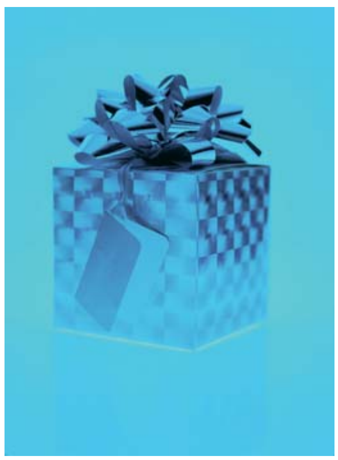
FERRELL
WEALTH MANAGEMENT INC.
Registered Investment Advisor

WEALTH MANAGEMENT NEWSLETTER

# 14 Top Year-End Tax Moves For Individuals In 2014

'Tis the season for year-end tax planning. By making tax moves, particularly those that relate to your investments, as the year winds down, you can pile up tax savings. Here are 14 strategies that may result in holiday cheer:



**1. Harvest capital gains.** Despite recent tax rate increases, you still can benefit from favorable tax rates if you sell securities at year-end. For instance, the maximum tax rate for long-term capital gains remains 15% for most investors in 2014. It's 20% for those in the top ordinary income tax bracket—still pretty good.

**2. Harvest capital losses.** If you've already realized gains this year—especially short-term gains taxed at ordinary income rates—you could unload something now at a loss. Your losses can offset the capital gains, plus up to $3,000 of ordinary income in 2014.

**3. Maximize the 0% rate.** If you expect this year to be a low-income year (for example, if you have a large business loss), a portion of your long-term capital gains may qualify for the 0% tax rate that applies to income in the two lowest ordinary income tax brackets. Try to make sure that you and other family members cash in on this benefit when you can.

**4. Buy into dividend-paying stocks.** Most stock dividends are taxed at the same preferential tax rates as long-term capital gains under the same basic tax rate structure. To qualify for this tax break, you must hold the stocks paying the dividends for at least 61 days.

**5. Minimize NII tax.** A 3.8% tax applies to the lesser of your net investment income (NII), which includes capital gains and dividends, or your modified adjusted gross income (MAGI) above $200,000 for single filers and $250,000 for joint filers. (If your income falls below those thresholds, you won't owe NII tax.) You can reduce exposure to this tax by lowering your NII and MAGI for 2014 (for example, by investing in tax-free municipal bonds).

**6. Sidestep the wash sale rule.** If you buy "substantially identical" shares within 30 days of selling securities at a loss, you can't deduct the loss on your tax return. Avoid this "wash sale" rule by waiting at least 31 days to buy back the same shares or buy the new stock first and then wait at least 31 days to sell the original shares.

**7. Arrange an installment sale.** Generally, you can defer tax on the sale of real estate or other property if you receive payments over two years or longer. Not only do you stretch out your tax payments over time, you might pay a lower tax rate for capital gains than if selling the property pushed you

*(Continued on page 4)*

## *Markets Volatility Causes Flashback, But Not A Concern*

Although last week's volatile markets led many investors to have emotional flashbacks from 2008, most strategists continue to believe the U.S. economy is poised for growth.

China, Japan and India appear to be stabilizing or improving although Europe and South America remain weak spots with central banks that are unable or unwilling to take aggressive enough action. Escalating Mideast violence, continued Russian conflict, Hong Kong protests and even the Ebola virus contribute to concerns over global economic growth, but there's nothing to indicate a more sustained downturn is in store.

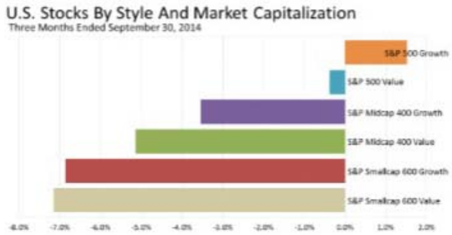
According to Jack Schannep, editor of TheDowTheory.com, the market's latest decline is the 13th since the bull market began in March 2009. What this means is that any skittish traders who use pullbacks as an excuse to bail out would have regretted their decision in at least 11 of the past 12 cases.

As unsettling as it is to watch the markets in downward cycles, and as stressful as it is to see portfolio values drop, it's EXTREMELY IMPORTANT to understand the market goes up – and the market goes down – and proper diversification and patience during these cycles ultimately will result in growing your assets.

*Warmest regards,*

**James W. Ferrell,**
**MBA, CPA, PFS, CIMC, CFP, President**

# Market Data Bank: 3rd Quarter 2014



THE BIG PICTURE

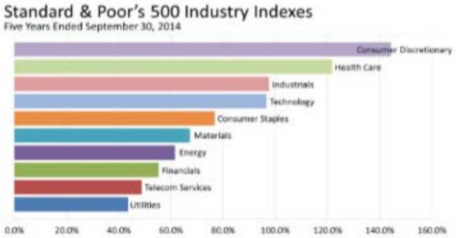
Since 1900, only three of 23 bull markets have lasted six years or longer. Chances of a bear market — a correction of at least 20% — increase as the bull market grows older. But economic conditions that accompanied bear markets in the past were not present as the end of 2014 neared.

U.S. STOCKS

Europe's slower than expected growth cast new doubt on the strength of the global economy caused periodic jitters over the Federal Reserve's "taper" — the winding down of longstanding monetary policy liquefying economy. But the stream of improving economic data continued.

FOREIGN VS. U.S. STOCKS

"American exceptionalism," the theory that the U.S. is different from all other nations because of ita unique traits — like freedom, entrepreneurship and an abundance of natural resources — was bolstered again last quarter as US stocks outran foreign again.






LARGE-CAP U.S. STOCKS BY INDUSTRY

Over the past five years, cumulative returns on consumer discretionary stocks led the 10 S&P 500 industry sector indices, followed by health care and technology stocks, as growth investors were rewarded. Utilities trailed as income oriented investments remained weak. No industry was hit for a loss over the period.

ASSET CLASSES±

Looking at the cumulative return on broad group of 12 asset classes for the five years ended September 30, 2014 shows master limited partnerships at the top of the heap. But second best was the return on U.S. stocks. Stocks tied to commodities prices and foreiogn equity markets trailed.

S&P 500 INDEX VS. EARNINGS¥

Red squares show expected earnings on the S&P 500 index of blue-chip companies, based on a 10/2/2014 forecast of Wall Street analysts, for $118 per share in 2014 and $133 in 2015. Unless there's a crisis or sudden and surprising bad news, the trajectory of earnings growth could continue to propel stocks higher.

Past performance does not indicate future results. ±Indices and ETFs representing asset classes are unmanaged and not recommendations for any specific investment. Foreign investing involves special risks, including political or economic instability and currency fluctuation. Bonds offer a fixed rate of return while stocks fluctuate. ¥Estimated bottom-up S&P 500 earnings per share as of October 2, 2014 was $118.28 for 2014 and $132.91 for 2015. Sources: Yardeni Research, Inc. and Thomson Reuters I/B/E/S survey of consensus estimates. Standard and Poor's for index price data through October 7, 2014; and actual earnings data through June 2014.

# Taking RMDs Into Your Own Hands

IRS rules on required minimum distributions (RMDs) are aimed at people who can afford to pile up savings in tax-favored retirement accounts without ever again having to take out most of that money. In most cases, however, you eventually have to start taking annual RMDs whether you want to or not. But moves you make at year-end can help reduce the tax damage.

Although savings in employer-sponsored retirement plans such as 401(k)s, as well as in traditional IRAs, can grow without being eroded by current taxes, eventually the money must come out. RMDs have to begin by April 1 of the year after the year in which you turn 70½. (Roth IRAs are exempt from RMDs.) Then you must take an RMD by December 31 every year. Those withdrawals generally are taxed at ordinary income tax rates.

If you're still working full-time at a company you don't own, you may be able to postpone withdrawals from that company's plan until retirement. But this exception doesn't apply to IRAs.

The amount of the RMD is based on life expectancy tables and the value of your accounts on the last day of the previous tax year. Suppose you're 75 and the value of all your IRAs on December 31 of last year was $500,000. If your spouse is the sole beneficiary and he or she isn't at least 10 years younger than you are, the withdrawal factor under the appropriate table is 22.9. With an online calculator, you can determine that your RMD for the current tax year is $21,834.

If you have multiple IRAs, you can take the money from any one of them or from several in whatever proportions you choose. But the penalty for failing to take the full RMD is severe—equal to 50% of the amount that should have been withdrawn (or the difference between the required amount and any lesser amount you

# What $2 Million Gets In Retirement

People often ask how much money they will need to meet their retirement goals. But let's turn this common question on its head: What will $2 million actually get you in retirement? This is an interesting query because (a) many people believe that $2 million is a comfortable amount to meet their retirement goals and (b) it allows us to examine the different ways in which a hypothetical couple can use $2 million without running out of money.

As with any retirement calculation, this one involves numerous assumptions. Nevertheless, as long as the assumptions are reasonable—for example, using 6% for equity returns rather than the 10% figure that many illustrations often include—it's possible to arrive at a conservative estimate of how much money you might need to retire comfortably.

Let's start with these assumptions for our hypothetical couple:

| | |
|---|---|
| Inflation (CPI) | 3.00% |
| Current Age of Both People | 65 |
| Age at Retirement | 65 |
| Age When Both People Have Passed Away | 95 |
| Social Security at Age 67 (combined) | $35,000 per year |
| Average Savings Rate | None (Already Retired) |
| Total Investment Balance Today | $2 million (50% in Taxable, 50% in IRAs) |
| Recurring Annual Expenses in Retirement | $70,000 |
| Investment Mix Before Retirement | 70% U.S. Value Stocks, 30% Medium-Term Treasuries |
| Return Assumption Value Stocks | 6% per year |
| Standard Deviation Value Stocks | 16.20% |
| Return Assumption Treasuries | 1.5% per year |
| Standard Deviation Treasuries | 7.20% |

Before generating a retirement plan for this couple, it's important to clarify what constitutes "success" in this situation. Because we live in a dynamic world, especially when it comes to investing, we'll look at this question in terms of probability, using something known as a Monte Carlo analysis, which factors in thousands of scenarios with widely varying assumptions and investment returns in every year. For purposes of this example, we'll define success as a probability of at least 85% that the couple's funds won't run out during their retirement.

Using our assumptions for this hypothetical couple, the Monte Carlo analysis shows a 97% probability that they won't exhaust their savings. That easily meets our definition of success and suggests that they might be able to spend more than $70,000 a year and still succeed, based on the 85% threshold.

So, how much can this couple spend per year and still have an 85% chance of achieving their retirement goals? Running through a few scenarios provided an answer of $81,000. That's the amount they can spend each year and still have an 85% chance of never running out of money.

This raises another question: Is there a way for this hypothetical couple to spend $81,000 annually in retirement while also *raising* their probability of never running out of money? There are really just two ways to accomplish that, assuming that going back to work isn't a desirable option for them:

1. They could choose investments that deliver higher returns without increased volatility; or

2. They could look for investments that have the same returns, but less volatility.

One potential way to reduce volatility while maintaining reasonable levels of return is to acquire high-quality, dividend-paying stocks that have a history of increasing their dividends. If the volatility level is reduced from 16% to 13% per year, based on historical rates, the probability that this couple never will run out of money jumps from 85% to 93%. This significant leap is due to the fact that they are investing more heavily in stable, solid, dividend-paying stocks rather than in investment vehicles exposed to greater volatility.

Of course, everyone operates under a different set of circumstances. You might need to change several things from this base-bones example to meet your retirement goals. But it is difficult, if not impossible, to tell whether you will be able to retire comfortably until you sit down and actually run through the numbers. When that occurs, some interesting scenarios may emerge to help you see what you need to do to meet your goals.

Bottom line: Will $2 million be enough to sustain you through your retirement years? We can help you plug in the figures to give you a better grasp of your personal situation and then tailor your plan to your specific needs. ●

did withdraw). For instance, if you failed to make any withdrawal in the example above, the penalty would be $10,917, plus regular income tax.

Finally, taking an RMD can trigger other tax complications, including liability under the 3.8% “net investment income” (NII) tax. Although RMDs don’t count as NII, they do increase your overall taxable income—and that, in turn, can make you subject to the NII tax.

One way to begin reducing your exposure to RMDs is to convert funds in traditional IRAs to a Roth IRA. Because Roth IRAs are exempt from RMD rules, you’ll have more protection for the future, even though you’ll owe tax on the conversion for the year in which it occurs. Another potential strategy is to transfer funds to a life insurance trust that isn’t subject to the RMD rules. Just keep in mind that such arrangements generally require professional assistance.

The main point is that you don’t have to sit back and accept dire tax consequences. Some astute year-end planning can give you more room to maneuver. ●

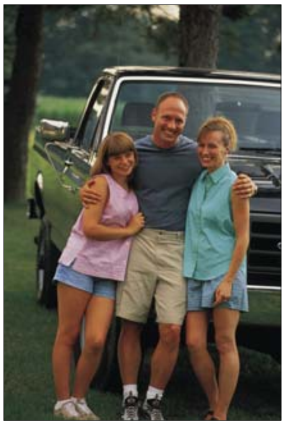
# Keeping A 529 Plan Rolling Along

If you were thinking ahead, you may have set up a tax-advantaged Section 529 plan for your first child at an early age. Once your kid is ready for college, you'll reap the rewards of your foresight.

But what happens when your son or daughter graduates? If there's still money in the plan, your tax savings don't have to stop there. If you have other children, you could designate one of them to be next in line as the 529 plan beneficiary, and then choose another and another . . . possibly even extending the plan's benefits to your grandchildren!

Section 529 plans, sponsored and operated by individual states, encourage families to set aside funds for future education expenses of the younger generation. As long as certain requirements are met, the money invested in the plan can grow without any erosion by taxes; and distributions that go to pay qualified college expenses—including tuition, fees, books, supplies, equipment, and room and board for full-time students—are completely tax-free.

There are two main types of plans: prepaid tuition plans and college savings plans. A prepaid tuition plan enables you to lock in rates at an in-state public college, whereas a college savings plan gives you more flexibility—the money can be used at a public or private college of your choice—but doesn't offer guarantees.



Keep in mind that it doesn't matter which state's college savings plan you choose, because no matter where it's set up, you can choose where to spend money from the account. But there could be an advantage to using your home state's plan. More than half of the 50 states offer a state tax deduction or credit for Section 529 plan deposits made by residents.

Now suppose your daughter is finishing college and your son is poised to attend next fall. Assuming some funds are left in the account, you can simply switch the beneficiary designation for the 529 plan to the younger child. Typically, a plan will allow one such change each year. If a younger child will enter college before the older one graduates, you might want to set up a separate account.

Although a plan can continue indefinitely, with your grandchildren eventually becoming beneficiaries, it terminates when the latest beneficiary reaches age 30. Of course, if there's a gap—say, your youngest child turns 30 and you have no grandchildren— you still can set up a new plan for a grandchild in the future.

A final bonus: There's a special gift tax break for 529 plans. Not only are transfers to 529s considered gifts that qualify for the annual gift tax exclusion ($14,000 in 2014), you can make up to five years worth of contributions in one year. And your spouse can do the same. Together, you could transfer up to $140,000 into a child's or grandchild's 529 entirely exempt from gift tax. ●

## Top Year-End Tax Moves

*(Continued from page 1)*

into the top tax rate.

**8. Boost 401(k) contributions.** Try to increase your tax-deferred contributions to a 401(k) plan at work. For 2014, you can elect to defer up to $17,500 to your account ($23,000 if age 50 or over). Besides trimming your current tax bill, it helps build savings for the future.

**9. Convert to a Roth.** If you have funds in a traditional IRA, you may move some or all of those funds to a Roth IRA, paying income tax now on the converted amount so that most future Roth distributions will be tax-free. If you spread the taxable conversions over several years, you'll reduce the tax bite.

**10. Rent out a vacation home.** You can write off specified rental activity costs, plus depreciation, but be careful. If your use exceeds the greater of 14 days, or 10% of the days the home is rented out, deductions can't exceed the amount of rental income you receive. Keep an eye on personal use as the year draws to a close.

**11. Dust off charitable donations.** Instead of tossing out old furniture and clothing, give items in good condition to charity. Generally, you can deduct the fair market value of property donated to a qualified charitable organization, within certain limits.

**12. Take RMDs in time.** You normally must take required minimum distributions (RMDs) from qualified retirement plans and IRAs each year after age 70½. If you don't, you'll pay a penalty equal to 50% of the required payout. To avoid problems, arrange for RMDs well before January 1.

**13. Find a PIG.** Under the passive activity rules, you can deduct losses from passive activities, including most investing, only against income from other passive activities. (Special rules apply to real estate.) Investing in a passive income generator (PIG), a special investment that produces passive income, could help increase this year's deductions.

**14. Be generous to your family.** Finally, under the annual gift tax exclusion, you can give up to $14,000 to anyone you choose in 2014 without paying gift tax. This reduces your taxable estate and generally results in overall income tax savings for the family. Happy holidays! ●