Second Quarter 2015

TOBIA$ TIME$

www.tobiasfinancial.com
954-424-1660

Wall Street's Anachronistic Ways In The Internet Age

Wall Street's largest firms are asked every December by Barron's, a venerable weekly financial newspaper, to predict which industry sectors will outperform in the year ahead. Fritz Meyer Economic Research, an independent economic research publisher, has tracked the strategists' predictions annually since 2007 and his 2014 research report shows why Wall Street is fast-becoming an anachronism.

Every January, Fritz Meyer, an independent economist, publishes a scorecard showing how the Wall Street giants' picks from a year earlier have performed.

"I'm the only one that I know that's doing this — systematically holding these strategists accountable for their lousy calls," says Meyer, who was an investment strategist at one of the world's largest mutual fund companies before establishing his own independent economic research firm in 2008.

Meyer has documented Wall Street's calls since Barron's began annually publishing the strategists' forecasts in 2007 in a mid-December cover story. The respected weekly newspaper, which is widely followed by Wall Street's army of brokers, is an excellent publication, but its annual "Outlook" cover story exposes why Wall Street is losing market share to independent financial advisors.

According to Meyer, anyone who followed the investment advice from the Wall Street giants in 2014, as published in Barron's December 16, 2013, would have underperformed the Standard & Poor's 500. "There is no single strategist who I can see made consistently winning sector calls," says Meyer, "and I'm not aware of any strategist or money manager who can consistently do any better than this group of 10 representing the highest-profile firms."

Before the Internet age, Wall Street could make predictions without much fear of ever being held accountable. Now, in an age of transparency, TV ads with stampeding bulls don't mean as much. Truth is viral. In the Internet age, a single independent researcher can document Wall Street's track record of poor performance, Wall Street's brand and TV ads can't dispute the facts, and transparency prevails.

According to Meyer's research, the sector "picks and pans" made by Wall Street's strategists included three good calls, but the four bad calls is what would have really hurt an investor's results. All 10 Wall Street firms had been bullish on technology in December 2013, and that was a good call. The S&P Technology Index, gained 18% in 2014 and returned second-best results of the 12 industry sectors. However, the consensus forecast among the analysts had been bullish on technology in each of the previous four years; this was the first year the consensus was right.

Six of the 10 strategists interviewed by Barron's panned utilities in December 2013 and only one of them picked utilities to outperform the S&P 500 stock index. Utilities engendered the most negative outlook among the strategists, but it

(Continued on page 4)

Ben's Banter

From our "breaking news" department, let's all welcome TFA's newest addition! Vera Francesca joined parents Matt and Andrea Saneholtz on May 28th. She tipped the scales at 9 pounds, 15 ounces and measured 20.5 inches.

And now to change the subject from babies to elders - Retirement arrives for most people just once in a lifetime and is one of the greatest changes of life. Some start preparing for retirement the day they finish school, while others are never truly prepared. Some retirees even return to the workforce, either for fulfillment or for financial reasons, because they are not adequately prepared to handle the challenges that confront them in retirement.

As Financial Planners, most of us will discuss the financial aspects of preparing for and/or sustaining a successful retirement. However, that is not enough. Consider the successful entrepreneur who has a sufficient nest egg. After the novelty wears off, how will the days be filled? People need to be mentally and physically ready for retirement.

Thus, whether it is charity work, travel, going back to school, taking up a new hobby, or anything else that may be of interest, think and plan for what you want to do.

Setting your sights for how you will enjoy yourself is just as important as establishing the nest egg for retirement.

Remember, no one plans to fail, they simply fail to plan.

Thanks,
Ben
CPA/PFS, CFP®, CIMA®

When To Start Social Security?

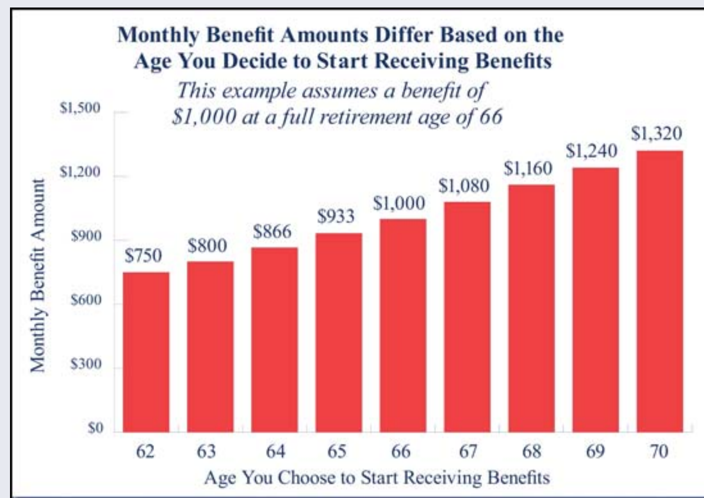
Once you enter your 60s, with thoughts of retirement looming ahead, you face a difficult decision: When should you start to receive Social Security retirement benefits? With some experts arguing that you should begin benefits as soon as possible and others contending that you should wait until full retirement age or longer, the answer to this question is not exactly a no-brainer.

The Social Security Administration (SSA) reminds us that this is a highly personal choice. It depends on numerous factors, including your current need for cash, your health and family history, whether you plan to work in retirement, your other retirement income sources, how much income you expect you will need in the future, and the amount you'll receive from Social Security. There's no definitive right or wrong answer.

The earliest you can start benefits is at age 62, but you'll receive less than you would be entitled to at full retirement age (66 for most Baby Boomers.) However, you'll get even more each month if you wait longer—until age 70 at the latest. When you start will lock in your benefit amount for the rest of your life, although you'll get cost-of-living increases, and there could be other changes based on work records.

The accompanying chart provides an example of how your monthly amount can differ based on the start date for receiving benefits.

As this chart shows, if you're entitled to $1,000 in monthly benefits at your full retirement age of 66, if you choose instead to start benefits at age 62, your monthly benefit will be 25% lower, or $750. Conversely, if you wait until age 70 to begin benefits, the monthly amount jumps to $1,320, or 32% more than the $1,000 you would receive at age 66.



Source: Social Security Administration

Several variables might sway your decision. Waiting longer and receiving more each month could be advisable at a time when life expectancies are increasing and about one in every three 65-year-olds can now expect to live to age 90. Women, who tend to live longer than men, may want to do all they can to maximize their Social Security income. There's also the potential impact of your decision on the rest of the family. If you die before your spouse, he or she may be eligible for payment based on your work history. That amount could be reduced if you opt for early retiree benefits. Also, if you delay benefits, you may need money from other sources.

Finally, consider that you might decide to work past your full retirement age, perhaps on a part-time basis. That's generally an incentive to postpone payments.

Because this is such an important decision, take the time to weigh all of the variables of your particular situation. We can help you sort through the many possible alternatives. ●

Raiding A Roth Early? No Woes

What happens if you take funds out of a Roth IRA well before retirement? The tax ramifications might not be particularly dire. Early payouts are frequently tax-free, or mostly tax-free, even if you don't meet the requirements for "qualified" distributions.

It all has to do with the "ordering rules" for Roth IRAs. It's important to get a firm grasp on these rules so you can plan your withdrawals accordingly.

Contributions to a Roth IRA are never tax-deductible, but qualified distributions are tax-free. For this purpose, "qualified" means withdrawals made from a Roth you've had for at least five years if you've reached age 59½; the payout is because of your death or disability; or you use the funds to pay qualified homebuyer expenses (up to a $10,000 lifetime limit).

But sometimes you just can't wait until age 59½ or for the Roth IRA to hit the five-year mark. In this case, and assuming you don't have another viable alternative, you can raid the Roth for the funds you need. Is it a tax disaster? Not usually. The tax is computed under generous rules that can save you from owing anything. Specifically, distributions from a Roth IRA are treated as if they occurred in the following order:

- Roth IRA contributions. Because you didn't get a tax break when you put in this money, you aren't taxed when you withdraw it.
- Contributions from converting a traditional IRA into a Roth. The same principle applies here. Because you already were taxed on the distribution from the traditional IRA that went into your Roth, you can take out those funds without being taxed again.
- Contributions from converting nontaxable traditional IRA balances into a Roth. These, too, aren't subject to regular tax when you withdraw them from the Roth.
- Roth IRA earnings. These, finally, are taxable when withdrawn unless they meet the definition of qualified distributions.

Add Up Pluses And Minuses Of A Living Trust

A revocable living trust can be a valuable tool in your estate-planning kit, but it is not without its potential drawbacks. For starters, a living trust generally should be viewed as a supplement to a will rather than a replacement. You likely will need a valid will to tie up all the loose ends of your estate. Furthermore, how well a living trust will work often depends on state laws.

The basic premise is relatively simple: You establish a living trust, transfer assets to it, and name a trustee to handle its administration. If you designate yourself as the initial beneficiary, you're entitled to receive income from the trust for the rest of your life. But you also need to designate secondary beneficiaries—typically, your spouse, your children, or your spouse and your children—who will be entitled to receive the assets in the trust when it terminates.

Unlike with other kinds of trusts, you retain some measure of control of a living trust while you're alive. You may be able to sell trust assets and keep the cash, amend the terms of the trust (for example, by changing secondary beneficiaries), or revoke it entirely if you wish. The trust only becomes irrevocable when you die.

With that basic framework in mind, consider the pluses and minuses of a revocable living trust.

Pluses of a Living Trust

• It avoids probate. This is the main reason for using a living trust. Normally, if someone dies with a will in place, surviving family members will need to go through the probate process. Probate can be lengthy or short depending on the circumstances and state law. However, probate doesn't apply to the assets you've transferred to a living trust, so your beneficiaries have immediate access to cash. (Assets transferred by joint rights of survivorship also are exempt from probate.)

• It avoids guardianships and conservatorships: This benefit often is overlooked, but a fully funded living trust can sidestep restrictive rules relating to guardianships and conservatorships. If the trust is structured properly, successor trustees will have access to assets for your care without interference from a judge if you are incapacitated. Otherwise, a guardianship or conservatorship can last much longer than probate.

• It provides privacy. As opposed to probate, which is open to the public, the provisions of a living trust are protected from prying eyes. A will has to be filed with the appropriate court but a living trust does not. This can be a major advantage if you treasure your privacy.

• It helps you plan ahead. When you contemplate using a living trust, you'll need to examine your current assets to determine what to transfer to the trust. Sorting through your files can provide a snapshot of your financial picture that should have other benefits, too.

Minuses of a Living Trust

• It costs money. You'll need to use an experienced professional to set up a living trust, and in addition to that initial cost, you'll also pay annual fees if you use the professional as your trustee. (But you can be the sole trustee during your lifetime.) Generally, it costs more to create a living trust than to establish a will, but the living trust may be less expensive over the long run.

• It can be time-consuming. You're not done when you put your John Hancock on the living trust documents. You'll still need to contact financial institutions and transfer agents to change ownership of accounts; issue new stock certificates; revise business interests; sign and record real estate deeds; and re-title cars and other property.

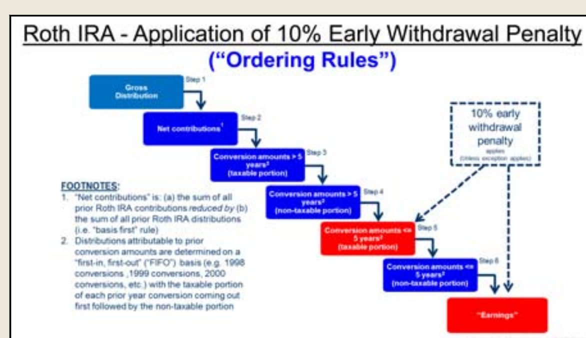
• It isn't a panacea. Don't expect a living trust to address all of your estate-planning issues. Having an up-to-date will often is still central to an estate plan. Also, if you devise a "pour-over will" to catch the assets that don't go into the trust when you die, that will still has to be probated. For some people, these issues cancel out the benefits of using a living trust in the first place.

• It can be contested just as a will can. In fact, state laws generally allow a longer time to challenge a living trust than they do for a will. And creditors still can make claims against the assets included in a living trust.

Finally, whatever you may have heard, there are no estate tax benefits for transferring assets to a living trust.

In the end, the decision whether to a use a living trust is a purely personal one. Obtain all the information and guidance you need. ●

These ordering rules can work in your favor. For example, suppose you have $100,000 in a Roth you established six years ago—$25,000 in contributions, $50,000 in taxable conversions, $15,000 in nontaxable conversions, and $10,000 in earnings. If you withdraw $35,000, the distribution is treated as having come from the $25,000 in contributions and $10,000 from taxable conversion contributions. So the entire payout is tax-free even though it isn't a qualified distribution.



Note that you'll have to pay tax at ordinary income rates for nonqualified distributions. In addition, there's normally a 10% tax penalty on such withdrawals made before age 59½.

Remember that withdrawing funds early from a Roth IRA isn't optimal, because it reduces the amount you'll have available in the future. However, it's comforting to know that you may be able to pull out cash tax-free if you need to. ●

What Are Latest Trends In Prenups?

Not so long ago, prenuptial agreements were only for the very rich. But more recently, they've become much more common, especially for spouses in same-sex marriages.

A prenuptial agreement—sometimes also known as an antenuptial or premarital agreement—is a contract that a couple signs prior to marriage. Details may vary, but a "prenup" generally addresses division of assets, including those that each spouse brings into the marriage and those that are earned during the union, as well as spousal support, if the parties dissolve the marriage. But other issues also may be touched upon—for example, that a spouse will have to forfeit assets because of adultery, or provisions relating to children from the union.

Even today, prenups often are viewed warily, because they anticipate a breakup of a marriage before the parties even say, "I do." But financial realities can supersede such concerns. It may not be romantic to mention it, yet it remains true that more than half of U.S. marriages end in divorce. Some proponents of prenups argue that such arrangements actually can reduce stress in a marriage, because both spouses know exactly what to expect if they do call it quits.

Much like a will, a prenup ensures that assets will be distributed in an agreed-upon manner. So it's important for both spouses to be up-front about their net worth. As part of the process, prospective spouses need to list all of their ownership interests and decide on an equitable distribution that suits their particular situation. Frequently, there's some give and take before the parties sign off, especially if one spouse has accumulated significantly more wealth than the other.

Note also that state law may have a major impact on such negotiations. "Community property" states may pose particular hurdles.

It used to be that prenuptial agreements applied only to marriage between a man and a woman. However, in the wake of the U.S. Supreme Court case invalidating part of the Defense of Marriage Act (DOMA), prenups for same-sex couples are on the rise. These couples, too, can use a prenup to resolve issues relating to assets accumulated prior to the marriage and during the union.

Another reason for same-sex couples to consider a prenup is the possibility that a marriage might end with one or both partners residing in a state that doesn't recognize same-sex marriages. The prenuptial agreement can provide adjustments based on this scenario.

Of course, having conversations before a marriage about which partner gets what if the union ends are bound to be awkward for both traditional and same-sex couples. But getting such things settled now may be worth the trouble if it helps avoid acrimony later. ●

Wall Street's Anachronistic Ways

(Continued from page 1)

was the No. 1 performing sector in 2014, soaring 24%. Along the same lines, six of the Wall Street firms panned Consumer staples and that industry's stock index gained a whopping 13% in 2014 — a gain you would have missed if you had followed Wall Street's advice.

Wall Street's Top Strategists' 2014 Track Record

Barron's 2014 Forecast[1] Survey of 10 stock market strategists' sector picks and pans for 2014

	Consumer Discretionary	Consumer Staples	Energy	Financials	Health Care	Industrials	Information Technology	Materials	Telecom Services	Utilities
Federated		👎				👍	👍	👍	👎	👎
Blackrock	👎	👎	👍				👍			👎
Barclays Capital		👍		👎		👍	👍	👎		👎
Columbia Mgmt.						👍	👍		👎	👎
Goldman Sachs	👍	👎				👍	👍		👎	👎
JPMorgan Chase	👍	👎		👍			👍	👍		👎
Citi Research	👎			👍	👎		👍	👎	👎	👍
Morgan Stanley	👎	👎	👎		👍		👍	👍		
Prudential		👎		👍		👍	👍	👎		
BofA Merrill Lynch	👎		👍		👍[2]	👍	👍		👎	👎
Net (+/-)	-2	-5	+1	+2	+1	+6	+10	0	-5	-6
Sector Ranking	6	5	10	4	2	7	3	8	9	1
2014 Return[3]	↑8%	↑13%	↓10%	↑13%	↑23%	↑8%	↑18%	↑5%	↓2%	↑24%
Results	Neutral	Miss	Neutral	Good call	Miss	Bad call	Good call	Neutral	Good call	Huge miss

Source: Fritz Meyer Economic Research

[1]Published Dec. 16, 2013.
[2]Pharmaceuticals. [3]These are S&P 500 sector returns for calendar 2014. Past performance is not a guarantee of future results. For illustrative purposes only.

The financial news media lack the wisdom or incentive to hold Wall Street accountable for giving bad financial advice. But Wall Street firms are a dying model for the financial advice profession and are being replaced by independent advisors like our firm, and Meyer's independent research is a clear indication of the reasons why. In the Internet age, transparency is inevitable, and Wall Street's outmoded ways are exposed as a relic of the past. The folly of the notion that big Wall Street firms can offer better financial advice than a small independent firm like ours is laid bare. ●

Tobias Financial Advisors
1000 S. Pine Island Road, Suite 250, Plantation, FL 33324 · Phone: 954-424-1660 · Fax: 954-424-9545 · www.tobiasfinancial.com

©2015 API