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Financial Insights

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Seven Smart Money Moves You Should Make In 2017

Do you remember those New Year's resolutions you made to save more money and spend less? For many of us, those good intentions got shifted to the back burner when reality set in and bills started piling up. But it's not too late to reexamine your financial affairs and turn things around for the rest of the year. Here are seven smart money moves that could help you in 2017:

1. Build a better budget. One fundamental of money management is to create a monthly budget that makes sense for you, and then stick to it. You may have gone through the process before, but if it's not working you have to go back to the drawing board.

Start with the essentials—mortgage or rent, utilities, your car or other commuting expenses, and anything else that you can't do without—and take it from there. Think about cutting back on or eliminating expensive dinners, exotic getaways, and other luxuries you can live without. In particular, zero in on small, routine expenses—that daily cappuccino, for example—that may add up to a substantial cost.

2. Pay down your debts. If there's one thing that can wreck a budget, it's the payments you make on what you owe. Maybe you're saddled with credit card charges subject to high interest rates. Even the minimum monthly payment can be painful, and interest charges just keep mounting.

Try to make debt reduction a top priority. Start by resolving not to borrow any more until you pay down what you owe. If it makes sense and you can obtain a favorable interest rate, consider consolidating your debts into a single account.

3. Increase retirement savings. Now is a good time to boost your retirement savings as well. If you participate in a 401(k) plan at work, you might increase the amount that's subtracted from your paycheck. The maximum deferral for 2017 is $18,000 ($24,000 if you're age 50 or over). Plus, your employer may provide "matching" contributions of part of your savings.

In addition, you could supplement a 401(k) or other work plan with contributions to a traditional or Roth IRA (or a combination of the two). For 2017, the maximum total IRA contribution is $5,500 ($6,500 if you're age 50 or over).

4. Reinvest investment earnings. It may be easier to manage your finances if you have investment earnings from securities such as stocks, bonds, and mutual funds. However, when possible, instead of spending your profits, funnel those amounts back into other investments.

If you own investments that pay out regular dividends, you could use an automatic dividend plan to reinvest the money without having to lift a finger.

(Continued on page 4)

Taking Socially Responsible Investing To The Next Level

Socially responsible investing has come a long way over the past decade. It used to be viewed as a way for relatively small numbers of investors to divest themselves of stocks in industries whose practices they opposed. Tobacco, alcohol, and gambling companies were common targets. Now, this approach has broadened its appeal, often with a focus on environmental, social, and governance (ESG) policies of companies. And these days, screening tools for socially responsible funds tend to be as much about finding companies with positive records as about excluding those with objectionable qualities.

As interest has grown, there has been an enormous expansion in the number and variety of mutual funds and exchange traded funds (ETFs) across the spectrum of what is now often called impact investing.

And whereas old-style socially responsible investing often meant sacrificing returns, these days many such funds perform as well or better than the overall market, helped by the same kinds of analysis that applies to other kinds of investments.

That's not to say ESG investments have some magical formula. Investors run the same risks as they do with other equities and there are no guarantees against losses, especially in a declining market. Consider all aspects to find the investment mix suitable for your situation.

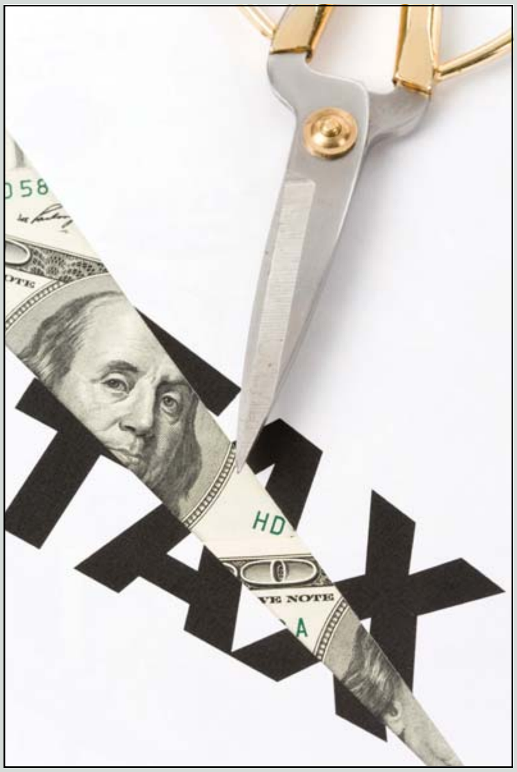
One Last Shot At A Tax Exemption

Did your child graduate from college or graduate school this spring? If that's the case, this may be the last year you will be able to claim a dependency exemption for that son or daughter. But even then, you need to be careful to observe all of the tax rules covering such exemptions.

For starters, your dependency exemption for each qualifying child in 2017 is $4,050, the same as the personal exemption you and your spouse may claim. But you may lose some of the tax benefit of these exemptions under the personal exemption phase-out (PEP) rule. It kicks in at $261,500 of modified adjusted gross income (MAGI) for single filers and $313,800 of MAGI for joint filers.

To qualify for dependency exemptions, you must meet a two-part test. First, you have to provide more than half of your child's annual support for the year. Second, your dependent can't have earned more than the personal exemption amount in gross taxable income for the year. It's the second part of the test that often jeopardizes an exemption.

However, you may be in line for a special tax break. If your child is under age 19 or is a full-time student and under age 24, the second part of the test doesn't apply. That means you often still can claim a dependency exemption for a child in the year he or she graduates from college as long as you provide half of your son's or daughter's support.



Of course, if your kid is lucky enough to land a high-paying job right out of school, it may be a stretch to reach that half-support level. You might have to be extra-generous at the end of the year to secure the exemption one last time.

Consider this hypothetical example: Suppose your daughter graduates in May and starts working full-time in July. She earns $4,000 a month at her new job and contributes $800 of that amount to a 401(k). The retirement plan contribution doesn't count as support, but the other $3,200 a month does, and for six months that adds up to $19,200.

If you provided $1,500 in monthly support to your daughter while she was in school and after she graduated, you will have given her $18,000 for the year. But that's less than half of her total support.

To get over that hump and save your exemption for your daughter, you might give her a cash gift, say $2,000, around the holidays, maybe to help her buy a car. Now you're providing more than half of her support for the year — $20,000 ($18,000 + $2,000) compared with $19,200. The $2,000 gift allows you to claim a $4,050 exemption.

Of course, Congress could revise these tax rules, but it's unlikely that any changes involving dependency exemptions would be retroactive to the beginning of the year. Keep one eye on the progress of tax reform talks in Washington and the other eye on your child's support totals for the year. ●

How You Can Manage Risk Aversion

During the early part of 2017, the stock market was rolling merrily along, with the Dow Jones Industrial Average (DJIA) breaking through the 20,000-point barrier for the first time. But the "Trump bump" won't last forever and some prognosticators are forecasting eventual doom and gloom. In all likelihood, the stock market will continue to experience ups and downs, just like it has throughout its history.

Regardless of whether the market is going up or down, or staying relatively stable, your portfolio should reflect your personal aversion to risk. Primarily, there are three types of risk to address in this overall philosophy:

1. Risk of loss of principal: This is the risk of losing the money you initially invested. Say you buy a stock for $1,000 that jumps to $1,200 before it falls back to $900. If you sell the stock at that point, you will have lost $100 of principal.

2. Risk of loss of purchasing power: You may be willing to limp along with modest returns, but you're losing money if the inflation rate exceeds your rate of return. For instance, if you acquire a bank CD paying a 2% annual rate and inflation rises to 3.5%, you're losing 1.5% in the purchasing power of that investment.

3. Risk of outliving your savings: Is your investment plan overly conservative? Remember that the stock market historically has outperformed most comparable investments over long periods, although there are no absolute guarantees. Therefore, you're likely to fare better with a well-devised investment plan than you would if you stuffed your money under a mattress. Otherwise, you might outlive your savings, especially given recent increases in life expectancies.

Risk assessment surveys can provide some insights. Typically, an analysis will reveal that you tend to be either a conservative, moderate, or

Avoid These 6 Mistakes In Stretch IRA Planning

As talk of the possibility of tax reform continues in Washington, there's an increased focus on the rules for "stretch IRAs." This retirement planning technique, which enables you to preserve assets in an inherited IRA for an extended period, could be targeted in a larger tax reform package. For the time being, however, stretch IRA planning remains a viable option for many people.

But to use a stretch IRA successfully, you'll need to follow a number of important rules and avoid common mistakes made by those who inherit IRA assets.

If you own an IRA, you must take required minimum distributions (RMDs) annually beginning in the year after you reach age 70½. Otherwise, you'll be hit with a stiff IRS penalty. Those distributions are taxed at your rate for ordinary income—which could be as high as 39.6%—and are based on a calculation that considers the account balance at the end of the previous year and your life expectancy (or your joint life expectancies with your spouse).

However, beneficiaries who inherit your IRA can arrange for RMDs based on their own life expectancies, unless they choose to empty the account more quickly. Stretching out the IRA over the longer time can help preserve wealth for younger generations.

With those basics in mind, consider these six common mistakes in stretch IRA planning:

Mistake #1: Your account is titled improperly. When someone dies and IRA assets are inherited, it's crucial to ensure that the account name is titled correctly. For example, if someone other than your spouse inherits your IRA, your name should remain on the inherited IRA account title and it must be indicated that it is an inherited IRA by using the words "beneficiary" or "beneficiary IRA" or "inherited IRA."

Mistake #2: You fail to take RMDs. If the IRA account holder already was taking RMDs at the time of death, inheritors will need to make sure that the RMD is withdrawn for the year in which the account holder died. Failing to meet this requirement triggers a penalty equal to 50% of the amount that should have been withdrawn.

Mistake #3: You, as the primary beneficiary, fail to utilize a disclaimer when appropriate. A qualified disclaimer is a legal document that effectively says you choose not to receive the IRA assets, which then will pass to the contingent beneficiaries listed on the IRA paperwork. This strategy may be preferable if you don't need the money and you intend to pass along the inherited assets to younger beneficiaries eventually. Doing it now means RMDs will be based on the new owners' longer life expectancies.

Mistake #4: You fail to analyze contingent beneficiaries when using a disclaimer. It's important to consider all relevant financial and tax factors before agreeing to pass up inherited IRA assets through a disclaimer. This is not a casual decision. Consider whether the contingent beneficiaries in fact will be able to stretch out the IRA longer under their life expectancies and look at their tax consequences. Younger contingent beneficiaries may be in a lower tax bracket than you are, and if they pay the taxes that could reduce the overall tax bite.

Mistake #5: You take a lump-sum distribution. Some people think they're required to take a lump-sum distribution from an inherited IRA to empty the account immediately. That's simply not true. If you need the money, go ahead and take it. But if you don't have a pressing need, going the stretch IRA route could enable you to preserve wealth longer and generally will reduce tax liability.

A large lump-sum distribution could rocket you into a higher tax bracket and force you to lose more of the inheritance in taxes.

Mistake #6: You fail to analyze spousal rollovers. Current tax law offers greater flexibility to spouses who inherit an IRA. They can roll over inherited assets into their own IRA accounts and set up payouts calculated on their own life expectancies. However, a rollover isn't always the optimal approach for spouses. For instance, if a surviving spouse is under age 59½, payouts from the IRA will trigger the 10% penalty tax for early withdrawals, on top of the regular income tax owed. ●

aggressive investor, within certain ranges. Your portfolio should reflect this characterization.

If you indicate a more conservative bent, you may want to fine-tune your investments accordingly, taking into account asset allocation and diversification methods. Again, these strategies do not offer any guarantees, nor do they protect against losses in declining markets, but they remain fundamentally sound.

Other potential ideas are to weight your portfolio more heavily to bonds than you did in your younger days. The technique of "bond laddering," with bonds maturing at different dates, is a variation on this theme. Similarly, conservative investors may emphasize dividend-paying stocks and blue chips, as well as mutual funds and exchange traded funds (ETFs) offering diversification.

Every situation is different. Reach out to us to address your specific concerns. ●

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Seven Smart Money Moves

(Continued from page 1)

5. Diversify your investments. Spreading your portfolio over several different kinds of investments could help reduce some of the inherent risks of investing and relieve some of the pressure associated with volatility in the markets. (Of course diversification doesn't ensure a profit or guarantee protection against a loss, especially in a declining market.)

The idea behind this strategy is relatively simple. If you put all your eggs in one investment basket, or into just a couple of baskets, a severe loss could have devastating effects. But if, for example, you added international stocks to an investment mix tilted heavily toward domestic stocks and bonds, you might be less likely to be hurt by a drop in one type of holding. Just keep in mind that foreign investments involve special risks relating to political, economic, currency fluctuation and other events.

6. Improve your credit score. Even if you need to cut down on spending, you're likely to borrow at least occasionally—for a home mortgage, say, or for a car that you use for your daily commute.

But you still may be able to reduce the interest you pay on loans by improving your credit score. Paying off existing debt on time is a crucial first step, and there are other moves that also could help. Check your current score online and consider tips for pushing it higher.

7. Keep an eye on taxes. Being aware of the tax implications of your money moves could help reduce another big expense. Deferring more of your salary for your 401(k) could reduce your tax liability, and there also are ways to minimize taxes on your investment earnings. For instance, long-term capital gains are taxed at a maximum rate of only 15% (20% if you're in the top tax bracket)—much better than the top rate of 39.6% on regular income. ●