Investor Insights and Outlook

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Money Market Fund Basics

Inside this issue:

When you invest for the long haul, whether to fund retirement or your child's college education, you should also keep a cash reserve to meet short-term demands and handle emergencies. In addition to your basic savings or checking accounts, money market mutual funds can be a great place to park that cash reserve. Money market funds invest in short-term, high-quality debt, and are among the most conservative funds available. They invest in bonds issued by extremely stable debtors, such as the U.S. government, and large, financially sound companies.

Money market funds typically pay a percentage point more than money market accounts from banks. You'd get even less interest if you put your cash in a checking or savings account. Keep in mind, though, that unlike consumer bank accounts, money market funds are not insured by the Federal Deposit Insurance Corporation (FDIC). However, they are regulated by the United States Securities and Exchange Commission (SEC), which enforces strict limits on the types of investments these funds can make. Consequently, it is unusual for a fund to take a hit to its principal, but, like with any other investment vehicle, it is still possible to lose money. When choosing a money market fund, be sure to bargain hunt: Low-expense funds have an edge that's hard to beat. Also, be sure to find a package that works for you. In general, money market funds have low minimum investment requirements and may offer limited check-writing privileges, but these characteristics vary widely from fund to fund.

Investors should read the prospectus and carefully consider a fund's investment objectives, risks, fees, and expenses before investing. Money market funds are portfolios that invest in short-term money market securities in order to provide a level of current income that is consistent with the preservation of capital.

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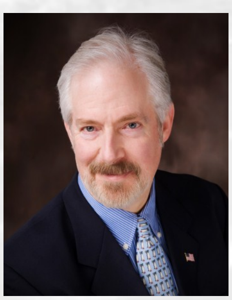

Advisor Corner

Thank you for the opportunity to serve as your advisor.

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Financial Preparations for a Natural Disaster

As residents of areas affected by Hurricane Sandy found out, a natural disaster can bring about not only emotional hardship, but financial hardship, as well. From keeping important documents safe and accessible to having enough cash on hand to get by until things return to normal, being prepared for a disaster is an important part of protecting your home and your family. It could be a natural disaster like a hurricane, tornado, flood, fire, mudslide, or earthquake. Or it could be something on a more limited scale like a power outage. Whatever the crisis, taking the steps below will help you better handle whatever might come your way.

Get Organized Before a Disaster Strikes: Chances are that's not at the top of your to-do list for the weekend, so it's very easy to procrastinate. But think of it this way: You buy insurance to protect you from catastrophes; disaster preparedness is just another kind of insurance that you prepare yourself. It doesn't have to cost a lot, but it could really save time and added frustration should something happen to you. Once you've got a plan, you only need to update it periodically.

Keep Important Papers and Documents Safe and Easily Accessible: You might need to gather your most important papers in a hurry. Do you know where they are? Can you grab them quickly and leave the house immediately if you need to? Here are some of the documents to which you may need access: IDs (driver's license, Social Security card, passport, birth certificate), financial documents (checkbooks, investment account numbers, passwords, and phone numbers, retirement account information, estate documents, insurance policies), and medical records. Most importantly, you'll need cash (at least enough to cover one to two weeks' emergency expenses).

You might also want to have a list of key contacts/phone numbers, which may include family cell-phone numbers and e-mail addresses, police, fire, and ambulance numbers, Red Cross and emergency response center local numbers, as well as your company's human resources department number. Keep all these important papers in a plastic bag in your home safe, or in any safe place from where you can grab them quickly if you need to leave your home in a hurry. Also, it may be a good idea to leave copies of everything with your attorney and/or financial advisor, in case the original documents get lost or damaged.

Prepare for a Medical Emergency: What if you or a family member suffer an injury (or worse) when disaster strikes? Check your health-insurance coverage to determine out-of-pocket costs in case surgery or emergency treatment is needed, and try to set aside enough money to cover these costs. Designate a family member or close friend as your primary contact, and repare a living will and power of attorney for health care (documents that specify your wishes in case you're incapacitated).

Create an Emergency Fund: Most experts recommend setting aside enough money to cover about six months of living expenses. But it is equally important that this money be easily accessible. It may be a good idea to keep about half in cash, ready to use (what if it's impossible to get to a bank in the aftermath of the disaster?), and the other half in liquid investments that you can cash out easily.

What to Do if Disaster Strikes: If your house has been damaged, you may need emergency shelter. The Red Cross or your local emergency response center should be able to help. Your property insurance agent can help you file a claim on your homeowners or other types of insurance policies. If your area has been declared a federal disaster area, you may qualify for financial relief. If you have been injured, you might need to file for disability benefits. If you are healthy but a family member needs your care, you may be able to take as many as 12 weeks of unpaid leave under the Family and Medical Leave Act without losing your job.

A Yard Sale of a Different Sort

We are nearing the time of year when we see the yard sale ads start to appear in the local newspaper and on the street corner. This year a yard sale could mean a different kind of sale. Many of us have real estate that has become too costly to keep or that is no longer as useful as it once was. It could be that your children have moved out of the family home or you no longer use the vacation home at the lake.

While selling your property seems like an attractive idea, the fact that you have held the property for many years means it has likely appreciated and you may face high capital gains tax upon its sale. If you are attempting to sell your principal home, you may be able to exclude $250,000 of the capital gains tax ($500,000 for married couples), but in many states this will not be enough to prevent you from paying some tax.

Just as your property has served you all these years, it can serve you again when you introduce it to a new friend — the unitrust. The unitrust is a type of trust to which you may contribute all, or a portion of, your real estate and avoid capital gains tax upon the sale of the property. The unitrust can sell your property tax-free and then provide you and your spouse with income for life. You will receive an income tax deduction for a portion of the amount paid into the trust. Best of all, any remaining funds will go to help your favorite charity.

If you are contributing your personal residence, the first step is to move to another residence. It is not permissible to have a prearranged sale prior to establishing the trust. You may deed the entire property to the unitrust and allow the trust to sell it tax-free. If you choose to deed a portion of the property to the unitrust, you and the unitrust, as co-owners, will then sell the property and receive a pro rata share of the proceeds. Capital gains tax will be bypassed on the unitrust portion, but payable on your share. However, this will be offset by the tax savings from your charitable deduction and your federal home exclusion.

The "unitrust and sale" is a great way to lower or eliminate capital gains tax, provide a lifetime stream of payments to you and help your favorite charitable cause. Your appreciated property can now be appreciated in a whole new way.

Easy Ways to Create Income for Yourself and Save on Taxes

Even as tax rates go up, there are still ways to create new income for yourself and save. Two charitable gift options you might consider are the charitable gift annuity and charitable remainder unitrust.

A charitable gift annuity (perhaps funded with low yielding CDs) can provide you with a charitable tax deduction and income for life. The payments are based on your age at the time of funding and are fixed. This means that you will receive the same amount every year for as long as you live. And a portion of your income could be tax free!

A gift annuity also provides you with an income tax deduction for part of the funding amount. If you fund it with an appreciated asset like stock, you can avoid paying capital gains tax on the sale of your asset.

With a little more planning, you may want to consider a charitable remainder trust. When you transfer your assets to the trust, you can receive income for life and a charitable tax deduction. A trust is more flexible than a gift annuity. You can choose multiple beneficiaries. There is also potential for your income to grow with growth in the trust assets.

We can answer your questions about how a gift annuity or trust could work for you. Please call or email us for more details on these charitable plans. We would be happy to show you an illustration of the benefits tailored to meet your needs and goals.

Interested in planned giving?
Meet with Jim to discuss how giving may fit with your financial plan

Social Security for the Self-Employed

If you thought that running a successful business on your own was hard enough already, think again. As a self-employed individual, defined by the IRS as someone who operates a trade, business or profession, (either by yourself or as a partner), you are required to pay self-employment tax as well as income tax. Self-employment tax consists of Social Security and Medicare taxes, similar to those withheld from the pay of most wage earners. Failure to comply with IRS regulations may result in your business operations being jeopardized. The following are a few key facts to keep in mind:

1. The Social Security tax rate for 2013 is 15.3% on self-employment income up to $113,700. Should your net earnings exceed $113,700, you continue to pay only the Medicare portion of the Social Security tax, which is 2.9%. Starting this year, the Medicare tax rate for net earnings in excess of $200,000 ($250,000 for joint filers) is increased to 3.8%.

2. You need to have worked and paid Social Security taxes for a certain length of time to get Social Security benefits (no more than 10 years of work, which is equivalent to 40 credits). In 2013, if your net earnings are $4,640 or more, you earn the yearly maximum of four credits. If your net earnings are less than $4,640, you could still earn credit (depending on how you report your earnings).

3. Certain income does not count for Social Security and should not be included in figuring your net earnings. These include dividends from shares of stocks and interest on bonds, interest from loans, rentals from real estate, and income received from limited partnerships.

Tax law is ever-changing and can be quite complex. It is highly recommended that you consult with a financial or tax professional with any tax-related questions or concerns.

Help Your Bottom Line

With an IRA charitable rollover gift you can help the work of a favorite charity this year and enjoy valuable tax and income benefits. **If you are 70½ or older**, you can roll over up to $100,000 from your IRA to charity without paying federal income tax. Even better, your gift qualifies for your required minimum distribution (RMD).

Here are some of the ways you can benefit from an IRA rollover gift this year:

Reduce Your Taxable Income. By rolling over some or all of your RMD from your IRA to charity, you can reduce your taxable income this year.

Lower Your Social Security Tax. Reducing your taxable income with an IRA rollover gift may also reduce the tax due on your social security payments.

Avoid IRS Tax Limits. IRA rollover gifts may be made over and above the normal cash gift limit (50% of your adjusted gross income).

Nonitemizers: Enjoy Charitable Gift Benefits! If you do not itemize your deductions, you can still benefit from the reduction in income and tax resulting from an IRA rollover gift.

A New Source for Major Gifts! If you wish to make a larger gift to a campaign or special cause, you can make that gift from your IRA rather than tapping into your bank account this year.

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