Financial *focus*

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Personal and Financial Planning... **For Your Vacation**

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You've booked your airfare and vacation rental, your significant other has checked TripAdvisor for sightseeing and restaurant ideas, you've hired a pet sitter, and your bags are finally packed (or you're thinking about it anyway). Still, you might not be completely ready for your vacation. There are a number of steps you can take to make your trip worry-free and ensure that your finances continue to hum along in your absence.

1. Call your debit and credit card issuers to advise them of your travel plans so that any transactions you make while traveling are approved rather than flagged as possibly fraudulent.

2. If your monthly bills aren't already set up for auto-payment, this is a great time to do so. You can even use a credit card to earn miles or points.

3. If you have a home security system, call the monitoring company and tell them you'll be out of town. Make sure you know your account password or code word in case there are any trouble signals while you're away.

4. This is not exactly a personal finance step, but I advise clients to avoid posting every step of your vacation on social media...or wait until you return home. Posts (and location-tagged photos) tell potential criminals that you're away, and they might use this knowledge to target your home.

5. Remove from your wallet any cards you don't need while on vacation. Make photocopies of the front and back of your wallet contents (driver's license, credit and debit cards) or use your smartphone to take photos so that you can act quickly in case your wallet is stolen or lost. Keep a copy with you in your luggage and another copy at home. While we're on the topic, never carry your social security card in your wallet; this number, along with your wallet contents, could lead to identity theft.

6. Consider applying for TSA pre-check status or Global Entry (if you plan to travel internationally in the next few years) to greatly reduce your airport security and customs/immigration wait times. Air travel is at near-record levels and TSA security lines are expected to be as long as 2 to 3 hours at major US airports.

7. Take steps to prevent pickpocketing: men shouldn't carry wallets in a back pocket, and ladies should use a handbag that closes securely with a zipper and can be carried in front where you can see it. If you'll be using a backpack, carry it in front of you, otherwise it's an easy target.

8. Don't use public WiFi to check your bank account balance or make financial transactions; these hotspots are not secure and your personal information could be at risk.

9. Back up your smartphones, iPads, and any other devices before you leave.

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"stay awhile"

The Ocean is Calm Today - But Don't Forget Your Life Jacket!

Michelle Morris, CFP®, EA
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I was born and raised in landlocked South Dakota. If I had a dollar for every time someone told me, "I've never met anyone from South Dakota," I believe I could comfortably retire.

I was 20 before I saw the ocean for the first time. But today I live in Quincy, MA*, just south of Boston and my house is a couple of blocks from the ocean (technically Quincy Bay). I can see it from my topmost window. I look at the water from that window nearly every day, and many days I walk near the water.

Even though I've lived here for nearly 20 years, I still marvel at how different the water looks from day to day and season to season. Sometimes even within a day the appearance of the water changes dramatically.

When the sky is overcast, the water looks slate grey. If it is windy, there are whitecaps and in big storms the waves crash against the sea wall. In contrast, on cloudless days the water looks deeply blue and can sparkle like diamonds.

Sometimes on a perfect summer afternoon when I look at the blue sparkly water I have a tough time remembering the grey color, let alone whitecaps or crashing waves. And yet it might look like that the very next day.

Similarly, when the stock market is steadily climbing, it can be hard to imagine a bear (bad) market. And when the stock market is steadily declining, it can be hard to imagine the bull (good) market will return. Recent research confirms that investors' stock market forecasts are simple projections of the recent past into the future. In other words, when the market is doing poorly, we predict it will continue to do so. When it is doing well, then our forecast is more of the same. This common tendency is called the "recency effect" and it can wreak havoc on your portfolio.

If you act on your prediction that the bull market will continue and change your asset allocation to buy more stocks, you may get burned when your prediction does not come true and stocks go down instead.

The opposite is also true: at what might be the bottom of a bear market, you may decide stocks will continue to fall forever and sell. In both these cases you bought high and sold low. Exactly the opposite of how you make money with investments.

The trick is to have a plan, stick with it, and change allocations only when circumstances in your life warrant it. Not in response to market gyrations. This is where having an advisor is critical. An advisor is an objective third party who helps you stay the course when emotion gets in the way. As the great investor Benjamin Graham wrote: "The investor's chief problem – and even his worst enemy – is likely to be himself".

*For those of you who are historically inclined Quincy is the birthplace of John Adams and John Quincy Adams. For those of you not historically inclined it is also the birthplace of Dunkin' Donuts.

Personal and Financial Planning... For Your Vacation *cont.*

For international travel, there are a couple of additional measures to take:

1. Use your smartphone to take a photo of your family's passports (just the page with your photo and passport#), or make photocopies, in case one is lost or stolen. Keep copies of the passports with you when you travel, and leave additional copies at home with a trusted family member or friend.

2. Before your trip, ask your credit and debit card issuers about any foreign transaction fees that may be assessed when you use the card abroad. There are some credit cards that charge no foreign transaction fees, and these might be a good option if you often travel overseas, as the fee savings can greatly offset the credit card's annual fee.

The summer travel season is upon us, so take these simple steps now to ensure your dream vacation doesn't turn into a nightmare while you're away or after you return home.

"the summer travel season is upon us"

Tips for Good Financial Fitness in College

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Whether your student is heading off to college for the first time or wrapping up graduate school, paying for higher education is on the mind as we move into the school year. Our focus is naturally on the bright future of college students and the lives and careers their education will engender. But college can also be a time of fiscal peril so it makes sense to be financially savvy while in school. Even if you're fortunate enough to have all of your student's projected college expenses in savings, here are some good tips to keep in mind.

Students Should Have Skin in the Game. With the paranoia about rising college costs over the past decade, many parents and grandparents have saved enough to cover four years of college. Regardless of your savings, make sure your student buys into the cost of education. You may encourage them to work part-time through college, which has been shown to improve academic performance. A work-study job, if available, can be a perfect solution as the employer must accommodate your student's schedule, which can be handy during finals week. It is of course possible to overdo things here. Working much more than 15 hours a week can undermine rather than contribute to the college experience.

Some experts recommend that your student take out federal student loans even if you have the cash available to pay for school. Interest rates are low and it can help impress upon your collegian that it's not only Mom and Dad footing the bill. If you are dedicated to having your student leave school without student loans, you can agree to pay them off upon successful completion of a degree in a timely fashion. It can be a powerful motivator.

Money is Finite. We see clients work with their children to manage their semester budget. Students ask for a certain amount per semester and then need to carefully plan their spending. Too many parents just shoot over more money to their children in response to a panicked text that their bank account is overdrawn. College is an ideal time for students to figure out that they need to live within their means. This may be a more impactful lesson for their success than anything else they learn in college!

Don't Borrow More than Your Student Can Afford. With most loans, whether it's a mortgage or car loan, the lender evaluates the borrower's ability to repay the loan. Student loans are a different animal. It's the one type of loan that you don't have to show is within your means. This is due to the strong remedies that the student loan lenders have in seeking repayment. Student loans survive bankruptcy, and in some cases wages can be garnished without court intervention to seek repayment. I recommend that students borrow throughout their college years no more than the starting salary they expect to be paid upon graduation. With current interest rates, this keeps student loan payments below 15% of pay, which is the highest amount most students find manageable.

Final Thoughts. With all of this sobering news about college funding, take heart in a little known fact: the rate of inflation of college costs has come down dramatically to around 3% in recent years. College borrowing is on the decline too, but still remains even a bigger category of debt than credit cards. If you can get your student through college with manageable debt and a sense of education "ownership," you've done your part in getting them launched for life.

Rich Kids, Poor Kids (Part 2)
Intergenerational Tax and Financial Strategies to Leave a Family Legacy

Bert Whitehead, MBA, JD ©2014
Bloomfield Hills, MI

This is the second of three related blogs covering a broad topic: reviewing the impact our legacy will have on our children and grandchildren.

As discussed in our previous article, our society is increasingly split between rich kids with a solid educational and health foundation, and poor kids with a disadvantaged upbringing likely to hinder their futures. While we can't restructure dysfunctional families, we can do our best to ease the way for our own children and grandchildren.

It is assumed we send the best and brightest in our society to Washington to figure out what policies we need to become a better country. Frequently these policies are structured as tax incentives that reward specific financial actions. I believe that those of us who learn about these tax policies and follow the will of Congress are acting in the most patriotic way possible. To that end, I suggest three strategies for consideration: Donor Advised Funds, Roth Conversions and Intergenerational Strategies.

Donor Advised Funds for Tax Benefits and Philanthropic Options

Donor Advised Funds (DAF) enable individuals and families to set aside funds, tax-free, under the umbrella of a 501(c)3 nonprofit foundation. Most major brokerage companies (Schwab, Fidelity, etc.) and many large non-profit and community organizations (Jewish Federation, Southeast Michigan Community Foundation are examples) offer these DAFs to all individuals at a nominal cost. Each DAF manages its funds, directing contributions to nonprofit groups chosen by the donor(s).

For taxpayers in the top tax bracket, giving $1,000 in cash to a DAF results in about $400 in income tax savings. However, if $1,000 in appreciated stock is donated to a DAF, the donor saves a total of $600 through the income tax deduction and up to an additional $200 by avoiding the capital gains tax on the appreciated stock.

Our society depends on taking care of one another and these tax incentives make philanthropy more financially appealing. When my family gets together annually, each member identifies a nonprofit organization for a $100 deduction from the Whitehead Donor Advised Fund, and we make the grants online accordingly. When older grandchildren are away at school or jobs and unable to join us, they email me their choices for charities. This is a good way to develop a family commitment to helping others.

Roth Conversions

Another way to save taxes for future generations is to convert IRAs to Roth IRAs. The money converted to the Roth IRA is taxed now, and future earnings accrue totally tax-free. Withdrawals after retirement age are not taxed and there is no required minimum distribution, which is normally required at age 70 1/2. Upon the death of the taxpayer, the spouse pays no income tax as the beneficiary of a Roth IRA. After the death of the second spouse the Roth IRA accounts can be passed on to their children, who will also receive the distribution from the Roth IRA tax-free. At that point, the children can elect to withdraw it gradually, with the minimum required distribution based on their life expectancy at the time they inherit the Roth IRA.

When IRA funds are converted to a Roth IRA, the transferred funds are subject to taxation as ordinary income. Generally, conversions are made after significant wealth has accumulated and the taxpayer is in a much higher bracket. This disincentive to elect Roth IRA conversions can be mollified, however, with astute tax planning.

For example, while high income taxpayers are not allowed to contribute directly to Roth IRAs, they can fund non-deductible IRAs (the maximum contribution is currently $6,500 per year). The non-deductible IRA does not provide a tax benefit other than that the earnings accrue tax-deferred. The significant tax advantage is that the IRA can be converted later to a Roth IRA and taxes are assessed only on the accumulated earnings, not the original basis. While this is an attractive strategy, it is not without its own set of complex rules. Be sure to consult your tax-proficient financial advisor or CPA regarding this tactic.

Intergenerational Tax Strategies

The creation of a Donor Advised Fund and conversion of an IRA to a Roth IRA can be combined for maximum tax benefits. By establishing a DAF, the tax deductions for the funds contributed to it can offset taxes on the funds converted to a Roth IRA. Establishing a DAF and utilizing Roth Conversions are very effective ways to pass on our philanthropic values and conserve assets for future generations of our families.

Again, since these strategies can be somewhat complex, it is important to work with a tax professional to implement them correctly.