The
FINANCIAL UPDATE

DAY & ENNIS, LLC
FEE-ONLY FINANCIAL PLANNING

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It's Tough To Decide If You Should Retire Early

Whatever you do for a living, and whether you're an employee, work for yourself, or own a small business, one of the toughest decisions you'll ever face is when to retire. A number of factors will be at play in your decision-making process, including your age, your health, your retirement and insurance benefits, the cost of living where you live, the income-producing investments you may have, and your overall savings. But perhaps the biggest question underlying all of the others is whether you will be able to afford the kind of lifestyle you want after you are retired.

A journalist who opened a business-writing service in St. Petersburg, Florida, at age 50 and retired at age 60 offers his opinion on retiring early, or before retirement benefits and Social Security payments kick in.

"I don't regret retiring at age 60 because I simply burned out from working too much," he says, adding that as a small business owner he worked 60 to 80 hours a week, six and seven days a week, and was able to take only a single, one-week vacation during the decade that he operated the business.

"I enjoyed working for myself, being the boss, and making all of my own business decisions," he says. "I was lucky in that I was able to write business-related articles for two of the top national publishers of business and trade magazines. It took a lot of research and study, but I was able to break the Florida business community into five segments, identify the trade magazines that covered each segment, and develop a business model to provide coverage for each of the magazines."

He points out that he never qualified for pension benefits at any of the four metro daily newspapers where he worked. "I made a comfortable living working for myself, but I was not what would be considered wealthy by any definition," he says. "Comfortable, but not wealthy."

"I did two things—faithfully—that helped me retire two years before I got early Social Security benefits at age 62: First, I found a good, trustworthy attorney and, second, I hired an accountant. I never made a major business-related decision without consulting one or both of them. The accountant encouraged me to begin an IRA retirement fund. That was a lifesaver, especially since I had no other source of retirement income.

"The attorney saved me a lot of money when I decided to purchase a newsstand located next door to my business-writing office in downtown St. Petersburg. The owner of the newsstand told me that I didn't 'need to go to the expense of hiring an attorney' to handle the transfer of ownership of the newsstand from him to me. 'We can just use one of those standard bill-of-sale forms,' he said.

"Well, the title search ordered by

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Should You Have A Directed Trust?

Day & Ennis offers directed trusts to our clients because they provide more transparency, responsiveness and personal attention. With a directed trust, you are able to maintain the relationships you value with your professional advisors – your local attorney, CPA and financial advisor. We work together to generate customized trust solutions that are integrated with your existing financial strategies. The trust platform is provided through Charles Schwab Bank, so you can rely on their expertise as well.

Here are some of the benefits of directed trusts:

- You, not the trust department, determine who works for you.
- You continue to receive the same level of service you expect and are accustomed to from your existing local professionals.
- The fiduciary powers of trust services (administration and asset management) are separate, which adds another set of checks and balances to client service.
- There are no conflicts of interest which can occur when using a trust department's proprietary investment products.
- You benefit from Delaware law, including the possible elimination of state income tax on irrevocable trusts, greater flexibility in distributions, and no rule against perpetuities.

Please contact us to discuss the advantages a directed trust may offer you.

Sincerely,
Day & Ennis, LLC

Managing Your Tax Bracket Now Crucial

Four tax law changes that took effect in 2013 are driving high-income earners to manage their tax brackets more carefully.

1. A new top income tax rate for ordinary income of 39.6% (previously 35%) has been added for single filers with taxable income above $400,000 and joint filers above $450,000.

2. For investors who exceed those same thresholds, the maximum tax rate on long-term capital gain has increased from 15% to 20%.

3. A new 3.8% surtax applies to the lesser of "net investment income" (NII) or the amount by which modified adjusted gross income exceeds $200,000 for single filers and $250,000 for joint filers. The definition of NII includes capital gains and dividends, but not payouts from retirement plans and IRAs.

4. The tax benefits available for itemized deductions and personal exemptions are phased out for taxpayers above certain income limits.

Faced with this changing tax landscape, you need to be especially vigilant to keep "bracket creep" in check. At the same time, it could make sense to realize year-end income up to the next bracket threshold. Here are several tax strategies to consider in this environment:

• Make the most of your capital gains and losses. If you've taken losses during the year, it could make sense to realize capital gains now, using those losses to offset extra income that could put you in a higher bracket or subject you to the 3.8% surtax. Or, if you have existing gains, taking capital losses could offset them and up to $3,000 of ordinary income.

• Convert a traditional IRA to a Roth IRA—but stagger the amount you convert each year to avoid rising into a higher tax bracket. The converted amount is taxable as ordinary income, but it may pay off in the form of future tax-free distributions.

• Stay in a lower bracket by shifting taxable income to the younger generation. For instance, you might give dividend-paying stock to a child in a low tax bracket. Just keep in mind that under the "kiddie tax," unearned income above $2,000 received by a dependent child in 2013 generally will be taxed at your top rate.

• Reduce your taxable income by making charitable gifts. The tax law generally allows you to deduct the fair market value of donated property that you've held for more than a year. However, deductions for charitable gifts are among those that may be reduced for upper-income taxpayers. ●

How To Avoid Bad Surprises In Roth IRAs

If you've been tempted to contribute to a Roth IRA, or to convert some or all of the funds in your traditional IRAs into a Roth, it's likely you've been influenced by the lure of future tax-free payouts. However, be aware this tax-favored treatment isn't automatic, by any means. What's more, if you're below a certain age limit, you may be slapped with a tax penalty on top of the regular income tax you'll owe.

At the same time, though, even if the Roth IRA distributions are subject to tax, the impact may be negligible or nonexistent under special IRS "ordering rules." That means that even "taxable" Roth distributions may be effectively tax-free.

Here are the basic rules for Roth IRAs. You don't get any tax break now for contributing to a Roth. But "qualified" distributions from a Roth IRA that has been established for at least five years are 100% exempt from federal income tax. For this purpose, qualified distributions include those made:

• After you reach age 59 ½;
• Because of death or disability; or
• To pay for qualified home buyer expenses (up to a lifetime limit of $10,000).

The rule that often trips people up is the one requiring the Roth IRA to be in existence for at least five years. To compound matters, if you withdraw funds before five years have elapsed and you're under the magic age of 59 ½, you'll have to pay a 10% penalty on the distribution amount.

But here's the silver lining: Under IRS rules, the money you take from a Roth IRA is treated as being distributed in the following order:

1. Roth IRA contributions. That money went in without any tax advantage to you, and you can take it out, for whatever reason, without any penalty or taxes.

2. Contributions made when you

5-Year Results Show Diversification Is Key

The term diversification is used so often in marketing investment products that it's easy to take for granted. Yet it is crucial to investment success and diversifying a portfolio correctly is not so simple.

The accompanying bar chart analyzes segments of the U.S. stock market by divvying up U.S. publicly-held companies based on valuation and market capitalization. Look at how small- and mid-cap companies dramatically outran returns from large-cap companies represented by the Standard and Poor's 500 Growth and S&P 500 Value Index.

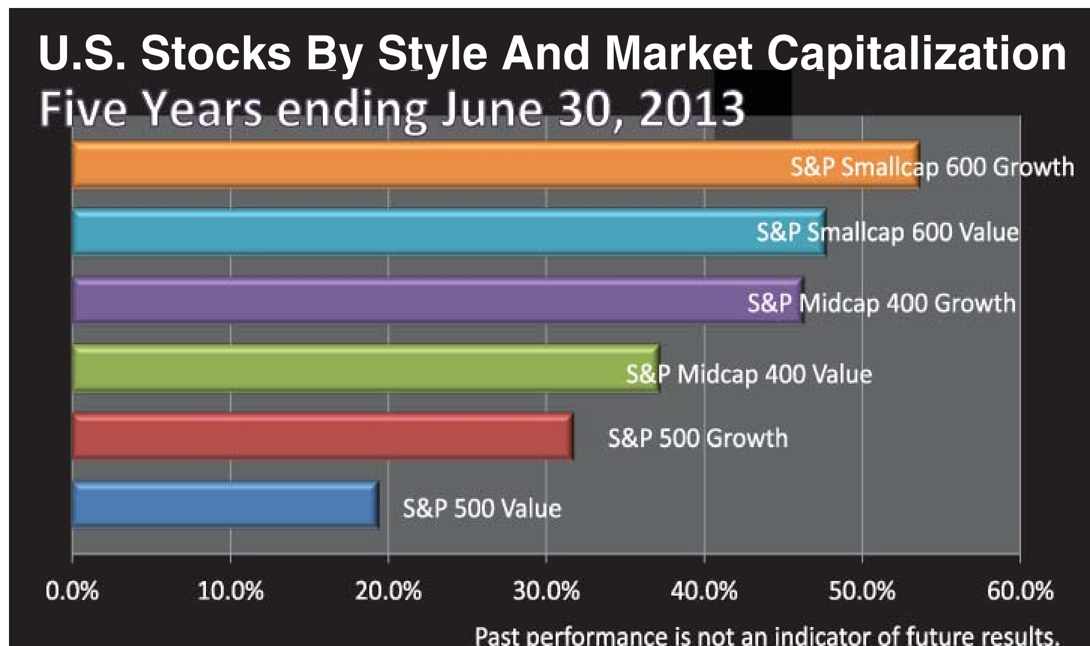
This chart covers the five-year period that ended June 30, 2013, but such differences in performance among different segments of the market are not uncommon. In some five-year periods, large-cap growth companies outperform while small-cap companies or mid-caps might outperform in other five-year periods.

Because no one can reliably predict which market segment will outperform another, it's wise to avoid making bets on a single segment of the stock market. Put another way, it's wise to diversify. But what exactly does that mean?

Diversification of investments is widely defined as not putting all your eggs in one basket. The egg analogy is something anyone can understand. But diversifying is not as simple as buying a lot of different investments.

To diversify investments, it's prudent to apply the statistical analysis prescribed in the Nobel prize winning academic work that forms the basis of Modern Portfolio Theory, or MPT.

Modern Portfolio Theory Statistics are based on the Capital Asset Pricing Model (CAPM) of expected returns, which Nobel laureate William Sharpe is credited with developing in the early 1960s. CAPM (pronounced CAP –EM) was based on the modern portfolio theory first written about in the 1950s by Sharpe's one-time professor, Harry Markowitz. Markowitz and Sharpe shared the Alfred Nobel Memorial Prize in Economic Sciences in 1990 for their work on MPT.



MPT provides a method for analyzing market trends based on measurable characteristics in portfolios, such as standard deviation, which measures volatility, and R-squared, which measures correlation of one market segment to another.

By applying Modern Portfolio Theory, you are able to rebalance and manage your wealth using an organized system of statistical analysis. You are able to measure correlation coefficients to understand how adding an investment to your portfolio has affected a portfolio like yours in the past. You are able to model the future and how your portfolio might behave through different financial and economic cycles. ●

converted a traditional IRA into Roth status. These may be withdrawn tax-free even if they are part of a nonqualified distribution, but the 10% penalty tax generally applies to withdrawals within five years, unless you're age 59 ½ or older.

3. Contributions made when you converted nontaxable traditional IRA balances into Roth IRA status. Such contributions also may be withdrawn on a tax-free basis subject to the 10% penalty.

4. Earnings within the Roth IRA. These amounts are taxable when withdrawn unless they meet the definition of qualified distributions. In addition, the 10% penalty tax applies to withdrawals made before age 59 ½.

As you can see, federal income tax on a distribution doesn't kick in until you've gone through the first three categories. For many people with a sizable amount in a Roth, distributions won't be taxable at all, even if funds are withdrawn within five years of setting up the account. ●

Saving For Retirement At All Ages

Financial planners often are asked, "When should I start saving for retirement?" Although everyone's circumstances differ, the answer usually is a variation on this theme: As soon as possible. But that doesn't mean it's ever too late to begin, or that you'll have the same financial priorities at every age. When you're embarking on a career, you may not have much extra income to set aside, but you can work on establishing sound financial habits. Later, though you'll likely earn more, you'll also likely have greater obligations—supporting your family, paying a mortgage note, and, yes, saving for retirement. Still other factors may come into play as you approach your golden years.

Consider these basic approaches during different financial stages of your life.

In your 20s. Retirement may seem several lifetimes away. What's more, the salary you earn during your early working years likely won't provide much cushion for savings. But you may be surprised by how much you can accumulate if you're dedicated, thanks largely to the power of tax-deferred compounding. For instance, if you save $1,000 a month and earn 8% on your savings compounded annually for 40 years until retirement, you will amass a staggering $3,271,022.95. (These figures are hypothetical and not indicative of any particular investment.)

The easiest way for most people to sustain tax-deferred growth is through a 401(k) or another tax-advantaged retirement plan. If your employer provides matching contributions, try to contribute at least as much as you need to qualify for the maximum match.

In your 30s and 40s. These are prime earning years, but you also might incur substantial expenses raising the kids, buying and maintaining a home, and paying for college. Nevertheless, you should do your best to stay disciplined and contribute as much as you can to your retirement plans. For 2013, you can defer up to $17,500 of salary to your 401(k). In addition, if you establish an IRA, the annual contribution limit is $5,500. Meanwhile, although contributions to a Roth IRA are never tax-deductible, future payouts may be tax-free.

In your 50s and 60s. This may be when you earn the highest salary of your career. If the kids are out of college and the mortgage is paid off, it's truly time to make hay while the sun shines. Although you might not have been as diligent at retirement saving in the past as you would have hoped to be, you can recover lost ground quickly by socking away more in your retirement plans at this point in your life. For 2013, you can contribute an extra $5,500 to a 401(k) and an additional $1,000 to an IRA, above the limits already discussed. And you can save still more in taxable accounts outside your retirement plans. ●

Should You Retire Early?

(Continued from page 1)

my attorney turned up a lien against the newsstand that the previous owner hadn't told me about. It was for several thousand dollars. The lien was taken out of the previous owner's proceeds from the sale.

"Some people may feel that I retired without proper financial planning, and that may be true. One thing that I did do, however, was sell high and buy low in the real estate market, and this provided me with a comfortable nest egg to fall back on. I had eliminated all of my debt, except for car and house payments, and gotten on a cash basis before I retired.

"I used a large part of the nest egg to pay cash for a residence in a 55-plus community a few miles north of St. Petersburg and to buy a new economy car. I never have been extravagant and live, with my wife, on a strict budget. We have no debt now."

He added that he sold his writing business and newsstand when he retired and put the sale proceeds into his retirement nest egg.

"I would like to add a word of caution to those who may be reading this and thinking about retiring," he says. "I can't say that I retired too early, because I'm living and enjoying my longtime retirement, but when to voluntarily retire is an individual decision and should not be made lightly.

"One thing is certain: the future is uncertain. What's happening today may or may not be an indicator of what's going to happen in the future. But I can tell you this: growing old is bad for your health. When I retired at 60 my only health problem was sleep apnea. I since have developed high blood pressure, heart disease, and diabetes. I've had a heart attack and four angioplasties. I have 6 stents in my heart. But I'm now 82 and still kicking.

"Now that I'm older, and hopefully wiser, I would do ONE thing differently: I would hire a financial advisor before retiring!" ●

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