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Financial Insights

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7 Top Tax Incentives That Entice Investors

The U.S. tax code can be loaded with booby traps for unwary investors, but your advisers can help you avoid the dangers and reap potential tax rewards. Here are seven enticing incentives to consider:

1. Offsetting capital gains and losses: Your capital gains and losses from selling stocks and other assets may cancel each other and could reduce your tax liability. If your losses exceed your gains, you can use the excess to offset as much as $3,000 of highly taxed ordinary income. And you can use any additional losses in future years.

Even if you don't have offsetting losses, long-term capital gains on assets you've held longer than a year have a maximum tax rate of only 15% (20% for those in the top ordinary income tax bracket). Investors in the two lowest tax brackets benefit from a 0% rate on long-term capital gains.

2. Low tax rates for "qualified" dividends: Most dividends issued by domestic companies are "qualified" if they go to stockholders and mutual fund owners. In some cases, qualified dividends also may be paid by foreign corporations, including those whose shares are publicly traded as American Depositary Receipts (ADRs) or shares that otherwise are readily tradable on an established U.S. securities market.

Like long-term capital gains, qualified dividends have a maximum tax rate of 15% (20% for those in the top ordinary income tax bracket). And here, too, lower-income investors may qualify for a 0% rate.

3. Retirement accounts: The tax law encourages participation in retirement plans that employers sponsor. Typically, you can make pretax contributions to your account and invest the assets on a tax-deferred basis.

For example, you can defer up to $18,000 of salary to a 401(k) plan in 2016 ($24,000 if you're age 50 or older). In addition, your company may match part of your contribution. Distributions from your account, normally during retirement, generally are taxed at ordinary income rates.

4. Traditional and Roth IRAs: Your contributions to a traditional IRA may be wholly or partially deductible, depending on your annual income and whether you also participate in an employer-provided plan. Contributions of up to $5,500 for 2016 ($6,500 if age 50 or over) can grow on a tax-deferred basis, but payouts representing earnings and deductible contributions are taxed as ordinary income.

With a Roth IRA, in contrast, contributions are never deductible, but future distributions generally are exempt from tax. You will be required

(Continued on page 4)

What Would You Do For A Bigger Salary Or More Benefits?

Despite rising prices, wages have edged up only slightly in recent years, and employers remain stingy with benefit dollars. To find out what people would do to take home a bigger paycheck or realize more in the way of benefits, GOBankingRates, a national banking website, gave 1,000 employees two options for each of these six questions:

1. What would you rather do to double your salary?

2. What would you rather do for a $100,000 bonus?

3. What would you rather do to receive unlimited paid time off (PTO)?

4. What would you rather do to receive a free Uber ride to and from work every day?

5. What would you rather do to always have four-day workweeks?

6. What would you rather do to have your employer pay your income taxes?

Most people indicated they would be willing to go to extreme lengths to improve their financial standing. For example, to have the employer pay their taxes, 67% would rather clean their work bathrooms every day than give up vacation days for a year. And, to receive a $100,000 bonus, 52% would prefer to live without their phone for a year instead of bunking with their H.R. director.

Fortunately, you aren't faced with these tough choices. By saving diligently through retirement plans and making smart investment decisions, you can improve your chances for financial success.

5 Key Documents In An Estate Plan

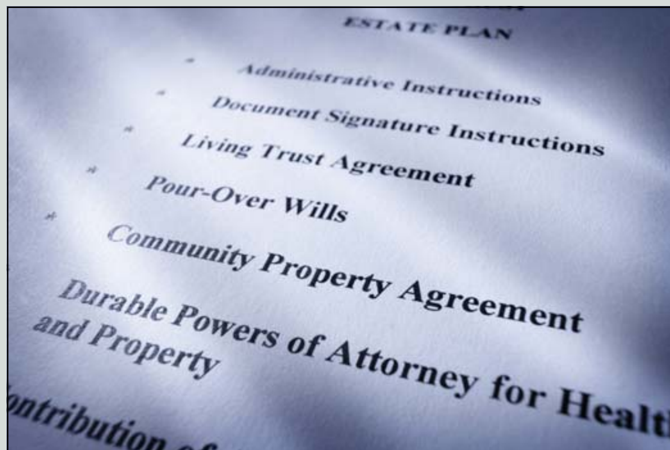
To do a job right, you need the proper tools. And while each and every estate plan is unique, these five documents are often integral elements:

1. Financial power of attorney. This document authorizes an "attorney-in-fact" to act on your behalf in financial matters. The most common power of attorney, a "durable" one, remains in effect if you're incapacitated. Another variation, which is known as a "springing" power of attorney, transfers control to the designated person only if you're incapacitated.

The attorney-in-fact may have broad powers, able to buy or sell personal property, for example, or the role may be limited to specified tasks. This power of attorney expires when you die.

2. Health-care power of attorney. This also authorizes another person to make decisions on your behalf if you're unable to do so—in this case, involving medical care, carrying out your end-of-life wishes, and related matters. Here, the attorney-in-fact is typically your spouse, a child, or a sibling. Like a financial power of attorney, it may be broad or limited and expires at your death.

3. Living will. While a health-care power of attorney may authorize someone to help with end-of-life decisions, establishing what will happen when you're dying is the sole purpose of a living will. Depending on the laws of your state, you may be able to use a living will to say whether or not you want life-sustaining treatment if you are terminally ill or grievously injured.



Also depending on state law, a health-care power of attorney and a living will may be able to be combined into one document. In other states, a living will may supplement a health-care power of attorney, and both documents can be coordinated with other medical directives or proxies.

4. Trusts. There are many reasons for creating and funding trusts. A trust could be used to prevent family squabbles or impose restraints on spendthrift family members. One variation, a living trust, often supplements a will because assets in the trust don't have to go through probate court proceedings.

Though there are myriad variations, all trusts are either revocable or irrevocable. With a revocable trust, you retain control over the assets. Yet while that's not the case with an irrevocable trust, this type of trust can protect assets from creditors and remove them from your taxable estate.

5. Will. Last but not least is your will, which establishes how your assets will be distributed after you die and who will have custody of any minor children. You also could use it for other purposes such as making charitable donations and creating trusts.

If you die without a will—"intestate," in legal parlance—the laws of your state will determine who gets your assets and assumes guardianship of young children. As the centerpiece of your estate plan, this is definitely one tool you can't be without. ●

Remember The Lesson Of Rebalancing

Sometimes investors need to be reminded just how unpredictable equity markets can be. Any big, unforeseen event—such as the United Kingdom's so-called "Brexit" vote to leave the European Union—can result in dramatic market swings. And because such fluctuations are as inevitable as they are unpredictable, it makes sense to be prepared for all possibilities.

The best way for most investors to deal with short-term volatility is to stick to a long-term plan, rather than panicking or making ill-considered market moves. And your plan will need a proper balance between stocks and bonds in your portfolio. Historically, stocks have outperformed other kinds of investments and have provided a hedge against inflation, while bonds have provided steady income and more protection against market volatility.

Diversification and asset allocation—core principles for attempting to control investment risks—are used to create a portfolio that may have the breadth to reduce volatility when markets get turbulent. Your overall tolerance for risk can help determine how you allocate your investments to stocks, bonds, and other assets. Diversification and asset allocation are designed to minimize inherent risks, although there are no absolute guarantees.

But as important as it is to choose a mix of investments that makes sense for you, you'll also need to revisit your portfolio periodically to help restore the balance you've established. If stock prices rise, for example, that part of your portfolio may grow larger than you intended—and this could make you vulnerable if equity prices fall. "Rebalancing" helps you get back to the target percentages you started with.

Yet as simple as that may sound, rebalancing can seem counterintuitive in practice. It requires you to sell investments that have been doing well

Meeting With The Family For Elder Care Planning

Business managers would never chart a course of action for the future without gathering all of the necessary information, analyzing the pros and cons of different approaches, and meeting with the main people who have a stake in the outcome. Yet many families approach eldercare issues with a similar lack of foresight.

If there is an aging member of your family who soon may need help at home or perhaps will move into an eldercare facility of some kind, it's essential for everyone to talk about what's ahead. Consider trying to call the appropriate relatives together for a family meeting—and be prepared to answer some of these questions:

Can you meet? Frequently, inertia will take over or some family members won't see the need for a family discussion. It's difficult to find the time with our busy schedules and other commitments. What's more, many families today are dispersed around the country and beyond. Nevertheless, it's important to bring everyone together to work out a plan.

Why should you meet? Whether or not specific problems need to be addressed immediately, a meeting gives family members a chance to share information and air their concerns. One or more siblings may feel that too much of the caretaking is falling to them, while others may express their intention to do more. Encourage family members to get such feelings out on the table. Keep in mind that there is no right or wrong approach. The needs of each family and the best solutions for everyone will vary.

Who should you invite? This depends on the size of your family, who takes an active family role, and other factors. Certainly, the children of an elderly parent should be involved, and perhaps the grandchildren, too, if they're old enough to be meaningful participants. Depending on the situation, close family friends and professional advisers also might be included. There could be value to bringing in a third-party caretaker, perhaps a nursing aide or someone else paid to help the parent, who might contribute insight to the discussion. Finally, consider whether or not to include the loved one whose future is being discussed.

What should you cover? The older family member's health care may be at the top of the agenda. You may decide to move the person to a nursing or assisted living facility or to upgrade accommodations at a current location. Another option is to keep the person at home and use live-in care. It's also important to determine whether the parent has a living will or other health care directives that express what kind of care he or she wants to receive. Finances also will be an important part of the equation. Establishing a durable power of attorney for a designated person to handle financial matters could be helpful, and you might decide that one or more trusts could help protect family assets. Federal and state rules covering such documents are complex, so be sure to consult with professionals experienced in this area of the law.

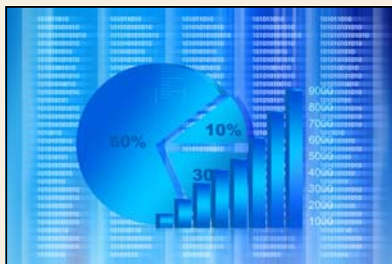
How should you conduct the meeting? Just as for a business meeting, an agenda that you develop beforehand could help keep the discussion on track. One of you may want to take the lead in creating an agenda and distributing it by email to everyone who will be there, then revising it to include other family members' concerns.

What should you do next? Trying to maintain good communication with everyone is very important, and even in families that have not always been harmonious, this is one time when everyone needs to try to come together for the benefit of the loved one. Of course, conflicting viewpoints are likely to be expressed at the meeting, so you all will need to be prepared to compromise. Have someone take detailed notes and circulate them to everyone, and then ask everyone to agree to honor the agreements you've reached.

You all will have to remain flexible in case the situation changes. Develop a "plan B" if, for example, you choose a particular facility that doesn't work out or the elderly person's condition suddenly worsens. Finally, don't expect miracle solutions, but do involve your financial and other advisers in this crucial effort to help this family member. ●

and buy others that have slumped. Your natural inclination may be to keep riding a wave of success, and to stay away from parts of the market that haven't performed well.

But rebalancing can help impose needed discipline for your plan. It can enable you to sell high and buy low and to maintain the broad balance that may cushion your holdings against volatility. And though it sometimes may result in a lower rate of return than you would have gotten if you'd let your winning positions continue to grow, that may be a small price to pay for feeling more comfortable about your investments.



Rebalancing also can help you resist the impulse to try to "time" the market—attempting to jump in when prices are rising and to get out before they fall. That is rarely a recipe for success and could lead to significant losses.

How often should you rebalance? Expert opinions vary, but you probably should review your portfolio and rebalance at least once a year. The end of the year could be a good time to get your ducks in a row. ●

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7 Top Tax Incentives

(Continued from page 1)

to take distributions from a traditional IRA after age 70½, but that's not required for a Roth. You can convert assets from a traditional IRA to a Roth but most, or all of the amount you convert will be taxable as regular income.

5. Real estate: This investment has a unique status in the tax law. Not only can you write off certain expenses—including mortgage interest, property taxes, repairs, insurance, utilities, etc.—to reduce taxable income from the property, but you also can recoup the cost of the building through annual depreciation deductions.

Other tax rules may apply, including limits for losses claimed for "passive activities." Generally, passive losses can't exceed the amount of passive income, but a special exception may allow a limited write-off of up to $25,000 for active participants in rental activities.

6. Oil and gas: If you invest in an oil and gas deal, you may benefit from deductions for drilling costs, depletion deductions, and the low tax rates on long-term capital gains when you sell your interest.

Write-offs may be limited by the passive activity rules, as they are for real estate, but some investors may qualify for an exception. If you have a "working interest" in an oil and gas partnership, you're exempt.

7. Life insurance: If you acquire either permanent or temporary life insurance for yourself, your family is in line for tax benefits when the proceeds are paid. The death benefit for a life insurance policy is completely exempt from income tax. What's more, there's no current tax due on any buildup of cash value.

The death benefit on your life insurance could be subject to estate tax, but you may be able to avoid that by transferring ownership of the policy to an irrevocable life insurance trust (ILIT).

This isn't a complete list of tax breaks for investors, but these seven provisions are among the biggest and best in the tax code. ●

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