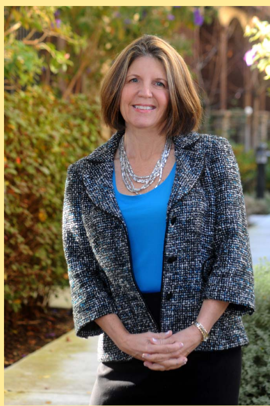

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Dear Friends,

What a beginning for 2016 - The Dow Jones Index is down 10%. Yes, this is stressful. The U.S. continues to grow and Europe is recovering and set to continue its growth. However, China's economy is slowing & restructuring it's economy, and to really cause the stock market volatility -- much of its economic information is not transparent nor certain. Uncertainty makes the stock market crazy! Yes, oil prices have dropped, and we are feeling the effect positively in our bank accounts but if we own stocks affected by the oil industry we are feeling losses and losing our patience. And yet, one of Americans' fear is to be dependent on oil exports, and now our oil dependency is greatly reduced!

The lessons to me of 2000 and 2008 are that they were times of opportunity to invest and let our dividends which are being reinvested to buy more shares at lower prices. Stay on your course.

Warm regards,

Pam

January 2016

Assessing Portfolio Performance: Choose Your Benchmarks Wisely

Filing Your 2015 Federal Income Tax Return

Are There Gaps in Your Insurance Coverage?

What are required minimum distributions (RMDs)?

FLOURNOY
WEALTH MANAGEMENT

Your Financial Future

Assessing Portfolio Performance: Choose Your Benchmarks Wisely

You can't help but hear about the frequent ups and downs of the Dow Jones Industrial Average or the S&P 500 index. The performance of both major indexes is widely reported and analyzed in detail by financial news outlets around the nation.

Like the Dow, the S&P 500 tracks the stocks of large domestic companies. With 500 stocks compared to the Dow's 30, the S&P 500 comprises a much broader segment of the stock market and is considered to be representative of U.S. stocks in general. Both indexes are generally useful tools for tracking stock market trends, but some investors mistakenly think of them as benchmarks for how well their own portfolios should be doing.

However, it doesn't make much sense to compare a broadly diversified, multi-asset portfolio to just one of its own components. Expecting portfolio returns to meet or beat "the market" is usually unrealistic, unless you are willing to expose 100% of your life savings to the risk and volatility associated with stock investments.

Asset allocation: It's personal

Just about every financial market in the world is tracked by one or more indexes that investors can use to look at current and historical performance. In fact, there are hundreds of indexes based on a wide variety of asset classes (stocks/bonds), market segments (large/small cap), and styles (growth/value).

Investor portfolios are typically divided among asset classes that tend to perform differently under different market conditions. An appropriate mix of stocks, bonds, and other investments depends on the investor's age, risk tolerance, and financial goals.

Consequently, there may or may not be a single benchmark that matches your actual holdings and the composition of your individual portfolio. It could take a combination of several benchmarks to provide a meaningful performance picture.

Keep the proper perspective

Seasoned investors understand that short-term results may have little to do with the effectiveness of a long-term investment strategy. Even so, the desire to become a more disciplined investor is often tested by the arrival of quarterly or annual financial statements.

The main problem with making decisions based on last year's performance figures is that asset classes, market segments, or industries that do well during one period don't always continue to perform as well. When an investment experiences dramatic upside performance, it may mean that much of the opportunity for market gains has already passed. Conversely, moving out of an investment when it has a down year could mean you are no longer in a position to benefit when that segment starts to recover.

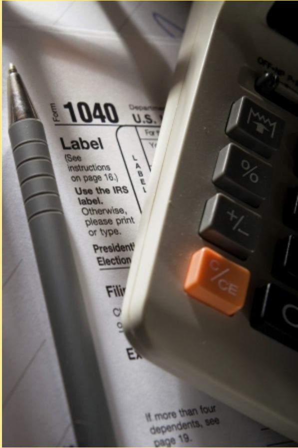
On the other hand, portfolios that are left unattended may drift and begin to take on too much risk or become too conservative. Rebalancing periodically could help bring your asset mix back in line with your preferred allocation.

There's really nothing you can do about global economic conditions or the level of returns delivered by the financial markets, but you can control the composition of your portfolio. Evaluating investment results through the correct lens may help you make appropriate adjustments and effectively plan for the future.

Note: *Keep in mind that the performance of an unmanaged index is not indicative of the performance of any specific security, and individuals cannot invest directly in an index. Asset allocation and diversification are methods used to help manage investment risk; they do not guarantee a profit or protect against investment loss. All investments are subject to market fluctuation, risk, and loss of principal. Shares, when sold, may be worth more or less than their original cost. Investments that seek a higher return tend to involve greater risk. Rebalancing may result in commission costs, as well as taxes if you sell investments for a profit.*

See disclaimer on final page

Filing Your 2015 Federal Income Tax Return



Filing deadline for most individuals:

- *Monday, **April 18, 2016***
- *Tuesday, **April 19, 2016,** if you live in Massachusetts or Maine*
- *Monday, **October 17, 2016,** if you file for an automatic six-month extension by the original due date*

Whether you're preparing your own tax return or paying someone to do it for you, tax season can be a stressful time of year. Make things easier on yourself by pulling all your information together sooner rather than later--that includes a copy of last year's tax return, W-2s, 1099s, and any deduction records you have.

File on time

The filing deadline for most individuals is Monday, April 18, 2016. That's because Emancipation Day, a legal holiday in Washington, D.C., falls on Friday, April 15, this year. If you live in Massachusetts or Maine, you have until Tuesday, April 19, 2016, to file a federal income tax return because Patriots' Day, a legal holiday in both states, is celebrated on April 18.

If you're not able to file your federal income tax return by the due date, you can file for an extension using IRS Form 4868, *Application for Automatic Extension of Time to File U.S. Individual Income Tax Return.* Filing this extension gives you an additional six months (until October 17, 2016) to file your federal income tax return. You can also file for an automatic six-month extension electronically (details on how to do so can be found in the Form 4868 instructions).

Note: *Special rules apply if you're living outside the country, or serving in the military outside the country, on the regular due date of your federal income tax return.*

Pay what you owe

One of the biggest mistakes you can make is not filing your return because you owe money. If the bottom line on your return shows that you owe tax, file and pay the amount due in full by the due date if at all possible. If you absolutely cannot pay what you owe, file the return and pay as much as you can afford. You'll owe interest and possibly penalties on the unpaid tax, but you will limit the penalties assessed by filing your return on time, and you may be able to work with the IRS to pay the unpaid balance (options available may include the ability to enter into an installment agreement).

It's important to understand that filing for an automatic extension to file your return does not provide any additional time to pay your tax. When you file for an extension, you have to estimate the amount of tax you will owe; you should pay this amount by the April 18 (April 19 if you live in Massachusetts or Maine) due date. If you don't, you will owe interest, and you may owe penalties as well. If the IRS believes that your estimate of taxes was not reasonable, it may void your extension.

Limited planning opportunities may still be available

Though the opportunity for many potential tax-saving moves closed on December 31, the window is still open for IRA contributions. You generally have until the April due date of your federal income tax return to make contributions to a traditional or Roth IRA for the 2015 tax year. That means there's still time to set aside up to $5,500 ($6,500 if you're age 50 or older) in one of these tax-advantaged savings vehicles.

Note: *To contribute to either a traditional or a Roth IRA for 2015, you (or, if you file a joint return, your spouse) must have received taxable compensation during the year. Provided that you did not reach age 70½ by the end of the year, you're able to contribute to a traditional IRA. Eligibility to contribute to a Roth IRA depends on your filing status and income.*

With a traditional IRA, you're generally able to deduct the full amount of your contribution, provided that you're not covered by a 401(k) or another employer-sponsored retirement plan; if you or your spouse is covered by an employer plan, the ability to deduct some or all of your contribution depends on your filing status and income. With a Roth IRA, there's no up-front deduction, so contributing won't affect your 2015 tax situation, but it's still worth considering given that future qualified Roth distributions are free of federal income tax.

You also have until the due date of your return, including any extension, to undo ("recharacterize") a 2015 Roth IRA conversion. For example, if you converted a fully taxable traditional IRA worth $100,000 to a Roth IRA in 2015 and that Roth IRA is now worth only $50,000, the $100,000 will be included on your 2015 federal income tax return. If you recharacterize the conversion, however, it's as though it never happened--you have a traditional IRA worth $50,000, and no income or tax resulting from the conversion. If you do recharacterize a 2015 Roth conversion in 2016, you're allowed to convert those dollars (and any earnings) back to a Roth IRA after a 30-day waiting period (taxes due as a result of such a reconversion would be included on your 2016 federal income tax return).

You don't have to do it alone

When it comes to your taxes, you want to make sure that you get it right. A tax professional can answer any questions you have, help you evaluate your situation, and keep you apprised of any legislative changes that might affect you.

FLOURNOY
WEALTH MANAGEMENT

Are There Gaps in Your Insurance Coverage?

If you own a condo, your association's property insurance may leave gaps in coverage. For example, most association insurance doesn't cover your furniture, wall coverings, electronics, interior walls, and structural improvements made to the interior of your unit. Review your condo documents, particularly the association's master deed, its by-laws, rules and regulations, which may describe those parts of your unit the association insurance covers, and which parts you may need to insure.

Buying insurance is about sharing or shifting risk. For example, health insurance will cover some of the cost of medical care. Homeowners insurance will assume some of the risk of loss in the event your home is damaged or destroyed. But oftentimes we think we're covered for specific losses when, in fact, we're not. Here are some common coverage gaps to consider when reviewing your own insurance coverage.

Life insurance

In general, you want to have enough life insurance coverage (when coupled with savings and income) to allow your family to continue living the lifestyle to which they're accustomed. But changing circumstances may leave a gap in your life insurance coverage.

For example, if you have life insurance through your employer, changing jobs could affect your insurance coverage. You may not have the same amount of insurance, or the policy provisions may differ. Whereas your prior employer may have provided permanent life insurance, now you may have term insurance that will expire on a predetermined date. Review your income, savings, and expenses annually and compare them to your insurance coverage, and be mindful that changing circumstances may require a change in the amount of insurance coverage.

Homeowners insurance

It's not always clear from reading your homeowners policy which perils are covered and how much damage will be paid for. It's important to know what your homeowners policy covers and, more important, what it doesn't cover.

You might think your insurer would pay the full cost to replace your home if it were destroyed by a covered occurrence. But many policies place a cap on replacement cost up to the face amount stated on the policy. You may want to check with a building contractor to get an idea of the replacement cost for your home, then compare it to your policy to be sure you have enough coverage.

Even if your policy states that "all perils" are covered, most policies carve out many exceptions or exclusions to this general provision. For example, damage caused by floods, earthquakes, and hurricanes may be covered only by special addendums to your policy, or in some cases by separate insurance policies altogether. Also, your insurer may not cover the extra cost of rebuilding attributable to more stringent building codes, or your policy may limit how much and how long it will pay for temporary housing while repairs are made.

To avoid these gaps in coverage, review your policy annually with your insurer. Also, pay attention to notices you may receive. What may look like boilerplate language could actually be significant changes to your coverage. Don't rely on your interpretations--seek an explanation from your insurer or agent.

Auto insurance

Which drivers and what vehicles are covered by your auto insurance? Most policies provide coverage for you and family members residing with you, but it's not always clear-cut. For instance, a child who is living in a college dorm is probably covered, but a child who lives in an off-campus apartment might be excluded from coverage. If you and your spouse divorce, which policy insures your children, particularly if they are living with each parent at different times of the year? Notify your insurer about any change in living arrangements to avoid a gap in coverage.

Other gaps include no coverage for damaged batteries, tires, and shocks. And you might not be covered for stolen or damaged cell phones or other electronic devices. Your policy may also limit the amount paid for a rental while your vehicle is being repaired.

In fact, insurance coverage for rental cars may also pose a problem. For instance, your own collision coverage may apply to the rental car you're driving, but it may not pay for all the damage alleged by a rental company, such as loss of use charges. If you're leasing a car long term, your policy may cover the replacement cost only if the car is a total loss or is stolen. But that amount may not be enough to pay for the outstanding balance of your lease. Gap insurance can cover any difference between what your insurer pays and the balance of your lease.

Policy terms and conditions aren't always easily understood, and you may not be sure what's covered until it's time to file a claim. So review your insurance policy to be sure you've filled all the gaps in your coverage.

FLOURNOY
WEALTH MANAGEMENT

What are required minimum distributions (RMDs)?

Traditional IRAs and employer retirement plans such as 401(k)s and 403(b)s offer several tax advantages, including the ability to defer income taxes on both contributions and earnings until they're distributed from the plan.

But, unfortunately, you can't keep your money in these retirement accounts forever. The law requires that you begin taking distributions, called "required minimum distributions" or RMDs, when you reach age 70½ (or in some cases, when you retire), whether you need the money or not. (Minimum distributions are not required from Roth IRAs during your lifetime.)

Your IRA trustee or custodian must either tell you the required amount each year or offer to calculate it for you. For an employer plan, the plan administrator will generally calculate the RMD. But you're ultimately responsible for determining the correct amount. It's easy to do. The IRS, in Publication 590-B, provides a chart called the Uniform Lifetime Table. In most cases, you simply find the distribution period for your age and then divide your account balance as of the end of the prior year by the distribution period to arrive at your RMD for the year.

For example, if you turn 76 in 2016, your distribution period under the Uniform Lifetime Table is 22 years. You divide your account balance as of December 31, 2015, by 22 to arrive at your RMD for 2016.

The only exception is if you're married and your spouse is more than 10 years younger than you. If this special situation applies, use IRS Table II (also found in Publication 590-B) instead of the Uniform Lifetime Table. Table II provides a distribution period that's based on the joint life expectancy of you and your spouse.

If you have multiple IRAs, an RMD is calculated separately for each IRA. However, you can withdraw the required amount from any of your IRAs. Inherited IRAs aren't included with your own for this purpose. (Similar rules apply to Section 403(b) accounts.) If you participate in more than one employer retirement plan, your RMD is calculated separately for each plan and must be paid from that plan.

Remember, you can always withdraw more than the required amount, but if you withdraw less you will be hit with a penalty tax equal to 50% of the amount you failed to withdraw.

I'm thinking about storing financial documents in the cloud. What should I know?

Cloud storage--using Internet-based service providers to store digital assets such as books, music, videos, photos, and even important documents including financial statements and contracts--has become increasingly popular in recent years. But is it right for you?

Opinions vary on whether to store your most sensitive information in the cloud. While some experts say you should physically store items you're not willing to lose or expose publicly, others contend that high-security cloud options are available.

If you're thinking about cloud storage for your financial documents, consider the following:

- Evaluate the provider's reputation. Is the service well known, well tested, and well reviewed by information security experts?
- Consider the provider's own security and redundancy procedures. Look for such features as two-factor authentication and complex password requirements. Does it have copies of your data on servers at multiple geographic locations, so that a disaster in one area won't result in an irretrievable loss of data?
- Review the provider's service agreement and terms and conditions. Make sure you understand how your data will be protected and what recourse you have in the event of a breach or loss. Also understand what happens when you delete a file--will it be completely removed from all servers? In the event a government subpoena is issued, must the service provider hand over the data?
- Consider encryption processes, which prevent access to your data without your personal password (including access by people who work for the service provider). Will you be using a browser or app that provides for data encryption during transfer? And once your data is stored on the cloud servers, will it continue to be encrypted?
- Make sure you have a complex system for creating passwords and never share your passwords with anyone.

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WEALTH MANAGEMENT

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