

FINANCIALink

Your Money Management Newsletter

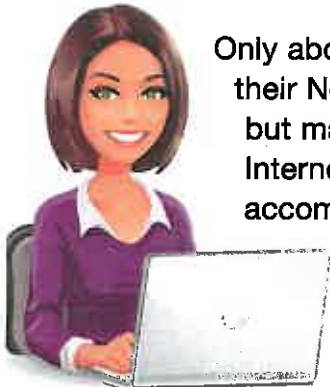
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Searching for a Better You



Only about 8% of people keep their New Year's resolutions, but many more use the Internet to research how to accomplish their goals.

520,000 to 980,000

Estimated number of vehicles destroyed or damaged by Hurricanes Harvey and Irma. This is expected to increase new automobile sales in the affected areas and may raise used-car prices across the country. Prior to the disasters, used vehicles had been depreciating quickly due to oversupply.

Source: *The Detroit News*, September 13, 2017, Bloomberg, August 15, 2017

Most popular Internet searches related to New Year's resolutions, in millions



Source: NBC News, January 1, 2017 (search data from 2016)

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Practical insights for your **FINANCIAL GOALS**

Options for Inherited IRAs

IRS rules for inheriting retirement accounts are complex, and an uninformed decision could result in unexpected taxes and penalties. Your options depend on your relationship to the original owner and the owner's age at the time of death.

Beneficiaries of both traditional and Roth IRAs must take required minimum distributions (RMDs), with one exception for spouses (described below). If the original owner died after reaching age 70½ and did not take an RMD for the year of death, you may also have to take the owner's RMD by the end of the calendar year.

Special Rules for Spouses

A surviving spouse can roll the inherited IRA assets to a new IRA in his or her own name. If the spouse is the sole beneficiary, the inherited IRA can simply be redesignated in the surviving spouse's name (if allowed by the account trustee). Because the spouse becomes owner of the account, he or she can make additional contributions, name beneficiaries, and avoid RMDs from a Roth IRA. RMDs must be taken from a traditional IRA but don't have to start until the surviving spouse reaches age 70½; they would be based on his or her life expectancy.

Options for Designated Beneficiaries

Nonspouse beneficiaries, as well as a spouse who does not treat an inherited IRA as his or her own, cannot contribute to the IRA and can only name "successor beneficiaries." In most cases, the funds must be transferred directly (through a trustee-to-trustee transfer) to a properly titled beneficiary IRA; for example, "Joe Smith (deceased) for the benefit of Mary Smith (beneficiary)." All designated beneficiaries typically have four distribution options.

Life expectancy method. A "stretch IRA" typically involves taking RMDs over the life expectancy of the

beneficiary. A nonspouse beneficiary generally must start taking distributions no later than December 31 of the year following the year of the IRA owner's death. A spouse beneficiary may be able to delay payments until the year the IRA owner would have reached age 70½.

Five-year rule. If the original owner died before reaching age 70½, the beneficiary can satisfy RMD rules by withdrawing all assets — in one or multiple distributions — within the five-year period that ends on December 31 of the fifth year after the IRA owner's death.

Lump-sum distribution. Regardless of the original owner's age, the beneficiary can withdraw his or her entire share of the inherited IRA by December 31 of the year following the original owner's death. This may be appropriate for small accounts, but you should think twice before liquidating a large account.

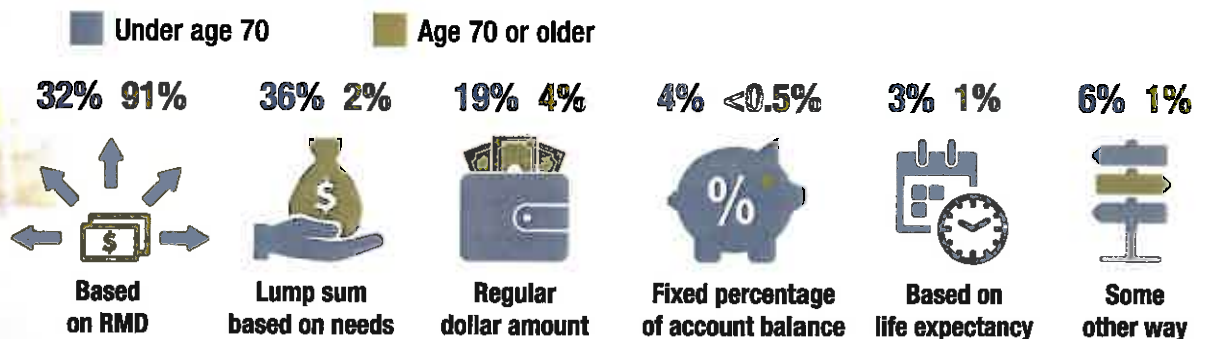
Disclaim the inherited funds. This may be appropriate if you do not need the funds and prefer that they pass to another beneficiary with greater needs or who would be subject to lower RMDs, allowing more time for the funds to grow. A qualified disclaimer statement must be completed within nine months of the IRA owner's date of death.

Failure to take the appropriate RMD can result in a penalty equal to 50% of the amount that should have been withdrawn. Distributions from a traditional IRA are taxable as ordinary income. Distributions of Roth IRA contributions are not taxable, but the account must meet the appropriate five-year Roth holding period for tax-free distributions of earnings.

Distribution rules become more complex when multiple beneficiaries are designated and when the IRA is left to an estate or a trust. It would be wise to consult with a tax or estate planning professional before taking any specific action.

Taking Withdrawals

Only one out of four households who owned traditional IRAs in 2016 took withdrawals in the previous tax year. Not surprisingly, among households headed by individuals 70 and older, most withdrawals were based on RMD rules. Households headed by individuals under age 70 took withdrawals for more varied reasons.



Age is based on head of household. Statistics include traditional IRAs with original owners and beneficiary IRAs. Taking a lump sum based on needs does not imply that all assets were distributed through a lump-sum distribution.

Source: Investment Company Institute, 2017



Balancing with Bond Funds

An appropriate balance of stocks and bonds is fundamental to building a solid portfolio, but individual bonds are expensive in general and usually inaccessible to investors who participate in employer-sponsored retirement plans. For these reasons, many investors use bond funds — mutual funds and exchange-traded funds (ETFs) composed mostly of bonds and other debt instruments. There are various types of bond funds, with the mix of bonds depending on each fund's focus and stated objectives.

Rising Interest Rates

After years of rock-bottom interest rates and low bond yields, rates have begun to rise, creating challenges and opportunities for bond fund investors. Bond funds are subject to the same inflation, interest rate, and credit risks associated with their underlying bonds, so rising rates — which typically push bond prices downward — can adversely affect a bond fund's performance in the short term.

Over the longer term, however, as bonds within the fund mature and are replaced by higher-yielding bonds, the fund's yield and/or share value could potentially increase. Even in the short term, interest paid by the fund may help moderate any losses in share value. You might benefit from a patient buy-and-hold strategy that includes reinvesting interest payments.

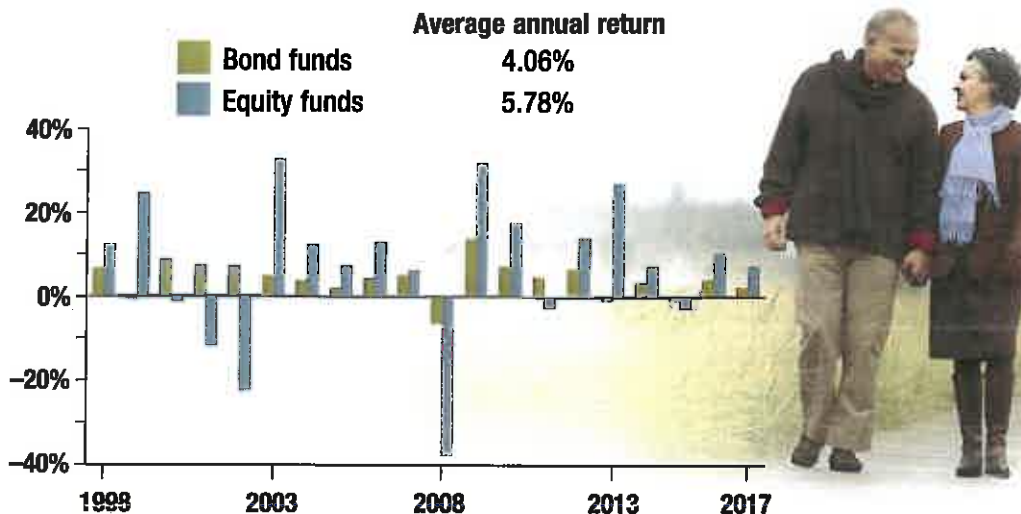
Yield, Maturity, and Duration

In general, longer-term bonds and bond funds offer higher yields, but they are also more sensitive to rising rates. Funds that hold short- or intermediate-term bonds typically offer lower yields, but may be more stable in share price as rates increase.

Bond funds do not have set maturity dates because they typically hold bonds with varying maturities and can buy and sell bonds before

Seeking Stability

Over the past 20 years, bond mutual funds have provided moderate returns with less volatility than equity mutual funds through a variety of market conditions, including recessions and changing interest rates. This is one reason why bond funds are often used to balance equity funds in an asset allocation and diversification strategy.



Source: Thomson Reuters, 2017, for the period 12/31/1997 to 6/30/2017. Bond funds are represented by the Thomson US: All General Bond-MF index. Stock funds are represented by the Thomson US: All US Equity-MF index. The performance of an unmanaged index is not indicative of the performance of any specific investment. Individuals cannot invest directly in an index. Past performance is not a guarantee of future results. Rates of return will vary over time, particularly for long-term investments. Actual results will vary. Asset allocation and diversification are methods to help manage investment risk; they do not guarantee a profit or protect against investment loss.

they mature. Another measure called *duration* takes into account the maturity dates of the underlying bonds, the value of future interest payments, and several other data points. The longer the duration, the more sensitive a fund is to changes in interest rates. You can usually find duration with other information about a bond fund.

To estimate the impact of a rate change, multiply a fund's duration by the expected percentage change in interest rates. For example, if interest rates rise 1%, a bond fund with a five-year duration might be expected to lose roughly 5% in value.¹ Although helpful as a general guideline, duration is best used when comparing funds with similar types of underlying bonds.

Other Factors to Consider

A fund's sensitivity to interest rates is only one aspect of its value, and

fund performance can be driven by a variety of dynamics in the market and the broader economy. The return and principal value of mutual fund and ETF shares fluctuate with changes in market conditions. Shares, when sold, may be worth more or less than their original cost. Supply and demand for ETF shares may cause them to trade at a premium or a discount relative to the value of the underlying shares. Investments seeking to achieve higher rates of return also involve a higher degree of risk.

Mutual funds and ETFs are sold by prospectus. Please consider the investment objectives, risks, charges, and expenses carefully before investing. The prospectus, which contains this and other information about the investment company, can be obtained from your financial professional. Be sure to read the prospectus carefully before deciding whether to invest.

1) Investment Company Institute, 2017

How Long Should You Keep Financial Records?

The beginning of the year is also the start of tax filing season, so it's a great time to organize your records. As you do so, you may want to discard old records to make room for new ones. (Use a shredder to discard records containing confidential information such as Social Security and financial account numbers.) Here are some guidelines to help you through the process.

Tax records. Keep all personal tax records for three years after filing your tax return or two years after the taxes were paid, whichever is later. (*Different rules apply to business taxes.*) Hold on to records for at least six years if you underreported gross income by more than 25%, and for seven years if you claimed a deduction for worthless securities or bad debt. It might be helpful to keep your actual tax returns, W-2 forms, and other income statements until you begin receiving Social Security benefits.

Financial statements. You generally have 60 days to dispute charges with banks and credit card issuers, so you could discard statements after two months. If you receive an annual summary, throw out old monthly statements. If your statements include tax information — for example, you use credit card statements to track deductions — follow the guidelines for tax records.

Retirement plan statements. Keep quarterly statements until you receive your annual statement, and keep annual statements until you close the account. Retain

records of nondeductible IRA contributions indefinitely to prove you already paid taxes on the funds.

Real estate and investment records. Keep at least until you sell the asset. If the sale is reported on your tax return, follow the rules for tax records. Utility bills can be discarded once the next bill is received showing the previous paid bill, unless you deduct utilities, such as for a home office.

Loan documents. Keep documents and proof of payment until the loan is paid off. After that, just keep proof of final payment.

Insurance policies. Hang on to policy and payment documents for as long as the policy is in force.

Auto records. Keep registration and title information until the car is sold. If you deduct auto expenses, keep mileage logs and receipts with your tax records. You might retain maintenance records for reference and to document services for a new buyer.

Medical records. Hold on to records indefinitely for surgeries, major illnesses, lab tests, and vaccinations. Keep payment records until you have proof of a zero balance. If you deduct medical expenses, keep receipts with your tax records.

Other documents you should hold on to indefinitely include birth, marriage, and death certificates; divorce decrees; citizenship and military discharge papers; and Social Security cards.



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Are you comfortable with the mix of assets in your portfolio? Call us for an appointment today.

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