

# WEALTH MANAGEMENT ADVISOR

## IS IT TIME TO SELL?

Knowing when to get rid of a security requires strategy

## HSA + HDHP = COST-EFFECTIVE HEALTH CARE FUNDING

## THE TAX LAY OF THE LAND

Familiarize yourself with a new state's tax laws

## GAIN FINANCIAL FLEXIBILITY WITH A SAVINGS PLAN



**FERRELL**  
WEALTH MANAGEMENT INC.  
Registered Investment Advisor

Fairbanks Professional Center  
1400 W. Fairbanks Ave.  
Suite 202  
Winter Park, FL 32789  
Phone: (407) 629-7008  
Facsimile: (407) 629-7516

# Is it time to sell?

## Knowing when to get rid of a security requires strategy

Selling is essentially a negative decision — in a sense, it's turning our backs on an investment we formerly liked. So if an investment is doing well, the tendency is to want to stick with it to see if it does even better. If the investment is doing poorly, the inclination is to hang on until it's back to breakeven.

Both of these scenarios can turn out badly. In the first case, what if, instead of continuing to rise, the security's price begins to fall, perhaps even sinking below your original buy level? And hanging on to a loser until it returns to breakeven can be a dangerous game. So when is the right time to sell?

### Reasons to say goodbye

Selling on a hunch generally isn't a good idea. What are the alternatives? In truth, most investors are better off not buying and selling frequently. For a long-term investor, there may be only a few reasons that would justify selling.

Perhaps the most clear-cut reason to sell a security occurs when the fundamental condition of a

company deteriorates. For instance, think about cell phone manufacturers.

Some previously successful companies fell behind in the smartphone race, losing significant market share. If you hold stock in such a company, you may still like its performance prospects — especially at a lower per share price. But you need to consider the company's changed competitive position when deciding whether to continue owning the stock.

Alternatively, some investors focus on stocks with increasing dividends. If a company suddenly stops boosting its dividend, that would be a warning sign. In such cases, the original reasons you bought the security no longer hold true.

An analogous situation can occur with mutual funds. Suppose you buy a fund to take advantage of a particular manager's expertise. If that manager leaves, and it's unclear how much continuity there will be when the new manager takes over, it might be time to jettison the position. That said, don't pull the trigger until you find out the details of the change. Some funds have a team approach and a relatively stable management philosophy.

### Rebalancing your portfolio

Another reason to sell might be to rebalance your portfolio. For example, suppose you've settled on an asset allocation of 60% stocks and 40% bonds. If the stock



market advances smartly, pushing your allocation to 65% stocks and 35% bonds, your portfolio is now riskier than it was.

So you might want to sell some stocks and increase exposure to bonds to rebalance and get your allocation back to 60%/40%. Keep in mind, though, that in taxable accounts you benefit from a more favorable tax treatment of gains if you've held the investment for more than a year.

### Seek advice before making a move

Selling securities should be done only after careful analysis. Your financial advisor can help you determine whether you should consider selling a particular security whose prospects may have changed or, if you need to sell some investments to achieve other goals, which securities are the best candidates. ■

### Selling in tax-deferred vs. taxable accounts

Because of their tax-favored status, retirement accounts provide more flexibility in rebalancing your investments. A good rule of thumb with such an account is to rebalance once a year, using some combination of purchases (with new funds from annual contributions) and sales to bring your portfolio back to your target allocation.

Rebalancing in taxable accounts can be more difficult because of the tax liability created by selling profitable positions. If capital gains will be substantial, consider waiting until you can combine rebalancing with fund flows that might be occurring for other reasons.

For example, say you need cash from your investments to pay for your child's college tuition. If at the moment your portfolio is heavy on stocks relative to your target allocation, try to coordinate your selling so that you bring down the stock percentage in your portfolio.

## HSA + HDHP = cost-effective health care funding

Because of the rising cost of health care, individuals are looking for cost-effective ways to fund it. The combination of a Health Savings Account (HSA) and a high-deductible health plan (HDHP) is one solution.

### ABCs of HSAs

With an HSA, anyone — you, a loved one or an employer — can set aside funds for current or future health care costs for you, your spouse or

your family, provided you have an HDHP. Most important, an HSA offers tax benefits similar to those of an IRA or 401(k) plan.

If you set up an HSA yourself, you can deduct your contributions to the account on that year's income tax return, whether or not you itemize deductions. If your employer sponsors the plan, employer contributions, as well as any contributions you make through payroll deductions, are on a pretax basis.



Withdrawals made for qualified medical expenses are tax-free. Withdrawals for nonqualified expenses are subject to federal and possibly state income taxes, as well as a 10% early withdrawal penalty.

If, however, you're age 65 or older, you won't be subject to the extra 10% penalty on withdrawals for nonqualified expenses — though you'll still owe income taxes on them. This feature can make HSAs a potentially valuable source of retirement funds.

HSAs also offer two important advantages over a popular tax-advantaged health care funding counterpart, the Flexible Spending Account (FSA):

1. While FSAs have an annual “use-it-or-lose-it” requirement, your unused HSA funds stay in your account from year to year.
2. Unlike FSAs, HSAs are invested in interest-bearing accounts or CDs, annuities, stocks, bonds, or mutual funds.

So if you're relatively healthy and expect to remain that way, an HSA can be more valuable because you can accumulate earnings tax-free — enabling you to build up a medical “rainy day” fund.

You can set up an HSA at a bank or another financial institution, just as you can with an IRA. A growing number of employers are providing HSA options as well, so you may already

have access to this type of health coverage through your workplace.

### Qualification requirements

As mentioned, to qualify for an HSA, you must have an HDHP. For 2012, the minimum deductible for a plan to qualify as an HDHP is \$1,200 for individuals and \$2,400 for families. (Additional requirements apply.)

Generally, HDHP premiums will be lower than those for a traditional, lower-deductible health care plan — whether purchased individually or obtained through an employer. The tradeoff, of course, is that you'll be responsible for more out-of-pocket medical expenses each year — expenses that you can pay with your HSA funds. Whether the tax savings and lower premium costs will be enough to offset the additional out-of-pocket expense will depend on your situation and may change from year to year.

To open an HSA, you must not receive any type of health insurance coverage through your employer or your spouse other than the HDHP. You can, however, have dental, vision, disability or long-term care coverage and still qualify for an HSA.

The amount of contributions you can make annually is limited. (See “2012 HSA and HDHP limits” on page 5.) But, unlike with an IRA, HSA contributions aren't subject to any income-based limits.

If you terminate your HDHP, you may no longer make contributions, though the funds in the account remain yours to use as you please, subject to normal HSA tax rules. You also can't make contributions after age 65 (assuming you've enrolled in Medicare coverage).

### Is an HSA right for you?

Before taking action, discuss with your financial advisor whether an HSA makes sense for your particular circumstances.

If you're healthy, you're in one of the higher tax brackets and the larger premiums for a traditional policy won't be highly subsidized by your employer, pairing an HSA with an HDHP is more likely to be beneficial. But if you have a chronic medical condition, you're in a lower tax bracket or your employer will pay a large portion of the premiums, a more traditional health care insurance policy may be the better route to take. ■

## 2012 HSA and HDHP limits

The IRS annually indexes for inflation the amount that can be contributed to a Health Savings Account (HSA) — regardless of the source of the contributions. It also determines the minimum required deductible and the maximum out-of-pocket costs for the associated high deductible health plan (HDHP).

	Individual	Family
HSA annual contribution limit	\$3,100	\$ 6,250
HSA catch-up* contribution limit	\$1,000	\$ 1,000
Minimum HDHP deductible	\$1,200	\$ 2,400
Maximum HDHP out-of-pocket costs	\$6,050	\$12,100

\* Individuals age 55 and older may qualify to make these additional contributions.

# The tax lay of the land

## Familiarize yourself with a new state's tax laws

Justin is purchasing a second home in another state to be closer to a sick family member. His employer, a major software developer, has no issues with allowing him to work out of his new home as needed, but Justin still expects to spend time during the year in his old home.

With much on his mind, Justin was surprised to receive a call from his tax advisor, who wanted to inform Justin about his new state's tax laws and the need to establish a domicile.

### Learn the new laws

Each state has its own tax laws — some more favorable than others. In fact, some people move to a specific state solely because that state doesn't have an income tax or offers lower rates or other tax advantages.

In Justin's case, he's moving to be nearer his family during a time of crisis, so taxes aren't top

of mind. However, because he'll spend time, earn income and own property in the state and he has a significant investment portfolio, he needs to know whether his new state has income, property, sales and estate tax. In addition, he needs to be aware of other tax differences. For example, some states have an income tax but don't tax interest and dividends.

### Determine your domicile

Because Justin will own homes in two states and plans to spend relatively similar amounts of time in both homes, he must establish his legal domicile. What this means is that he must choose which state he intends to make his "true, fixed and permanent" home and then take steps to support that choice. Justin's established domicile will determine which state's jurisdiction he'll be subject to in terms of state income and estate taxes.

Even though Justin will be a resident of two states, he can have only one domicile. So what are the deciding factors? A state's taxing authority determines domicile based on factors that demonstrate intent, such as:

- The amount of personal time Justin spends in the state,
- The amount of business he conducts in the state,
- The value of his property in the state, and
- Whether a stay in one state is expected to be merely temporary.

These factors are subjective, and more than one state can claim that Justin's domicile is in its state. With many states strapped for cash, this may be the case more times than not.

### Clarify intent

To avoid becoming caught in a state taxing authority skirmish, Justin needs to make his domicile intentions clear. Relatively simple and controllable steps he can take include maintaining a driver's license in the domicile state, registering and voting in the domicile state, and using his home address in the domicile state for important documents, such as insurance policies, living trusts and power of attorney.

A few more-involved (and more-critical) steps Justin can take to establish domicile include physically spending more time in the domicile state and keeping records that he's done so, filing a declaration of domicile in that state, and maintaining bank and brokerage accounts in that state — and *not* holding such accounts in the other state.

After his domicile has been determined, Justin may still be subject to tax in the other state if he earned income working, or owned a business or a rental property, in that state. If so, he may be entitled to a credit in his domicile state for taxes paid to another state.



### Proactively seek tax advice

With Justin's thoughts focused on his home purchase and his sick relative, he's thankful his tax advisor contacted him to explain the tax consequences of owning a home and spending significant time in a new state. If you're considering making a similar move, be sure to discuss domicile issues with your tax advisor. ■

## Gain financial flexibility with a savings plan

If you've achieved some measure of earning power, you might be inclined to think that saving will somehow take care of itself. That would be a mistake. To start with, there's no telling when you might be blindsided by an unexpected turn of events, such as a job loss or an extended illness, that could quickly empty your bank account.

Consequently, the smartest strategy is to begin saving as much as you can, as early as you can. Doing so can grant you peace of mind and financial flexibility.

### Emergency fund

One of your first priorities as a saver should be to build an emergency fund. Opinions differ

over how large an emergency fund should be, but three to six months of living expenses is a popular rule of thumb.

Keep this money in safe, liquid assets such as cash and cash equivalents. You don't want to lose your job and then learn that your emergency fund has lost a portion of its value because you invested it in stocks or other securities that are experiencing a downturn.

### Using time in your favor

There are advantages to getting started early with a savings plan beyond being financially prepared to handle emergencies. Accumulating a retirement nest egg is easier when you allow your investments to compound over a longer period of time.

### Jump-start your savings program

Regardless of your age, it's never too late to implement a savings strategy. The most important thing is to get started. Here are some ideas:

- If you and your spouse both earn a salary, consider saving part or all of the lesser of your two incomes while using the greater income to pay expenses.
- Automate your savings: Sign up for your employer's 401(k) plan so that part of your paycheck automatically is deposited in your retirement account.
- If you receive a salary increase, earmark part or all of it for savings. You won't miss money you're not used to receiving. Likewise, if you inherit money, a portion of it should go toward savings; don't use it up buying a new "toy" such as an expensive sports car.

The most important theme here is probably one you've heard before: Pay yourself first. Many



people fall into the trap of allocating money for bills and discretionary spending *before* attempting to set some aside for savings. Not surprisingly, there's often nothing left to save.

This can be true for affluent and less-fortunate individuals alike. Some high earners are especially poor savers because they've never had to develop the habit.

Many people fall into the trap of allocating money for bills and discretionary spending *before* attempting to set some aside for savings.

### Begin saving today!

If you haven't implemented a savings plan, *now* is the time to make the initial effort. The financial flexibility you'll enjoy is a gift that can carry you through tough times and move you closer to your goals. Your advisor can assist you on this path with ideas and encouragement, so don't hesitate to ask for help. ■

# Your source for customized investment and financial planning

**FERRELL**  
WEALTH MANAGEMENT INC.  
Registered Investment Advisor  
www.Ferrellwm.com  
Tel: 407-629-7008

Successfully managing personal and family finances means making the right decisions today while considering their implications for the future. At Ferrell Wealth Management, our sole focus is our client's best interest, and we customize portfolios and financial plans to fit each individual's set of goals and objectives.

We provide a full range of investment management and advisory services including:

- Fee Based Investment Advisement
- Comprehensive Personal Financial Planning
- Portfolio Management
- Investment Policy Formation and Review
- Banking Services through Schwab Bank and other banking relationships
- Tax and Estate Planning
- 529 Plans
- Separately Managed Accounts
- Mutual Funds
- Exchange Traded Funds
- Government, Corporate and Municipal Fixed Income
- Asset Allocation Modeling
- Retirement Accounts, including 401(k)s
- Cash Management Accounts
- Margin Loans
- Life, Disability and Long-Term Care Insurance
- Access to your portfolio anytime, anywhere through online services

By working with our experienced team of advisors, you will benefit from the independent and objective perspective necessary to make your financial vision a reality.



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

A Certified Public Accountant (CPA), Certified Financial Planner (CFP), Personal Financial Specialist (PFS) and Certified Investment Management Consultant (CIMC), Jim is the founding shareholder and President of Ferrell Wealth Management, Inc.



**Crystal Garner**  
V.P. - Relationship Mgmt., Senior Financial Advisor

Crystal Garner is an investment advisor and veteran member of the team and is responsible for ensuring clients receive the highest level of personal service. In addition to assisting clients with their multi-faceted needs, she also manages the daily operations of the firm.



**Shena Simmons**  
V.P. - Operations - Senior Financial Advisor

Shena serves as an investment advisor for the firm and utilizes her dual background in finance and marketing in responsibilities ranging from financial planning to directing the firm's marketing efforts.



**J.L. Hurt IV**  
Senior Financial Advisor & Research Analyst

J.L. serves as a research analyst and portfolio manager for the firm. In addition to assisting clients with the many facets of financial planning, he is also responsible for the rebalancing of client portfolios and analysis of securities and separate account managers.



**Eric Faber**  
Financial Advisor & Business Developer

Eric is an investment advisor responsible for helping clients establish and achieve their long-term financial goals through comprehensive financial planning.



**Stephanie Galvin**  
Financial Consultant & Operations Analyst

Stephanie serves as a financial consultant and operations analyst for the firm. She is responsible for quarterly reporting and billing, maintaining the firm's portfolio management system, and ensuring the accuracy of account data. Stephanie also assists with financial planning, portfolio analysis and marketing.

*Please call us today at 407-629-7008 to discuss your needs, or visit [www.Ferrellwm.com](http://www.Ferrellwm.com) for more information on our services.*

Ferrell Wealth Management, Inc. is a registered Investment Advisor with the SEC, with assets custodied at Charles Schwab and Co. and TD Ameritrade, Member FINRA/SIPC. Brokerage products and services are offered by Charles Schwab & Co. and TD Ameritrade, (Member SIPC) and are not FDIC insured and are subject to investment risk including the loss of principal. Securities offered through Triad Advisors Member FINRA/SIPC. Advisory services offered through Ferrell Wealth Management, Inc. Ferrell Wealth Management, Inc. is not affiliated with Triad Advisors. Ferrell Wealth Management Inc. is independent of Charles Schwab and Co., TD Ameritrade and Triad Advisors.