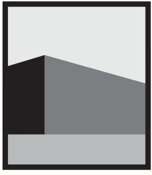


Cornerstone Circular

(440) 899-4000 | Cornerstone Wealth Management | Summer 2017

5 Steps To Realize An Early Retirement Dream

Have you dreamed about getting out of the rat race and retiring early? You could live a simpler life, pursue personal passions such as travel or recreation, and reduce your stress level. But you might think an early retirement is just for multimillionaires and out of your reach.

Think again. Early retirement doesn't have to be a pipe dream. It could become a reality through some diligent planning and dedication to your goals. These five steps may push you along the way:

Step 1: Plan on spending less. Don't give up if retirement planning calculators show you'll need much more than what you believe you conceivably can set aside. You can put a sizable dent in the "nut" you have to crack by significantly reducing your spending habits.

Remember that you won't be incurring commuting costs and a high-priced wardrobe for your job once you leave work. Furthermore, if you're hoping to travel around the world, you may be able to do it on a tighter budget than you thought. And simplifying your lifestyle—for example, maintaining just one car (or not even having one) instead of two—will provide savings.

Of course, life likely will throw you some curveballs, so be prepared for that, too. Build a cushion into your plan.

Step 2: Downsize your home. Part and parcel of the first step to early retirement is a reduction in housing costs. For most people, this is the single largest drain on savings. Do you really need that rambling colonial in the suburbs if your kids are grown and out of the house? This can be especially beneficial if the mortgage is paid off. You can sell the home at a sizable gain, move to a less expensive place, and pocket the difference.

Consider a retirement community if you're age 55 or older. If that's not the right fit, look for housing that's affordable but gives you the flexibility you want. For some early retirees, it's an apartment in a city with easy access to restaurants and stores.

Step 3: Secure adequate health insurance. One of those curveballs could be your health. Even if you're in reasonably good shape as you enter early retirement, there's no way to predict what will follow. And your retirement could last longer than you initially expected.

Medicare kicks in at age 65 and you can supplement it with another policy. Prior to that age, the Affordable Care Act (ACA) has made it easier for some people to retire early, but the future of the ACA, in this current climate, is in jeopardy. Conduct in-depth research to find health insurance policies that provide the necessary coverage at a cost you can handle. Depending on your situation, you might opt for a high-deductible plan. In any event, you can't go without health insurance!

If you expect to be traveling extensively, include this in your health insurance considerations. For instance, you may decide to obtain temporary travel

(Continued on page 4)

Convert To A Roth IRA Now To Avoid Higher Taxes Later?

Should you convert your traditional IRA to a Roth IRA? A key factor in this decision is taxes. If you expect to be in a higher tax bracket during retirement than you are now, a conversion may make perfect sense. But if you anticipate being in a lower tax bracket then, you could decide to sit tight.

With a traditional IRA, contributions may be wholly or partially deductible, but distributions generally are taxed at ordinary income rates. You never can deduct Roth contributions, but payouts from a Roth after five years are tax-free if you've reached age 59½ by then. The trick is to figure out whether the promise of future tax-free distributions is worth the current tax price on a conversion. The amount you convert will be treated as a distribution and taxed at your rate for ordinary income.

As you weigh your options, don't overlook the favorable tax rates for joint filers. For instance, a taxable income of $200,000 puts you in the 33% bracket as a single filer, but if you're married, that same income level puts you in only the 28% bracket as a joint filer. Remember, though, that if one spouse is significantly older than the other or in ill health, a surviving spouse may end up paying higher tax in retirement as a single filer. Similarly, an inheritance could push you into a higher bracket at that point.

Consider the tax variables carefully. They could create an incentive to convert to a Roth before your golden years.

ADVISOR PRODUCTS INC. NOT FOR DISTRIBUTION OR REPRODUCTION ©2017

Sticking With The Fundamentals

When financial advisors explain the reasons to invest in, or not invest in, particular stocks, they often refer to the "fundamentals" of the companies in question. Media pundits also may cite "fundamentals" in their stock prognostications. And corporate officers may brag about their companies' "fundamentals."

But what does it all mean? They're generally referring to fundamental analysis, a traditional school of thought in looking at companies' basic numbers as a way to evaluate profitability.

Unlike technical analysis of a company, which focuses on the recent trading and pricing history of the company's stock, fundamental analysis paints a broad picture of a company. This process identifies the fundamental value of the shares and leads to decisions to buy or sell the stock.

With technical analysis, you're trying to spot patterns that will help predict whether the fortunes of a company will rise or fall. In contrast, fundamental analysis involves profit margins, management decisions, growth potential, balance sheets, a company's role in a specific industry or sector, and political and other events, domestically and globally, that might affect its performance.

But fundamental analysis isn't limited to figuring out which stocks to buy and when to buy them. It is also about analyzing the timing of possible sales or purchases.

For example, when the stock market is booming, as it was at the start of 2017, investors are quick to jump on the bandwagon, while during times of stock market decline, the same investors often flee in a panic. That's what happened in 2008 and 2009, when the economy contracted and share prices fell by more than half. Of course, there are times when it makes sense to sell stocks, but it is best not to base such decisions based on fear.

A better idea is to take a closer look at the fundamentals. In doing so, you might ask—and get answers to

—these questions after a market decline has pushed down the price of a particular holding:

- Is the business model still solid?
- Have profit margins remained consistent?
- Is the company financially sound?
- Is the company likely to thrive over time?

If the answers are "yes," you may be well-served to retain your shares in the company for the long term. However, if the firm appears to be heading in the wrong direction, has shrinking profit margins, and sports a business model that is out of touch with changes in the industry, you probably should sell sooner rather than later.

Of course, you don't have to pour through financial reports and other documents to guide your decisions. If you invest in mutual funds, their professional managers are doing this work for you, analyzing company fundamentals to help them decide what to buy or sell to maximize their funds' performance. And we routinely help clients investigate stock fundamentals as they shape their portfolios. Please give us a call if you'd like to discuss your current and potential holdings. ●

5 'Other' Retirement Saving Ideas

Usually, experts will tell you that the best way to save for retirement is by putting money into a 401(k) plan, an IRA, or another well-known retirement saving vehicle. And they're usually right. But you may not have access to a 401(k), and the contribution limits for IRAs are relatively low. Or those options may not appeal to you for other reasons.

That doesn't mean you can't save for retirement. Here are five other possibilities you might consider:

1. Brokerage accounts: Unlike when you sell a holding from inside a tax-deferred retirement plan, the sale of stocks, bonds, or mutual funds in a brokerage account may result in current taxes. But the maximum tax bite for assets held longer than one year is only 15% or 20% for investors in the top ordinary income tax bracket. That's much better than the taxes you'll rack up when you eventually withdraw money from your retirement plans. Those distributions will be taxed at rates as high as 39.6%.

2. Annuities: An annuity is a contract with a financial institution that provides you with income for a term of years or for your lifetime. There are many kinds of annuities, and the amount you receive may be fixed or variable, perhaps depending on the performance of investments. You'll be taxed only when payments are made, but annuity income is taxed at ordinary income rates.

3. Real estate: There are no guarantees, but real estate investments may appreciate in value and provide steady income. If you own investment real estate (for example, a commercial building or an apartment complex), you can rent it to tenants and receive regular income. You also may be able to deduct certain expenses, including depreciation, to offset the tax due on that rental income. When you finally sell the property, any appreciation will be taxed at the rates for capital gains.

4. Small businesses: You might start a business and run the company yourself,

NOT FOR DISTRIBUTION OR REPRODUCTION ADVISOR PRODUCTS INC. ©2017 API

How To Diversify With Investment Real Estate

The potential benefit of diversifying your investments is straightforward. By holding many different kinds of assets, you reduce the risk of being hurt by a plunge in the worth of any one of them. While there are no guarantees, especially when markets decline, this often has proven to be a sound approach to investing.

But how do you diversify if most of your holdings are stocks? One popular option is to invest in real estate. That doesn't mean your personal residence. Although your home may appreciate over time, and if you profit when you finally sell it some or all of your gain may be exempt from taxes, it is better not to think of it as an investment. But other kinds of properties can help you diversify your portfolio.

Typically, real estate values don't move in synch with stocks and bonds. And whereas those financial assets may serve as "leading indicators," helping predict the way the economy is going, real estate values often increase and fall after, not before, other economic trends. Also, the market for real estate can vary significantly based on geography and other factors. When the market in one part of the country is hot, another could be ice cold.

So how can you invest in real estate? Consider these three common approaches:

1. Be a landlord. You might own an apartment building or a home in a resort area. Once you've made the down payment to purchase a property, you'll have both regular expenses—including property taxes and mortgage interest—and rental income. The goal, of course, is for your income to be greater than your expenses.

This arrangement also offers tax benefits, including the ability to offset the tax on rental income with deductions for expenses, including an annual depreciation allowance. In some cases, you may be able to deduct a loss. But special tax rules may apply to passive activities in which you're not actively participating in the rental activity. And if you rent out a vacation home that you also use personally sometimes, you'll need to be careful to stay within personal-use guidelines.

For larger or more complicated properties, you may need to enlist the services of a management firm. That's an additional expense and it may undercut your profits. But it can relieve you of some of the headaches of meeting your tenants' demands. It's important to consider all of the potential trade-offs before you become a landlord.

2. Be an indirect investor. Instead of diving headfirst into investment real estate by owning properties directly, you could buy shares in a real estate investment trust (REIT). A REIT is a corporate entity that invests in real estate properties much like the way mutual funds invest in stocks. Professional managers handle the portfolio. If it meets specified requirements, a REIT will be eligible for favorable tax treatment.

Although there are several types of REITs, the most common is the "equity REIT." It holds physical real estate properties—typically, shopping malls, hotels, hospitals, offices or timberland—that generate rental income. Some equity REITs focus on properties in just one geographic area. The properties usually are purchased as part of a portfolio of investments instead of being developed for resale.

3. Be a flipper. Landlords and REIT owners frequently invest for the long haul. But some investors use a shorter-term approach by trying to "flip" investment properties. In other words, they buy a property, renovate it, and try to resell it quickly at a profit. You've probably heard commercials on TV and radio extolling the virtues of the methods used by "experts."

But the risks here are even greater than for other investments in property or REITs. Flipping requires know-how and capital to get started. And, as with other real estate investments, you're subject to the vagaries of the marketplace and could be left holding the bag on properties that just won't sell. This is not for the faint-of-heart and generally is not recommended for casual investors.

Real estate often offers the potential for sizable rewards along with corresponding risks. If you decide to add this component to your portfolio, lean heavily on your financial advisors to help steer the course. ●

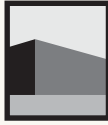
---

or you could invest in someone else's enterprise. The tax law provides a special exclusion for investments in "qualified small business stock" (QSBS) if you meet certain requirements. Such investments bring the chance of a big payoff, but they also can be risky. Many small businesses fail within their first years of operation.

5. Life insurance: Although life insurance technically isn't an investment for retirement, it could provide benefits that help fund your retirement. Typically, a policy offers protection for your spouse in retirement if you should die, and you can borrow against the cash value of some kinds of insurance. An added benefit is that life insurance proceeds are completely exempt from income tax. You may also be able to take withdrawals or arrange a tax-free exchange to an annuity or a long-term care insurance policy.

These are a few ways to think outside the box in deciding how to fund your retirement. Talk with your advisor about the ideas that will work best for you. ●

Annuities and real estate investments are income-generating investments that may offer attractive yields and distribution growth rates, but they are complex investments with unique tax characteristics and significant risks. As a result, annuities and real estate investments may not be suitable for all clients. It is important to understand all the features, characteristics and risks of any particular investment offering under consideration. Consult with a tax advisor before investing in annuities and real estate.



CORNERSTONE WEALTH MANAGEMENT

David A. Gomersall, CPA
Nick Dionisos, CPA
835 Sharon Drive, Suite 280
Westlake, OH 44145
(440) 899-4000
www.cornerstonewealthmgmt.com

ADVISOR PRODUCTS INC.
NOT FOR DISTRIBUTION OR REPRODUCTION
©2017, API

An Early Retirement Dream

(Continued from page 1)

insurance, based on your destinations.

Step 4: Maximize your investments. Saving more for retirement—and that includes how you invest your funds—may enable you to call it quits early.

Of course, everyone's situation is different. Put together a diversified portfolio that is aimed at your objectives while taking into account your personal risk tolerance. Frequently, your assets will involve a mix of stocks, bonds, mutual funds, and perhaps other investments such as real estate and exchange-traded funds (ETFs).

International investments, too, may be part of that mix, though such holdings bring special risks, including the potential that economic and political turmoil and currency fluctuations could affect the value of your investments.

Step 5: Count on taxes. Finally, don't dismiss taxes as a factor. Even if tax rates fall soon, they could rise again, and taxes always will erode your retirement savings to some degree. One strategy that may help is to move to a state with lower state tax rates.

Cashing in stocks during your retirement will result in capital gains, currently taxed at favorable rates, while distributions from retirement plans such as 401(k)s and traditional IRAs are taxed at higher rates for ordinary income. Also, payouts you take before age 59½ may be hit with a 10% tax penalty. (Roth IRA distributions can be tax-free, but you still may be penalized if you withdraw funds too early.) Remember that you must begin taking required minimum distributions (RMDs) from most retirement plans and traditional IRAs after age 70½. In addition, Social Security benefits may be subject to tax.

These and other steps can help take you closer to your dream of early retirement. ●

Income-generating investments such as stocks, bonds, mutual funds, ETFs and real estate may offer attractive yields and other benefits, but they are complex investments with unique tax characteristics and significant risks. As a result, these investments may not be suitable for all clients. It is important to understand all the features, characteristics and risks of any particular investment offering under consideration. Consult with a tax advisor before investing in such income-generating investments.

Articles written by a financial journalist hired by Cornerstone Wealth Management and are general information not intended as advice to individuals.

©2017 API