty repaying their student loans to let them know about IBR. The department also put the IBR application online and has made it possible for applicants to import information from their tax returns.

A government push for information

Last summer, as part of his push to make college more affordable, President Obama announced a proposal that would require colleges to report the average debt load and earnings of graduates (in addition to the information on tuition costs and graduation rates that they already report), with the availability of federal financial aid being linked to those ratings. In response, most colleges have cried foul, claiming that average debt is not a valid indicator of affordability because colleges have vastly different endowments and abilities to award institutional aid, and that post-graduation salaries can depend on variables outside of a college's control. No reporting requirement has been finalized yet, but the trend is clearly toward the government requiring colleges to make their costs and return on investment as transparent as possible so families can make more informed choices.

The growth of MOOCs

You may have heard the term "MOOCs," and going forward, it's likely you'll hear it a lot more. MOOCs stands for "massive open online courses," and these large-scale, online classes have the potential to revolutionize higher education. One of the earliest MOOCs was a course on artificial intelligence at Stanford University in 2011, which attracted 160,000 students from all over the world (though only 23,000 successfully completed the course, earning a certificate of recognition).

Today, hundreds of MOOCs are offered free of charge by many well-known, leading universities. The piece of the puzzle that has yet to be solved is what credit or degree will be given when courses are completed and how pricing will work. But the combination of quality courses, robust online learning technology, and the wide availability of broadband, coupled with the very high cost of a traditional college education, makes it likely that the popularity of MOOCs will only grow in the future, whether people enroll to earn serious credentials or simply for their own enjoyment and curiosity.

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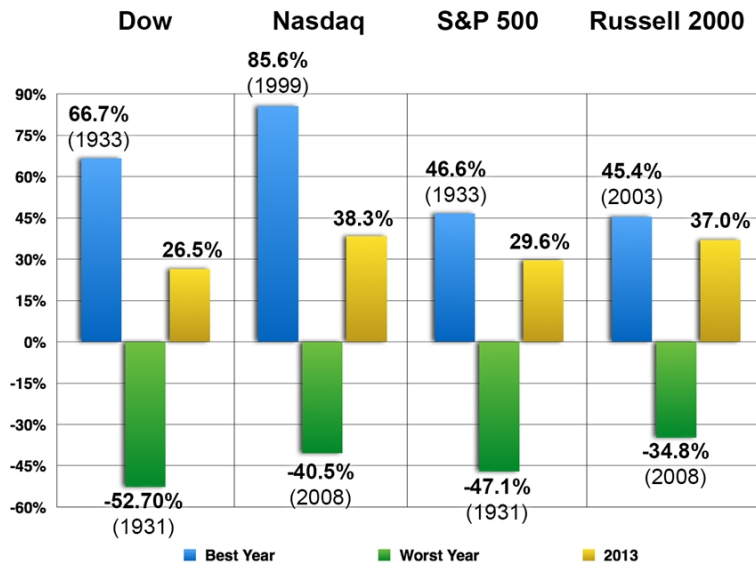
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I KNOW RETIREMENT PLANNING IS A JOURNEY, BUT SOMEHOW I THOUGHT THERE'D BE BETTER TRAIL MARKINGS.

Graph: The Best of Times, the Worst of Times, and 2013



In 2013, the Standard & Poor's 500 had its best year since 1997, while the Dow Jones Industrial Average set 52 new record closing highs and the Nasdaq hit a level it hadn't seen in more than 13 years. Here's how 2013's price gains compare to each index's best and worst years since 1926 by percentage gain as listed in the "Stock Trader's Almanac 2014." **Note:** All investing involves risk, including the possible loss of principal.