

THE Personal Advisor

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A Semi-Annual Review of Personal Financial Developments from NRSmith and Associates, PS

Cryptocurrency: Financial Advice & Tax Planning



As cryptocurrencies become more mainstream, they are introducing a host of issues for financial and tax planning experts. First, let's take a look at what and how cryptocurrency works. For any currency to be viable it requires three conditions to be met: (1) The currency must be widely accepted; (2) Enough people have to own the currency and be willing to use it; (3) Both people and merchants must have trust that the currency is valuable and will retain its value into the future.

The third condition, measuring the future value of the currency, is what we classify as risk and is critical to our understanding and financial analysis. The Securities and Exchange Commission (SEC) stated, "Speaking broadly, cryptocurrencies purport to be items of inherent value (similar, for instance, to cash or gold) that are designed to enable purchases,

sales and other financial transactions. They are intended to provide many of the same functions as long-established currencies such as the U.S. dollar, euro or Japanese yen but do not have the backing of a government or other body." The U.S. dollar, the yen, the euro and a large host of other standard currencies are fiat money, meaning that they are legal tender secured by the government that issued them. While the purchasing power of the currencies may vary, there are regulatory protections, and they can be insured. Cryptocurrencies have no institutional guarantee of value in the future. Additional risks are that it can be stolen via hacking and all completed transactions are both permanent and irreversible, with no third-party governance for protection or appeal.

How is cryptocurrency treated for tax purposes? According to the IRS, "For federal tax purposes, virtual currency is

treated as property. General tax principles applicable to property transactions apply to transactions using virtual currency." Similar to other property transactions you need to record the fair market value (FMV) when you get the currency and then every time you use it. Each transaction creates a possible loss/gain event that can have tax ramifications. If the currency is being held for more than one year, as an investment, any gain would qualify as a long-term gain. So, for any clients using cryptocurrency, maintaining good records is important to assess tax implications and for future auditing protection.

While cryptocurrency and specifically bitcoin are gaining a stronger foothold in the marketplace, we would advise our clients to be prepared and understand the risks before purchasing or investing. Being informed and knowing the risks are key to any financial decision.



For over 25 years, we used our newsletter to communicate with you, addressing important financial issues and keeping you up to date with the ever-changing economic landscape. A few years ago, we tried

new management who thought that the newsletter was too burdensome to produce, so we let it expire.

Over the past year, we have parted ways with that management. I am back as the firm president. Contrary to any false rumors, I have not retired. I am focused on restoring our integrated financial model with our traditional accounting practice and our personal financial planning team. I will be applying my experience on the accounting and auditing practice including business, tax and management consulting. Stacie Nemetz (see related article) will be managing the financial planning portion of the firm.

As our firm continues to grow, with our 75 years of history in the South Puget Sound, I am honored that numerous clients and families have been with us since the beginning. We've been able to build an experienced staff whose top priority is creating relationships that go beyond a tax return or portfolio management. Truly, the best part of the recent change is the ability to be back working directly with clients to help them achieve more than they thought possible and have fun doing it. Enjoy the newsletter.

Budget 101

*Simple question – Do you have a budget?
Harder question – Do you keep it?*

For most of us the very word “budget” brings up the same uneasiness as the word “diet” and then couples it with math. Like diets, budgets require motivation and determination to make them work. That is why over one-third of the population don’t have a plan. Financial experts have been shouting from the rooftops about the need and power of using a budget to help their clients achieve financial security.

Having a budget is the key to achieving long-term goals, being prepared in case of an emergency, planning a happy retirement, living within one’s means and, ultimately, being able to sleep easier at night. At NRSmith, we have some tools that can help our clients create and manage their finances. The first step is looking at budgeting differently – from limiting spending to allocating resources. Knowing how much money is coming in, is usually easy to determine – the challenge is how we spend it.

We have tested many budgeting programs with our clients over the years and we have had the most success putting their spending into some major buckets – fixed expenses, discretionary purchases and a wish list. Fixed expenses are the monthly bills that you cannot avoid - the mortgage, insurance, utilities, food, etc. Discretionary purchases include dining out, entertainment, small vacations, etc. While there can be debates about what is a fixed item versus a discretionary item, the goal is to put the item into a bucket and to assign it spending power. The final bucket is for your wish list - home renovations, vacation, retirement savings, new car, etc.

Once we have identified the buckets, we need to allocate a spending budget for each item. The fixed spending items come first, then the balance moves to the discretionary bucket, with the remainder transferred to the wish bucket. There are many strategies to make this process

easy to manage by setting up specific bank accounts, use of dedicated credit cards or online tracking software.

Another take on budgeting is to tie your investment accounts to your buckets. For instance, social security may be assigned to the fixed spending bucket, while an annuity can be used for discretionary spending. A stock market investment can be earmarked for the wish bucket.

We can also look at using the buckets for time horizons. Investments and liquidity can be assigned to spending buckets that cover your needs for the next 1-3 years, 3-10 years and from 10-20 years.

No matter what technique or strategy created, the best way to achieve your financial security is to build a plan and stick to it! We believe that making the plan flexible, easy to manage, while creating clearly defined goals, gives our clients the peace of mind and roadmap to navigate where they want to go. If you are interested or need some help getting started, please contact us to schedule a complimentary visit to explore your options.

Employee Spotlight: Stacie Nemetz



On October 1st, the leadership team at NRSmith promoted Stacie Nemetz to the position of Director of Financial Planning. Stacie grew up in Olympia, and graduated from Charles Wright Academy in 1989. She went on to study at Loyola Marymount University and graduated with a Bachelor of Science degree in Accounting.

Stacie settled in Los Angeles and began her professional career at Trust Company of the West in the International Portfolio Accounting and Emerging Markets Fixed Income group. During her time at TCW she experienced the fast-paced action as a member of the trading team. The following three years, Stacie spent serving Western Asset Management's client service team. With a solid foundation, she then joined Oaktree Capital Management, LLP where she worked for the next 13 years rising to the position of Vice-President on the Client Relations team. Stacie went on to UCLA to receive her Certificate in Personal Financial Planning.

With strong experience in institutional investment and client services, Stacie established her own financial planning business. As she built her business, she engaged in some consulting and support work for NRSmith. The opportunity to come back home and work in the family business called. (Did I forget to mention that Stacie is the daughter of Norm & Gayle Smith?)

After consulting for NRSmith for a year, Stacie and her family moved to Washington to further develop and serve the firm's financial planning business. As a Certified Financial Planner™ and an Accredited Investment Fiduciary®, Stacie spends 100 percent of her time in whole-life financial planning and investment management. With her experience from helping new clients who are starting their careers to clients who are planning their legacy, we are excited to add her to our practice and to welcome her back home.

Contact Stacie about your financial planning at snemetz@NRSmith.com.

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Upcoming Important Financial Planning Dates:

October 1 This is the deadline for small employers or self-employed taxpayers to develop a Simple IRA.

October 1 This is the first day to file the Free Application for Federal Student Aid (FAFSA®) for college financial aid for July 2020 to June 2021 for yourself or a child.

October 15 Deadline to file your individual tax return if you have filed an extension.

October 15 Deadline to file an Report of Foreign Bank and Financial Accounts (FBAR).

November 15 Deadline to file your return for exempt organizations if you have filed an extension and have a December 31st year end.

October 1 to November 1 For most Employers this begins the open enrollment period to change your benefits for the upcoming year.

November 1 to January 31 The annual filing period during which individuals can enroll at healthcare.gov for an individual health policy (subject to change).