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INVESTMENT HOUSE, LLC

Financial Solutions Under One Roof

The Fed's Great Unwind and Your Portfolio

After more than five years of unprecedented support for the economy, the Federal Reserve Board has begun to reduce its purchases of bonds. And though the Fed has said interest rates may stay low even after unemployment has fallen to 6.5%, higher rates increasingly seem to be a question of timing. Both of those actions can affect your portfolio.

Bond purchases: the tale of the taper

In the wake of the 2008 credit crisis, the Fed's purchases of Treasury and mortgage-backed bonds helped keep the bond market afloat, supplying demand for debt instruments when other buyers were hesitant. Fewer purchases by one of the bond markets' biggest customers in recent years could mean lower total overall demand for debt instruments. Since reduced demand for anything often leads to lower prices, that could hurt the value of your bond holdings.

On the other hand, retiring baby boomers will need to start generating more income from their portfolios, and they're unlikely to abandon income-producing investments completely. Those boomers could help replace some of the lost demand from the Fed. Also, the Fed's planned retreat from the bond-buying business has roiled overseas markets in recent months; when that kind of uncertainty hits, global investors often seek refuge in U.S. debt.

Rising interest rates

When interest rates begin to rise, investors will face falling bond prices, and longer-term bonds typically feel the impact the most. Bond buyers become reluctant to tie up their money for longer periods because they foresee higher yields in the future. The later a bond's maturity date, the greater the risk that its yield will eventually be superseded by that of newer bonds. As demand drops and yields increase to attract purchasers, prices fall.

There are various ways to manage that impact. You can hold individual bonds to maturity; you would suffer no loss of principal unless the borrower defaults. Bond investments also can be laddered. This involves buying a portfolio of bonds with varying maturities; for example, a

five-bond portfolio might be structured so that one of the five matures each year for the next five years. As each bond matures, it can be reinvested in an instrument that carries a higher yield.

If you own a bond fund, you can check the average maturity of the fund's holdings, or the fund's average duration, which takes into account the value of interest payments and will generally be shorter than the average maturity. The longer a fund's duration, the more sensitive it may be to interest rate changes. **Note:** *All investing involves risk, including the loss of principal, and your shares may be worth more or less than you paid for them when you sell. Before investing in a mutual fund, carefully consider its investment objective, risks, fees, and expenses, which are outlined in the prospectus available from the fund. Read it carefully before investing.*

For those who've been diligent about saving, or who have kept a substantial portion of their investments in cash equivalents such as savings accounts or certificates of deposit, higher interest rates could be a boon, as rising rates would increase their potential income. The downside, of course, is that if higher rates are accompanied by inflation, such cash alternatives might not keep pace with rising prices.

Balancing competing risks

Bonds may be affected most directly by Fed action, but equities aren't necessarily immune to the impact of rate increases. Companies that didn't take advantage of low rates by issuing bonds may see their borrowing costs increase, and even companies that squirreled away cash could be hit when they return to the bond markets. Also, if interest rates become competitive with the return on stocks, that could reduce demand for equities. On the other hand, declining bond values could send many investors into equities that offer both growth potential and a healthy dividend.

Figuring out how future Fed decisions may affect your portfolio and how to anticipate and respond to them isn't an easy challenge. Don't hesitate to get expert help.

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Home Staging: Getting Your Home Ready to Sell

Saving through Your Retirement Plan at Work? Don't Let These Five Risks Derail Your Progress

Is there a new way to calculate my home office deduction?

Home Staging: Getting Your Home Ready to Sell



In today's competitive housing market, your home's appearance plays an important role in determining how quickly it will sell. Before you put your home on the market, many real estate professionals recommend doing at least some form of home staging.

Fortunately, there are a number of things you can do to stage your home for selling that take only a little time and effort, and more importantly, won't break the bank.

Be sure to make a good first impression

When it comes to selling your home, first impressions are important. A yard that is overgrown and poorly maintained can turn off a potential buyer before he or she even walks through your front door.

But keep in mind that you don't have to have a green thumb or hire an expensive landscape designer to make a difference. You can make the outside of your home more welcoming by:

- Cutting grassy areas that are overgrown
- Trimming trees and shrubbery--especially those that are near or next to the house
- Clearing walkways and paths so visitors can easily enter/exit your home
- Giving your front door a fresh coat of paint
- Making sure outdoor lighting is adequate/updated

Create a welcoming environment

When potential buyers first walk through your front door, you'll want them to feel comfortable and at ease. You can create a welcoming environment with a few minor touches such as fresh flowers in the entryway or the smell of freshly baked cookies.

Give your home a thorough cleaning

Never underestimate the impact a clean home can have on a potential buyer. Dust on shelves, mildew in the bathroom, and dirty carpets can be huge deterrents when selling a home.

Before you put your home on the market, you'll want to give it a thorough cleaning from top to bottom. If it's a big enough job, you may even want to enlist the services of a professional cleaning company to assist you with the cleanup.

Remove clutter

Removing clutter from your home will make it seem more functional, spacious, and organized--all important features for a potential homebuyer.

While it can sometimes seem overwhelming to have to sift through and organize all of your

personal belongings, you can get started with these simple tips:

- Clean out closets and install closet organizers
- If home office space is limited, add shelves and storage bins to hide office clutter
- Remove any personal effects, such as photos, mementos, and even toiletries
- In addition to main living spaces, be sure to clean out attic, basement, and garage spaces
- Rent a dumpster or hire a waste disposal company to make it easier to get rid of larger, unwanted items or consider donating unwanted items that are in good condition to a charitable organization
- If necessary, hire a professional organizer

Invest in a fresh coat of paint

Dated wall treatments, such as wallpaper borders and faux finishes, can deter a potential buyer. A fresh coat of paint is a cost effective way to give your home an updated appearance.

When picking out paint colors, be sure to stick to neutral color schemes, which tend to have a broader appeal. In addition, remember that darker colors often make rooms seem smaller and more intimate, while lighter colors can make a room appear larger and more spacious.

Hold off on major improvements/upgrades

Except in certain circumstances, most home staging projects should only involve minor improvements to your home that won't take up much of your time or cost you a lot of money. As a result, you should hold off on major improvements or upgrades, such as renovating an entire kitchen or putting on a new addition.

Get professional help if needed

If you feel that you need assistance staging your home before you put it on the market, there are staging professionals and companies that assist homeowners during the home-staging process.

The cost of professional home staging varies, depending on the types of services provided. Basic staging services usually offer simple advice and tips for organizing and cleaning your home. Other, more involved staging services provide full home redesigns along with specially staged furnishings and accessories.

Saving through Your Retirement Plan at Work? Don't Let These Five Risks Derail Your Progress



Keep in mind that no investment strategy can guarantee success. All investing involves risk, including the possible loss of your contribution dollars.

As a participant in your work-sponsored retirement savings plan, you've made a very important commitment to yourself and your family: to prepare for your future. Congratulations! Making that commitment is an important first step in your pursuit of a successful retirement. Now it's important to stay focused--and be aware of a few key risks that could derail your progress along the way.

1. Beginning with no end in mind

Setting out on a new journey without knowing your destination can be a welcome adventure, but when planning for retirement, it's generally best to know where you're going. According to the Employee Benefit Research Institute (EBRI), an independent research organization, workers who have calculated a savings goal tend to be more confident in their retirement prospects than those who have not. Unfortunately, EBRI also found that less than half of workers surveyed had actually crunched the numbers to determine their need (Source: 2013 Retirement Confidence Survey, March 2013).

Your savings goal will depend on a number of factors--your desired lifestyle, preretirement income, health, Social Security benefits, any traditional pension benefits you or your spouse may be entitled to, and others. By examining your personal situation both now and in the future, you can determine how much you may need to accumulate to provide the income you'll need during retirement.

Luckily, you don't have to do it alone. Your employer-sponsored plan likely offers tools to help you set a savings goal. In addition, a financial professional can help you further refine your target, breaking it down to answer the all-important question, "How much should I contribute each pay period?"

2. Investing too conservatively...

Another key to determining how much you may need to save on a regular basis is targeting an appropriate rate of return, or how much your contribution dollars may earn on an ongoing basis. Afraid of losing money, some retirement investors choose only the most conservative investments, hoping to preserve their hard-earned assets. However, investing too conservatively can be risky, too. If your contribution dollars do not earn enough, you may end up with a far different retirement lifestyle than you had originally planned.

3. ...Or aggressively

On the other hand, retirement investors striving for the highest possible returns might select investments that are too risky for their overall

situation. Although it's a generally accepted principle to invest at least some of your money in more aggressive investments to pursue your goals and help protect against inflation, the amount you invest should be based on a number of factors.

The best investments for your retirement savings mix are those that take into consideration your total savings goal, your time horizon (or how much time you have until retirement), and your ability to withstand changes in your account's value. Again, your employer's plan likely offers tools to help you choose wisely. And a financial professional can also provide an objective, third-party view.

4. Giving in to temptation

Many retirement savings plans permit plan participants to borrow from their own accounts. If you need a sizable amount of cash quickly, this option may sound appealing at first; after all, you're typically borrowing from yourself and paying yourself back, usually with interest. However, consider these points:

- Any dollars you borrow will no longer be working for your future
- The amount of interest you'll be required to pay yourself could potentially be less than what you might earn should you leave the money untouched
- If you leave your job for whatever reason, any unpaid balance may be treated as a taxable distribution

For these reasons, it's best to carefully consider all of your options before choosing to borrow from your retirement savings plan.

5. Cashing out too soon

If you leave your current job or retire, you will need to make a decision about your retirement savings plan money. You may have several options, including leaving the money where it is, rolling it over into another employer-sponsored plan or an individual retirement account, or taking a cash distribution. Although receiving a potential windfall may sound appealing, you may want to think carefully before taking the cash. In addition to the fact that your retirement money will no longer be working for you, you will have to pay taxes on any pretax contributions, vested employer contributions, and earnings on both. And if you're under age 55, you will be subject to a 10% penalty tax as well. When it's all added up, the amount left in your pocket after Uncle Sam claims his share could be a lot less than you expected.

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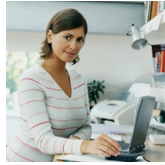
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Is there a new way to calculate my home office deduction?

Yes, but first it's important to understand what hasn't changed. To qualify for an income tax deduction for home

office expenses, the IRS still requires that you meet two tests--the place of business test and the exclusive and regular use test.

To pass the place of business test, you must show that you use a portion of your home as the principal place of business for your trade or business, or a place where you regularly meet with clients, customers, or patients. In the case of a separate structure that isn't attached to your dwelling unit, you must show that you use it in connection with your trade or business (i.e., it needn't be your principal place of business).

The exclusive and regular use test requires that you use that portion of your home both exclusively for business and on a regular basis.

Prior to 2013, in order to claim the home office deduction, you also needed to determine the actual expenses you incurred in maintaining your home office (for example, mortgage interest, insurance, utilities, repairs, and depreciation).

However, beginning with the 2013 tax year, you're able to use an optional "safe harbor" method of calculating your home office deduction. Instead of determining and allocating actual expenses, under the safe harbor method you calculate your deduction by multiplying the square footage of your home office (up to a maximum of 300 square feet) by \$5. Since square footage is capped at 300, the maximum deduction available under the safe harbor method is \$1,500.

Each year, you can choose whether to use the safe harbor method of calculating the deduction or to use actual expenses. If you use the new safe harbor method:

- You'll still be able to deduct mortgage interest and real estate taxes on Schedule A if you itemize deductions.
- You cannot depreciate the part of your home you use for business. (If you use the safe harbor method in one year, and in a later year use actual expenses, special rules will apply in calculating depreciation.)



How do I figure the tax on the sale of my home?

In general, when you sell your home any amount you receive over your cost basis (what you paid for the home, plus capital improvements, plus the costs

of selling the home) is subject to capital gains taxes. However, if you owned and used the home as your principal residence for a total of two out of the five years before the sale (the two years do not have to be consecutive), you may be able to exclude from federal income tax up to \$250,000 (up to \$500,000 if you're married and file a joint return) of the capital gain when you sell your home. You can use this exclusion only once every two years, and the exclusion does not apply to vacation homes and pure investment properties.

For example, Mr. and Mrs. Jones bought a home 20 years ago for \$80,000. They've used it as their principal home ever since. This year, they sell the house for \$765,000, realizing a capital gain of \$613,000 (\$765,000 selling price minus a \$42,000 broker's fee, minus the original \$80,000 purchase price, minus \$30,000 worth of capital improvements they've made over the years). The Joneses, who file jointly, and are in the 28% marginal tax bracket, can

exclude \$500,000 of capital gain realized on the sale of their home. Thus, their tax on the sale is only \$16,950 (\$613,000 gain minus the \$500,000 exemption multiplied by the 15% long-term capital gains tax rate).

What if you don't meet the two-out-of-five-years requirement? Or you used the capital gain exclusion within the past two years for a different principal residence? You may still qualify for a partial exemption, assuming that your home sale was due to a change in place of employment, health reasons, or certain other unforeseen circumstances.

Special rules may apply in the following cases:

- You sell vacant land adjacent to your residence
- Your residence is owned by a trust
- Your residence contained a home office or was otherwise used for business purposes
- You rented part of your residence to tenants
- You owned your residence jointly with an unmarried taxpayer
- You sell your residence within two years of your spouse's death
- You're a member of the uniformed services