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# Money at work

## What makes the stock market move?

What has history taught us? The stock market has soared at certain times and plummeted at others, resulting in significant short term swings for investors. It has also moved in bull market cycles where prices have run up, and bear markets when prices have fallen. And, at still other times, it has stabilized.

Instead of putting all your efforts into trying to "time" the market to your advantage, you may be better served by understanding the basics of why stock market prices rise and fall. Here are some key factors in the equation.

**Supply and demand:** If the supply of shares is more than the demand, the price may decrease. Conversely, the price may increase when supply is short and demand is great. The demand for a particular stock often relates to its yield.

**Interest rates:** When the bank interest rate, as determined by the Federal Reserve, is lowered, investors may borrow more money, often resulting in higher stock prices. On the flip side, if the interest rate increases, fewer investors are encouraged to invest, potentially causing stock market prices to fall.

**Financial position:** Not surprisingly, a company's financial position will likely have an impact on the price of its shares. If the financial position is good and expectations for dividends are promising, the price may rise. When the price reaches a high level and investors start selling off shares, the price may come down.

**Political environment:** Political events may affect stock prices, especially in the short term. This applies both domestically and on an international basis. For example, should a war suddenly break out, history has shown that stock prices can be expected to fall. However, if an explosive political situation is resolved

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expeditiously, it could result in a price rebound.

**Economic conditions:** This operates much in the same way as the political environment. A booming economy pointing upward will be reflected in higher prices. But an economic tailspin may have the opposite effect on the market.

**Speculation:** Widespread speculation can move the market one way or another. If a majority of investors believes stock prices will rise and invest accordingly, they probably will rise. Similarly, if there is prevalent doom and gloom among investors, prices may decline.

**Institutional investors:** Similar to individuals, large institutions buy and sell stocks, but they do so in greater quantities than typical investors. Because of this bulk trading, prices may move up or down, depending on the activity. Is that all there is to it? Not by a long shot. Numerous other factors may come into play. The list is far too extensive to cover here, but it ranges from commodity prices to social influences to scandals involving corporate officers—even the weather can be a contributing factor.

There is no absolutely foolproof method for success. Keep this information at your disposal to make sound decisions with the assistance of your professional adviser. ❖

# When a spendthrift trust makes sense

If you have accumulated significant wealth during your lifetime, you may be concerned that beneficiaries may squander the funds after you are gone. For instance, one or more of your heirs may not have the financial acumen to manage the assets, or may have previously shown inclinations to spend money without much, if any, restraint. In that case, you might take steps, such as using a "spendthrift trust" to protect the wealth.

**How it works:** With assistance from an attorney, you set up a trust according to state law and transfer assets to the trust. Usually, the assets will include securities such as stocks and bonds, and possibly other property, such as real estate and some cash. You then designate someone—typically a professional—as the trustee to manage the assets.

Significantly, the terms of the trust restrict the ability of beneficiaries to spend the money or sell off assets in the trust account. So your 18-year-old child can't go out and buy a Lamborghini or take a yearlong cruise around the world. In addition, the assets transferred to the trust are protected from the reach of the beneficiary's creditors.

In lieu of direct access, beneficiaries may receive payments from the trust regularly or at the discretion of the trustee. For instance, if a beneficiary is in college, the trustee may provide payments to the school. However, once an amount is in the hands of a beneficiary, he or she has control over it.

Naming the trustee is critical to the process. Depending on the trust terms, the trustee may have wide discretion over the use of funds. For instance, the trust may empower the trustee to make payments to a beneficiary on an "as-needed" basis. Alternatively, the trustee may be responsible for making scheduled payments or be authorized to act upon the occasion of a specific occurrence (e.g., a child reaching a certain age).

Whom should you name as the trustee? Technically, it is not illegal to act as the trustee yourself, although this may lead to complications and generally is not recommended. More often than not, the trustee will be a professional, such as the attorney who helps to create the trust. Or you might choose a family member or close friend. Ultimately, it should be someone with the requisite financial knowledge.

It is also important to name a successor trustee—someone who can handle the responsibilities should the designated trustee die before the term's end or otherwise be unable to handle the duties. At the very least, you should name a professional as the successor trustee.

There are several other important aspects to consider when setting up a spendthrift trust, including provisions for terminating the trust and addressing contingencies, such as a beneficiary's predeceasing the grantor. Along the same lines, the trust may have to be revised to accommodate changes in the tax law or other new developments.

**Final words:** Do not try to go it alone. Consult your estate-planning team to determine if this approach makes sense for your family. ❖

# Retirement savings at different stages

When should you start saving for retirement? The stock answer is "right away." Usually, it is recommended that you begin salting away money for your golden years once you enter the workforce, but that can be difficult and slow. Thus, the manner in which you save for retirement—and the amount you set aside—will often depend on your particular circumstances. Keeping that in mind, here is an overview of what saving for retirement might encompass at different stages of life.

**Early years:** For most people, their first starting salary does not provide much room for savings. But it is still important to develop good saving habits. For instance, if you work at a company that provides matching contributions to a 401(k), be sure to take advantage of the company match. Otherwise, you are leaving money on the table that may provide valuable income in retirement. Furthermore, you might be surprised to find out the degree of impact that tax-deferred compounding can have over a long period of time.

**Middle years:** When you are in the middle of your working career, other obligations—such as buying a home, raising your children and building up funds to pay for their educations—often take priority.

Nevertheless, do not take your eye off the ball. To the fullest extent possible, continue utilizing company retirement plans, IRAs and other savings vehicles. Note that in retirement, a Roth IRA may provide tax-free payouts for qualified distributions (e.g., those received after age 59 ½). If you are rewarded with a raise, try to allocate at least part of it to your retirement savings plan.

**Late years:** If the house is paid off and the kids are out of school, this time of life may provide more opportunity for saving. Also, you may benefit from seniority at work and career advancement, so your earnings could be higher than ever or near their peak. If you have not be as diligent through the years as you would have liked, it is still possible to build a sizable nest egg for retirement. The basic principles of using retirement plans and IRAs for tax-deferred growth remain the same.

Finally, do not think that saving for retirement ends once you have retired. At this time, you must make some serious decisions and assess both your expected income and expenses. For instance, one major decision is when to take Social Security benefits so you can maximize the payouts. Also, you might choose to keep working past the age for receiving full Social Security retirement benefits (ranging between 65 and 67, depending on your year of birth).

Because of longer life expectancies, due in part to medical advances, you may need more retirement income than you originally expected. If you have not started saving yet, or if you anticipate a shortage, now is the time to spring into action. ❖

# Harvest time for investors

At this writing, the prospects for tax reform that would become effective in 2018 are uncertain. But that does not mean investors should sit on the sidelines.

In particular, absent other circumstances, you may "harvest" capital losses from sales of securities at year-end to offset capital gains realized earlier in the year. Any excess may offset up to $3,000 of ordinary income before it is carried over to next year.

Conversely, if you realized capital losses previously, you might harvest high-taxed capital gains what would be absorbed for tax purposes by those losses. ❖

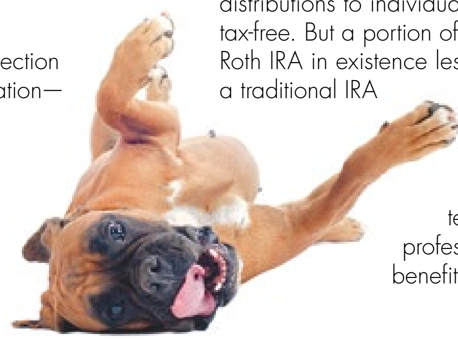
# Are you in line for a charitable rollover?

Some retirees may be able to benefit from a unique tax break. Thanks to a special tax law provision, an individual age 70 ½ or older can transfer a significant amount of funds directly from an IRA to a qualified charitable organization without paying any tax on the distribution. Such a "charitable rollover" also counts as a required minimum distribution (RMD) for tax purposes.

This provision, which had expired and has been reinstated several times, was extended again by the Protecting Americans from Tax Hikes Act of 2015 (the PATH Act). The PATH Act made it permanent.

**Background:** Previously, you could not directly transfer funds tax-free from an IRA to a charitable organization. Instead, you were required to pay tax on the distribution, regardless of your charitable intentions. This arrangement also worked against retirees who wanted to use IRA funds for charitable donations but no longer itemized their deductions.

However, beginning with the Pension Protection Act of 2006 (PPA) and subsequent legislation—including the PATH Act—individuals age 70 ½ or older can transfer IRA funds directly to a charity, up to an annual limit of $100,000 ($200,000 for a married couple). Although no tax deduction is allowed, donors are not taxed on the distribution either.



For these purposes, a qualified distribution is defined as one from either a traditional or Roth IRA that otherwise would be taxable. The distribution must be made directly from the IRA trustee to the charity.

Furthermore, the contribution must otherwise qualify as a charitable donation. If the deductible amount decreases because of a benefit received in return—for a dinner at a fundraising event, for example—or the deduction would not be allowed due to inadequate substantiation, the exclusion is not available for any part of the IRA distribution.

Under a special rule for charitable donations, the IRS treats distributions from an IRA funded at least partially with nondeductible contributions as coming first from taxable funds and then from nontaxable funds. For this calculation, all of the individual's IRAs are grouped together.

Note that the same rules also apply to Roth IRAs. Roth IRA distributions to individuals age 59 ½ or older are often tax-free. But a portion of a distribution may be taxable for a Roth IRA in existence less than five years. If you have both a traditional IRA and a Roth IRA, it generally makes sense to use the traditional IRA first for charitable distributions.

**Caution:** The charitable rollover technique is not for everyone. Obtain professional guidance as to how it might benefit your family's particular situation. ❖

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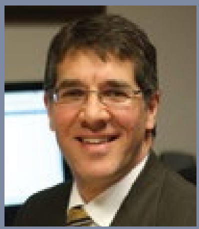

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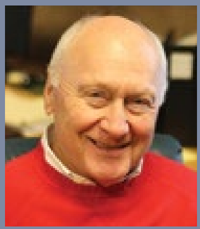

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ANY QUESTIONS?
PLEASE CONTACT US.
WE ARE GLAD TO SERVE YOU IN ANY WAY THAT WE CAN.