POLARIS ADVISORS, LLC.

THE Retirement Report

Retirement Transition Planning

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# 10 Sensible Stock Market Strategies After A Fall

The start to 2016 was one of the worst in history for stock market investors as the Standard & Poor's (S&P) 500 registered a record-breaking plunge in January. Some prognosticators are predicting doom and gloom for the rest of the year and a bear market. They say the market downturn might even lead to a recession.

But experienced investors know not to panic. While it's important to keep abreast of the S&P 500 and other key indicators, it's equally essential—if not more so—to stick to investment principles that have guided you successfully in the past. Consider these 10 practical suggestions:

**1. Have a game plan.** Assuming you have lofty long-term objectives—a comfortable retirement, say, or buying a second home—make sure you map out a plan to get there. Focus on how much you need to set aside and invest annually, and if you're saving for retirement, factor in future withdrawals. Also keep in mind some of the advice below.

**2. Balance risk with reward.** While your investment plan should be designed to make money over time, it's important to consider the risks that could disrupt your path to profits. Ideally, your investment strategies should maximize your rate of return while minimizing the risks—and how much risk you're willing to accept will depend on many factors that may relate to you alone.

**3. Play with "house money."** With any investment, losses are possible, and you'll need to consider what you can afford to lose, and when. While the stock market, historically, always has made money over the long haul, there have also been steep dips along the way, and that could hurt if you're counting on the money you lose. Try not to invest amounts earmarked for paying your mortgage, sending your kids to college, and other necessities.

**4. Diversify.** Spreading your money across several kinds of investments is essential to most investment plans. Including a variety of stocks from across sectors or industries, as well as a diverse mix of bonds and cash equivalents in your portfolio, can help when one type of investment rises while others fall. Putting money into mutual funds or exchange-traded funds (ETFs) indexed to market benchmarks can be a simple way to diversify.

**5. Avoid market timing.** Getting in and out of stocks quickly tends to be a loser's game. If you're lucky you might see short-term benefits but over longer periods it's impossible to outguess financial markets.

**6. Don't forget about taxes.** When you examine your investments, you

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## *Brexit? Are We Speculators Or Investors?*

On the morning of June 24, the "shocking" news broke that England voted to leave the EU. And stock markets around the world tanked!

Such uncertainty often generates a "fight or flight" response from investors. For some, it's about fear that it will get worse, the economy is broken, and there's a need to flee for safety. For others, it's an opportunity to profit – by purchasing the investments the fearful are throwing away.

As a general rule, periods of extreme volatility are never good times to make rash changes in our portfolios. Buying securities might bring some short-term profits, but depletes cash we might need if things get worse. Going to cash might feel good for a while, but could turn into a nagging worry that we've destroyed our potential for future income if markets come back without us.

Executing either action effectively violates our long-term retirement income strategy. As hard as it is to sit there and do nothing, there is something we can do: reassess our spending rates and extend the life of our portfolios!

Even without Brexit, investment markets have been stingy lately. Just as we might cut back in a year with no bonus, stingy markets should be met with stingy spending. Now is a good time to review our budgets and look for ways to save or postpone discretionary expenses. It's also a good time to remember that we also maintain cash and bonds in our portfolios, the latter of which rose in value on the 24 of June.

Stay Well,

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# DOL Approves Final Fiduciary Rule

At long last, the controversial "fiduciary rule" for retirement accounts has been approved, with some modifications, by the Department of Labor (DOL).

The fiduciary rule drew a firestorm of criticism when it was first proposed in 2015. After lengthy hearings and thousands of comment letters from the public, the DOL went back to the drawing board. The final rule that has emerged takes into account some concerns that were raised, but keeps the basic framework intact.

Under the final rule, firms providing investment advice pertaining to retirement plans and IRAs must put their clients' "best interest" before their own. Essentially, financial advisors can't receive compensation without qualifying under the Best Interest Contract Exemption (BICE). Otherwise, their actions may constitute "prohibited transactions."

The new final rule clarifies the rules for the BICE by establishing a contractual fiduciary duty between investors and financial advisors. To qualify under the BICE, fiduciary standards of conduct must be acknowledged in a written contract.

In that contract, advisors must state that the advice they offer is based on a client's particular needs. This includes recommendations relating to a retirement plan, a plan participant or beneficiary, a plan fiduciary, or an IRA owner in exchange for fees or other compensation—for buying, holding, selling, or exchanging investments. It also covers advice on rollovers, transfers, and distributions from plans and IRAs. The fiduciary standards also cover disclosures on reasonable compensation, costs of providing advice to clients, and conflicts of interests.

The final rule also establishes what is ***not*** advice for these purposes. General communications such as financial newsletters, marketing materials, and educational materials don't count.

A main difference between the final rule and the earlier proposed version is that additional financial products, including variable annuities and private placements, are now included under the BICE. The final rule also eliminates a requirement for financial advisors to give clients an annual transaction disclosure on costs. Another key change wipes out the need for advisors to provide regular projections of fees over one, five, and 10 years.

Finally, the process of implementing the BICE is streamlined. Now a contract can be completed when a client opens an account.

For most advisors and clients, the final rule takes effect on April 10, 2017, although in some cases the effective date will be January 1, 2018. More details will be forthcoming. ●

# Market Timing Is An Inexact Science

The Standard & Poor's 500 (S&P 500), a leading stock market benchmark, was poised to record one of the worst Januarys in history before a late recovery occurred. Due in part to plunging oil prices and concerns over the global economy, stocks were slammed early in 2016. At one point, the S&P 500 was down 11%, before the index rose 2.48% on January 29, leaving it with a 5% decline for the month.

Clearly, this was more volatility than usual, which was both good news and bad news for market timers.

Market timing is the practice of selling stocks and mutual fund shares ahead of projected declines and buying back those investments when the investor expects the stock market to climb. It's a tempting proposition, and when it works, it can reduce losses and position a portfolio for future gains. However, it usually doesn't work, and getting the timing wrong can result in big losses, from selling shares that would have recovered or from being out of the market when prices rebound.

Market timing appeals to investors who think it can bring them the best of all possible worlds—letting them buy low and sell high. But it's not for inexperienced investors, and even those who know what they're doing and who have all of the resources to help them make intelligent, well-informed decisions are just as likely to fail as they are to succeed.

Not only is the stock market volatile, it is unpredictable. Unexpected events can have an impact, either positive or negative, on a company, industry, or sector. Market timers think they know better than others what's coming next. Although they may guess right sometimes, they're bound to be wrong, too. To compound the problem, those who are successful once may start to think they are invincible. Of course, they're not.

# Six Hurdles To Overcome In Stretch IRA Planning

The traditional IRA is a proven vehicle for retirement saving. Contributions you make during your working days may be partially or wholly tax-deductible. These amounts are invested and can compound without being eroded by current taxes. Generally, you'll be making withdrawals, taxed as income, during your retirement, when you may be in a lower tax bracket than you were at the peak of your career.

But you may decide to supplement or replace traditional IRAs with Roth IRAs. For those, you can't deduct contributions, but future distributions are likely to be completely tax-free after five years. You can convert funds in a traditional IRA to a Roth by paying current income tax on the amount you convert.

One other big difference between these two kinds of retirement accounts is that with a traditional IRA, you eventually have to take money out—and pay taxes on your withdrawals. Required minimum distributions, or RMDs, must begin after you reach age 70½. In contrast, you can leave the money in a Roth IRA untouched during your lifetime and pass it along to your heirs.

But even with a traditional IRA, "stretch planning" can help you preserve more of your savings for future generations. This approach enables IRA benefits to be stretched out over the lives of the beneficiaries you designate long after you're gone.

Many complex rules apply to IRAs that are inherited. A beneficiary who is a spouse has more flexibility than someone who isn't. Generally, anyone other than a spouse must empty the IRA based on his or her life expectancy or within five years. To further complicate matters, recent budget proposals, if enacted, could curb IRA stretch planning. You may want to lock in your plans now to protect against future changes in the rules.

These six hurdles often stand in the way of maximizing the benefits of stretch planning:

**1. Incorrect titling.** Different IRA custodians may have different requirements for how inherited IRAs are titled. But correct titling should include the deceased owner's name as well as language indicating that the account is an inherited IRA. For example: "John Adams, deceased, IRA for the benefit of John Quincy Adams."

**2. Failing to take RMDs.** Just as you're required to take these distributions—based on the account balances in the prior year and life expectancy tables—from a traditional IRA once you reach age 70½, your beneficiaries must take RMDs from both traditional and Roth IRAs. The penalty for failing to do so is 50% of the amount that should have been withdrawn (in addition to the regular tax).

**3. Missing the deadline for a qualified disclaimer.** If family members such as your adult children don't want or need the money in an inherited IRA, they can "disclaim" all or part of the inheritance. If a qualified disclaimer is made within nine months of your death, the IRA assets will pass to the secondary beneficiaries you've named—perhaps your grandchildren. That can keep the IRA going for a longer period of time as long as the disclaimer is made before the deadline.

**4. Failing to consider all of the implications of a disclaimer.** As useful as disclaimers can be, they also can have unintended consequences, perhaps shortchanging an heir who later needs the money. And once a disclaimer is made, it can't be rescinded.

**5. Taking a lump-sum distribution.** This is an option for beneficiaries of an inherited IRA, but it can create a spike in income tax, which could include a shift to a higher tax bracket, and could have other unwanted consequences. This decision, too, can't be undone.

**6. Failing to analyze account rollovers for spouses.** A spouse who inherits an IRA has added flexibility and can choose to roll over funds to his or her own IRA, a move that may delay when RMDs must begin. And if an inherited IRA is payable to a spouse, that person won't be subject to the usual 10% penalty for early withdrawals before age 59. But leaving an IRA to someone other than a spouse may help the family accumulate more wealth over time. ●

But just because market timing is generally a loser's game doesn't mean you always have to sit idly by while markets fluctuate. Tactical adjustments may be in order depending on what's in your portfolio, what your goals are, and your investing timetable. However, by investing for the long term and periodically rebalancing your portfolio, you can focus on specific objectives in a consistent manner. This could be especially important following a period of extreme volatility such as the one the markets experienced early this year. Working toward your long-term goals also takes emotions out of the investing equation.

When you engage in market timing, you effectively have to be right twice—getting out of the market at the right time, before a downturn, and then getting back in before the market rallies. That's much less likely to pay off than staying in the market over the long haul—which also happens to be a lot easier on the nerves. ●

# Views On Retirement Communities

How do you feel about retirement communities? Such places, often reserved for those who are age 55, or older, have many supporters and detractors, and opinions may vary widely even from one spouse to another. In the end, this is a personal decision that you have to make for yourself or as a couple. Consider these key considerations:

**Common Advantages**

• There's generally plenty to do in a retirement community. Depending on the location, you may be able to use your newfound leisure time for golfing, tennis, swimming, gardening, theatre, clubs of all sorts, and numerous other activities.

• Security is another reason why many senior citizens are flocking to these developments. Many communities are gated and have a visible security presence. Plus, with so many neighbors around all the time—rather than being away at work—suspicious activities tend to be reported quickly.

• The homes usually are located close to a reputable medical facility, shopping, and other conveniences. Some even have retail stores.

• A retirement community may offer peace and quiet, with no teenagers revving up their car engines or having all-night parties.

• Homes are built with retirees in mind. They generally provide easy access for disabled individuals and the elderly.

• You can meet and socialize with people in your own age group.

**Common Disadvantages**

• You may have strong ties to your current community. Many people feel most comfortable staying in the home where they raised their kids and living close to long-standing friends and neighbors.

• Do you have adult children or grandchildren living with you? If that's the case, you may not want to uproot them. In addition, they may not be allowed to live full time in an age-restricted community.

• Even if you don't have youngsters living with you, you may enjoy being around younger people. The age mix in your neighborhood may suit you just fine.

• One frequent complaint of young retirees is that they don't want to live with "old" people. They see themselves as being young or at least acting as if they were. And some people view living in a retirement community as a stigma to be avoided at all costs.

• The association fees for maintaining the community grounds —often including swank clubhouses, golf courses, and other amenities—can be pricey. If you're not a golfer, or shun the swimming pool, the extra costs might not be worth it to you.

In any event, get all the information you need to make the best choice for your situation. Your advisers can help. ●

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## Sensible Stock Market Strategies

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may tend to focus on returns to the exclusion of practically everything else. But taxes also can have a major impact. Adding tax-exempt municipal bonds to your portfolio, for example, could improve your overall after-tax returns, and it makes sense to look for ways to offset capital gains with capital losses before the end of the year.

**7. Review and rebalance.** Regardless of how the stock market is performing today, it's important to look at your portfolio periodically and make whatever adjustments are necessary to stick to your long-term plan. Suppose you want to keep a hypothetical asset allocation of 50% in stocks, 25% in bonds, and 25% in other investments. If stock prices fall and your allocation drops to 35%, you may need to sell bonds and buy stocks to get things back in line. That also has the potential advantage of adding to your stocks when prices are low.

**8. Try to keep your emotions out of it.** It's easy to be swept up when the market is climbing or falling, but you'll be much better off if you're able to remain calm. Resisting impulse acquisitions and sales tends to be a winning long-term strategy.

**9. Stick with your plan.** It's not enough to develop an overall investment plan—you also need to follow it even when you face market turbulence—in other words, don't abandon the stock market just because you're experiencing some negative returns. Staying the course over the long term is likely to give you the best results.

**10. Obtain professional assistance.** Last, but not least, you don't have to go it alone. Your professional investment advisors can help you weather the inevitable ups and downs of the stock market. Don't hesitate to contact us at any time. ●

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