Nicholson Financial Services

Did You Know...?

Nicholson Financial Services, Inc.
David S. Nicholson
Financial Advisor
89 Access Road
Ste. C
Norwood, MA 02062
781-255-1101
866-668-1101
david@nicholsonfs.com
www.nicholsonfs.com

I mentioned in my Spring newsletter that I expected more volatility and more of a "sideways" pattern for at least the first half of the year. So far, that has not been the case. In fact, we have seen surprisingly *low* volatility and the trend has remained positive. Since 4/16, the DJIA has experienced only three days of greater than average volatility (a move greater than 1% in a day). Two of those days were up to only one down. Historically, summer has been a time of low volume as half of Wall Street is out at the Hamptons. This year has been no different. However, overall, we continue to see improving economic conditions, investor sentiment, corporate profits and balance sheets. That has kept the market's jitters to a minimum. Although there are still issues that concern me, I don't think the markets are overreacting to the headlines. It would not surprise me to see the stock markets have a good finish to the year.

Nicholson Financial Services, Inc. is an independent firm.

Summer 2014

RAYMOND JAMES®

Financial Myths, Mistakes, and Misunderstandings

Throughout our financial lives, we may be influenced by myths, mistakes, and misunderstandings (MMMs). Here are just a few.

In the beginning . . .

"I don't invest because I don't know much about it." It's time to learn, because a basic understanding of investing concepts can help you make more informed financial decisions.

"Wow, they'll give me that much credit! I must be able to handle it." Just because the credit-card company or bank extends a large amount of credit to you, it doesn't mean you should use all of it. The more you borrow, the larger the monthly payments, and before you know it, you've bitten off more than you can chew. Figure out how much you'll owe based on the amount you borrow and determine if it will fit within your budget. Generally speaking, if you can't afford the payment, don't incur the debt.

"I'm young. I'll worry about retirement when I'm older." Planning for retirement involves saving enough by a desired age to enable you to support yourself without having to work. If you wait to begin saving for retirement, you'll have to sock more away or put off retirement to a later date. So the earlier you begin saving, the better.

Go figure

Sometimes we think we know something and rely on it as being correct, when in fact it couldn't be further from the truth.

"I know my finances like the back of my hand. I don't need to write them down." You'd be surprised how often we think we know how much we can afford until our bills start to exceed our income. If you write down your expenses and income (e.g., create a spending plan or budget), you'll know how much you can spend.

"I'll dip into my retirement account and make it up later." First, if you borrow from your 401(k), you'll likely pay fees and interest. If you take money from a traditional IRA, you'll pay income tax on the amount you take and possibly a 10% penalty. Remember, these accounts are intended for retirement. Taking money out now increases the risk you might run out of money during retirement.

"My child will pay back the money I loaned to him or her." Good luck. That "loan" is probably going to turn into a gift, which isn't necessarily a bad thing if it really helps your child, but be sure you can afford the loan/gift before making it.

And later on . . .

As we get older, we may fall prey to some MMMs that can be the source of needless angst, such as:

"I won't need as much income in retirement." Maybe, but it might be a mistake to count on it. In fact, in the early years of retirement, you may find that you spend just as much money, or maybe more, than when you were working, especially if you are still paying a mortgage. And don't forget to factor in increasing health-care costs.

And speaking of health care, **"the new health-care law cuts my basic Medicare benefits and services."** Just the opposite is true. The Affordable Care Act (ACA) mandates that no guaranteed Medicare benefits are cut. In fact, the ACA expands Medicare benefits to include a free annual wellness assessment.

And finally, **"If I die without a will, the state will get my assets and property."** This isn't necessarily true. Each state has intestacy laws, which determine who gets what when someone dies without a will. But those laws generally deal with assets in your name at your death that don't have a designated beneficiary or joint owner. In any case, if you want to have some say in who will inherit your assets after your death, you need to prepare an estate plan, which probably includes a will.

10 Basic Tax To-Dos for the Rest of 2014

Here are 10 things to consider as you weigh potential tax moves between now and the end of the year.

1. Make time to plan

Effective planning requires that you have a good understanding of your current tax situation, as well as a reasonable estimate of how your circumstances might change next year. There's a real opportunity for tax savings when you can assess whether you'll be paying taxes at a lower rate in one year than in the other. So, carve out some time.

2. Defer income

Consider any opportunities you have to defer income to 2015, particularly if you think you may be in a lower tax bracket then. For example, you may be able to defer a year-end bonus or delay the collection of business debts, rents, and payments for services. Doing so may enable you to postpone payment of tax on the income until next year.

3. Accelerate deductions

You might also look for opportunities to accelerate deductions into the 2014 tax year. If you itemize deductions, making payments for deductible expenses such as medical expenses, qualifying interest, and state taxes before the end of the year, instead of paying them in early 2015, could make a difference on your 2014 return.

Note: *If you think you'll be paying taxes at a higher rate next year, consider the benefits of taking the opposite tack--looking for ways to accelerate income into 2014, and possibly postponing deductions.*

4. Know your limits

If your adjusted gross income (AGI) is more than $254,200 ($305,050 if married filing jointly, $152,525 if married filing separately, $279,650 if filing as head of household), your personal and dependent exemptions may be phased out, and your itemized deductions may be limited. If your 2014 AGI puts you in this range, consider any potential limitation on itemized deductions as you weigh any moves relating to timing deductions.

5. Factor in the AMT

If you're subject to the alternative minimum tax (AMT), traditional year-end maneuvers such as deferring income and accelerating deductions can have a negative effect. Essentially a separate federal income tax system with its own rates and rules, the AMT effectively disallows a number of itemized deductions, making it a significant consideration when it comes to year-end tax planning. For example, if you're subject to the AMT in 2014, prepaying 2015 state and local taxes probably won't help your 2014 tax situation, but could hurt your 2015 bottom line. Taking the time to determine whether you may be subject to AMT before you make any year-end moves can save you from making a costly mistake.

6. Maximize retirement savings

Deductible contributions to a traditional IRA and pretax contributions to an employer-sponsored retirement plan such as a 401(k) could reduce your 2014 taxable income. Contributions to a Roth IRA (assuming you meet the income requirements) or a Roth 401(k) plan are made with after-tax dollars, so there's no immediate tax savings. But qualified distributions are completely free from federal income tax, making Roth retirement savings vehicles appealing for many.

7. Take required distributions

Once you reach age 70½, you generally must start taking required minimum distributions (RMDs) from traditional IRAs and employer-sponsored retirement plans (an exception may apply if you're still working and participating in an employer-sponsored plan). Take any distributions by the date required--the end of the year for most individuals. The penalty for failing to do so is substantial: 50% of the amount that should have been distributed.

8. Know what's changed

A host of popular tax provisions, commonly referred to as "tax extenders," expired at the end of 2013. Among the provisions that are no longer available: deducting state and local sales taxes in lieu of state and local income taxes; the above-the-line deduction for qualified higher-education expenses; qualified charitable distributions (QCDs) from IRAs; and increased business expense and "bonus" depreciation rules.

9. Stay up-to-date

It's always possible that legislation late in the year could retroactively extend some of the provisions above, or add new wrinkles--so stay informed.

10. Get help if you need it

There's a lot to think about when it comes to tax planning. That's why it often makes sense to talk to a tax professional who is able to evaluate your situation, keep you apprised of legislative changes, and help you determine if any year-end moves make sense for you.

AMT "triggers"

You're more likely to be subject to the AMT if you claim a large number of personal exemptions, deductible medical expenses, state and local taxes, and miscellaneous itemized deductions. Other common triggers include home equity loan interest when proceeds aren't used to buy, build, or improve your home, and the exercise of incentive stock options.

IRA and retirement plan contributions

For 2014, you can contribute up to $17,500 to a 401(k) plan ($23,000 if you're age 50 or older) and up to $5,500 to a traditional or Roth IRA ($6,500 if you're age 50 or older). The window to make 2014 contributions to an employer plan generally closes at the end of the year, while you typically have until the due date of your federal income tax return to make 2014 IRA contributions.

RAYMOND JAMES®

The Potential Pitfalls of DIY Estate Planning

The one-size-fits-all, fill-in-the-blank forms that do-it-yourself estate planning sources provide may be attractive to some individuals because they cost a fraction of what attorneys typically charge. But is saving a few dollars worth the risk of doing things incorrectly?

Americans, by and large, are do-it-yourselfers. Books, websites, software programs, and even giant box stores exist solely to help ambitious Americans tackle all kinds of everyday challenges, from fixing leaky faucets to building backyard sheds. The same holds true for estate planning--there's certainly no dearth of information for those wanting to prepare their own wills and other important documents. However, do-it-yourselfers may want to exercise a bit of caution here.

Although do-it-yourself (DIY) estate planning can cost a fraction of what attorneys charge, depending on your personal situation, this may be a case of being penny-wise and pound-foolish.

Cheap, easy, and better than nothing

Proponents of DIY estate planning typically have two arguments:

1. **It's cheap and easy:** Creating a will and other estate planning documents on your own can cost far less than doing so with an attorney's assistance. You can find resources online and in the library that could help.
2. **It's better than nothing:** What happens if you die or become very ill without important estate planning documents? In that case, the state will make important decisions for you, such as how your property will be distributed, who will care for your minor children, and what medical care you'll receive if you are unable to make your wishes known.

These points are valid: For those who cannot afford to pay an attorney, DIY may be an economical alternative. For others, a poorly drafted will may be better than no will at all, especially when naming a guardian for minor children is involved. But there are several risks to DIY estate planning, including the risk that your wishes will not be carried out exactly as you intend.

Basic is not always ideal

Although DIY sources can typically handle the needs of simple estates, they generally are not appropriate for even the most common complexities such as children from a prior marriage, children with special needs, property that has appreciated in value resulting in capital gains, and estates that are large enough to be subject to estate taxes (typically those worth more than $5,340,000 in 2014). Also, DIY sources generally fail to take advantage of sophisticated estate planning strategies because they usually can't account for an individual's unique circumstances.

Further, you may make an error by failing to understand the instructions or by following the instructions incorrectly.

The result is that the documents you create could be invalid, ineffective, or contain legal language having consequences you never intended. You might not know if that is the case during your lifetime, but at your death your loved ones will find out and may suffer the lasting consequences of your mistakes.

You may benefit from legal advice

DIY sources provide forms but not legal advice. In fact, these sources clearly state that they are not a substitute for an attorney, and that they are prohibited from providing any kind of legal advice.

Estate planning involves a lot more than producing documents. It's impossible to know, without a legal education and years of experience, what the appropriate legal solution is to your particular situation and what planning opportunities are available. The actual documents produced are simply tools to put into effect a plan that is specifically tailored to your circumstances and goals.

Estate planning laws change

Laws are not static. They constantly change because of new case law and legislation, especially when it comes to estate taxes. Attorneys keep up with these changes. DIY websites, makers of software, and other sources may not do as good a job at keeping current and up-to-date.

Fixing mistakes can be costly and time-consuming

As previously stated, working with an attorney to create your estate planning documents can be very expensive, costing anywhere from several hundred to several thousands of dollars, depending on the complexity of your estate. But these costs are minor compared to the costs and frustrations that your loved ones may experience if there are serious errors in your DIY estate plan. Many more thousands of dollars and many hours with attorneys may have to be spent to undo what was done wrong. Before embarking on a DIY estate plan, consider these risks very carefully.

RAYMOND JAMES®

Nicholson Financial Services, Inc.
David S. Nicholson
Financial Advisor
89 Access Road
Ste. C
Norwood, MA 02062
781-255-1101
866-668-1101
david@nicholsonfs.com
www.nicholsonfs.com

I just learned that my credit- and debit-card information was part of a data breach. What should I do?

Now, more than ever, consumers are relying on the convenience of credit and debit cards to make everyday purchases, such as gas and groceries, and to make online purchases. With this convenience, however, comes the risk of having your account information compromised by a data breach.

In recent years, data breaches at major retailers have become commonplace across the United States. Currently, most retailers use the magnetic strips on the backs of credit and debit cards to access account information. Unfortunately, the account information that is held on these magnetic strips is also easily accessed by computer hackers.

While many U.S. banks and financial institutions are in the process of replacing the older magnetic strips with more sophisticated and secure embedded microchips, it will take time for both card issuers and retailers to get up to speed on these latest card security measures.

In the meantime, if you find that your account information is at risk due to a data breach, you should make it a priority to periodically review your credit card and bank account activity. If you typically wait for your monthly statement to arrive in the mail, consider signing up for online access to your accounts--that way you can monitor your accounts as often as needed. If you see suspicious charges or account activity, you should contact your bank or credit-card company as soon as possible.

In most cases, your bank or credit-card company will automatically issue you a new card and card number. If not, request to have new cards and card numbers issued in your name. As an additional precaution, you should also change the PIN associated with the cards.

Whether you will be held liable for the unauthorized charges depends on whether the charges were made to your credit- or debit-card account and how quickly you report them.

For more information on your rights if you are affected by a data breach, visit the Federal Trade Commission and Consumer Financial Protection Bureau websites.

I'm purchasing a new laptop. Should I also purchase an extended warranty to go along with it?

If you've ever purchased an electronic device or major appliance, chances are you've been asked if you also wanted to purchase an extended warranty or service contract. Extended warranties are offered by retailers for an additional cost to customers and provide repair or product maintenance for a specific period of time.

For many retailers, selling extended warranties makes up a large part of their business. It's an easy way for them to make money because they get to keep a percentage of what they charge for the service contracts.

Before you purchase an extended warranty for your laptop, consider the following questions.

- Does your laptop come with a manufacturer's warranty? Most technology products already come with a warranty from the manufacturer that covers replacement or repairs within a certain time period, typically one year.
- Will the manufacturer's warranty overlap with the extended warranty? You may want to forgo purchasing an extended warranty if it will result in duplicate coverage for your laptop.
- Do you plan on purchasing your laptop from a well-known manufacturer? Research online product reviews regarding your laptop's reliability. If you purchase a reliable product, most problems you'll encounter will typically occur outside of any extended warranty period.
- If your laptop does need repairs, will they be costly? You should weigh the cost of the extended warranty against what it will cost to pay for the repairs out-of-pocket.

Finally, if you do end up purchasing an extended warranty, read the terms carefully. Many extended warranties contain exceptions and limitations regarding what is and isn't covered. In addition, some extended warranties may also add on additional charges to have a covered product serviced (e.g., deductibles, fees, and shipping costs).

RAYMOND JAMES®