

To Your Future Prosperity

REFLECTIONS

Client Newsletter



WINDGATE
WEALTH MANAGEMENT

www.windgatewealth.com



Sean Condon CFP®
Financial Planner

If you've never worked with a financial advisor before, you might be curious what all the buzz is about. Why pay someone to help manage your money when you can just do it yourself? Is there any added value in working with an advisor, or is it just an extra expense?

Let's take a brief look at what a financial advisor really does, whom they can help, and why you should (or shouldn't) work with one.

What Financial Advisors Do

The main purpose of a financial advisor is to help you build a personalized wealth-building strategy. The key word here is personalized. Financial advisors provide value because there is no such thing as a one-size-fits-all plan. With a personalized approach, an advisor can help you:

1. Clarify your goals
2. Show you how to make progress
3. Keep you accountable



If you have any questions or comments, or if you know of any friends or family that might benefit from our services, please give us a call at 844.377.4963

• Your Account Online

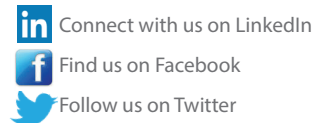
You can log-in to your personal financial website at www.windgatewealth.com by going to the "see all accounts" tab

What Does An Advisor Really Do?

Could a Donor-Advised Fund Save You Money on Taxes?

Why It's Important to Rebalance Your Portfolio Each Year

Uncovering Your Financial Blind Spots



Understanding your goals; an advisor helps you identify where you are now financially and where you'd like to be. Then they create a custom plan to "bridge the gap." But the big secret about working with an advisor is that financial planning is not about the plan, it is about the process.

While everybody wants a clean, straight line between their current reality and their goals, life doesn't work this way. You may have a child, sell a business, or come upon unexpected expenses. Your situation is always changing and therefore your goals themselves may change. We all have our own financial blind spots and when situations change, a good advisor can help you spot them and make course corrections.

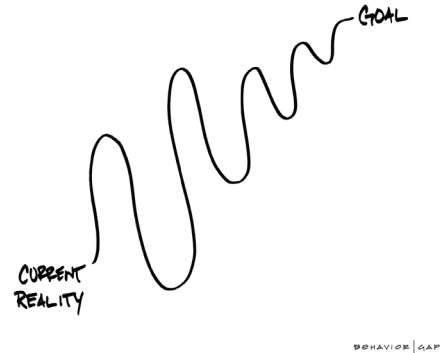
This ongoing relationship with an advisor will enable you to spend less time worrying about your money and more time on what's important to you and your family.

Who Can an Advisor Help?

There's an old saying that the checkbook and the calendar don't lie. Show someone how you spend your money and how you spend your time and they will know what's important to you.

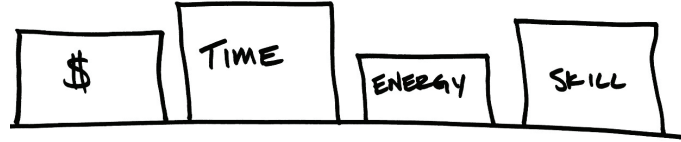
An advisor can help you save both money and time, leaving more opportunities to pursue and enjoy the things you love. Simply put, an advisor can help anyone who is looking to dedicate more of their time, energy, and skill to areas other than their personal finances.

The degree to which you'll benefit from an advisor's guidance depends on the complexity of your situation. If you own a company, have multiple income sources, invest in several portfolios (including company 401(k)'s), actively seek tax savings with a CPA and estate planner, then you are very likely to benefit. On the other end of the scale, if you are a young single professional renting your home, you have an easier task in doing it yourself. That said, even those with simpler finances can benefit from knowing if they're on track to achieve their goals and what they need to change if they are not.



WHAT DOES AN ADVISOR REALLY DO FOR YOU? (CONTINUED)

THINGS YOU HAVE TO INVEST



BEHAVIOR | GAP

Is An Advisor Really Necessary?

It is probably true that you can manage your own finances if you had the time, inclination and training. But the fact is, most successful entrepreneurs and professionals simply don't. It's also important to understand that investing isn't all about skill. It's about emotion. And it's extremely hard for anyone to maintain objectivity and not make emotional decisions about their own money.

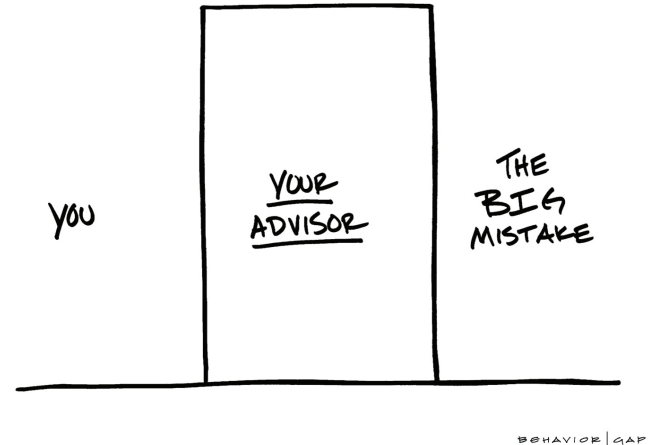
We attended a financial industry conference where the speaker asked how many people in the audience used a financial advisor. Most hands in the room went up. It was surprising on the surface: a room full of financial advisors, many working with a financial advisor? What they realized however is that we all have financial blind spots, and by definition you can't see your own.

A financial advisor can get between you and that big mistake – be it budgeting/saving, investment decisions, or potential tax issues. Advisors can be objective, making it easy to call out behaviors that aren't making sense. You want an advisor who has his or her interests aligned with yours, who cares as much about your money as you do, and yet can provide an emotional distance to help you make good decisions.

Portfolios Designed with Purpose

Think of your cash flow and your portfolio as the engines that drive your financial plan. Look under the hood of a car and you'll see the orderly parts of a well-organized, synchronized machine. Look at the statements of most investor portfolios (and we do say this with experience), and you're likely to see a variety of holdings that might be called anything from a loose collection to a wild smorgasbord.

This is understandable, as the investments we collect when managing our own money can come from a variety of sources: inheritance of a mutual fund, company stock from a rollover, several stock picks we read about in a book five years ago, etc. The end result is that many investors end up with a big pile of investments that don't make any sense together.



A financial advisor can help you correct this problem by using a disciplined process to build your portfolio. In an intelligently designed portfolio, each piece works together on behalf of your goals. It is designed on purpose. This fundamental aspect of financial planning can lead to real results. Vanguard's study Advisor Alpha suggests that clients of financial advisors can earn about 3% more than those without one based on the implementation of a disciplined process.

Portfolio design is not the only area where a disciplined process can help you build wealth and reach your goals. Spending, and [withdrawal strategies](#), [tax management](#), portfolio rebalancing, [behavior management](#), and [strategic gifting](#), just to name a few, are all part of an integrated personal financial plan that provides value when working with an advisor.

Think of your cash flow and your portfolio as the engines that drive your financial plan.

COULD A DONOR-ADVISED FUND SAVE YOU MONEY ON TAXES?



This last tax season was full of surprises. Thanks to the Tax Cuts and Jobs Act, most people went into it having no idea what the end result would be. How did it turn out for you? Did you end up taking the standard deduction when you usually itemize? If so, were you able to get credit for all of your charitable giving?

How The Tax Cuts and Jobs Act Affects Charitable Giving

One of the areas where many people were affected with the new Tax Cuts and Jobs Act is charitable giving. If you are charitably inclined, you are probably used to itemizing your deductions. However, with the increased standard deduction and the limit on deductions for state and local taxes, you may not have received as much of a tax benefit for your giving as you have previously.

Here's an example. Let's assume that for both 2017 and 2018 you and your spouse paid:

- \$8,000 in state and local taxes
- \$7,000 in property taxes
- \$6,000 in mortgage interest
- \$10,000 in charitable gifts

For 2017, your itemized deductions would total \$31,000, which is \$18,300 more than the standard deduction of \$12,700 for a married couple.

However, under the new law, in 2018 you could only deduct up to \$10,000 of the state, local, and property taxes you paid. This means your itemized deductions would only total \$26,000. The new standard deduction for a married couple is \$24,000, so your itemized deduction is only \$2,000 more than what you get to deduct anyway. Basically, you only get a tax benefit (\$2,000 deduction) for a fifth of your charitable giving (\$10,000).

What is A Donor-Advised Fund?

This new limit on property and state tax deductions is one of the reasons why donor-advised funds (DAF) are gaining popularity. A DAF acts as a philanthropic savings account. You put money into it for the purpose of giving to charity and let it accumulate until you are ready to make your donation. However, unlike a savings account, all contributions are irrevocable. Once you put an asset into a DAF, you can't take it back.

Because you can't take back your contributions, they are considered complete charitable gifts and immediately tax-deductible. You can take the tax deduction right away even if you wait several years to pass the money on to charity. Though you don't technically retain ownership when you put money or assets into a DAF, you still retain control. You get to name your DAF account, advisors, successors, and beneficiaries.

What Are the Tax Benefits of a Donor-Advised Fund?

DAFs offer several tax benefits. First, you get to take an immediate deduction when you contribute, even if the money has yet to be given to the charity of your choice. Any limit to the deduction you're allowed to take depends on what kind of assets you contribute to the DAF.

Publicly traded securities are a popular asset to contribute to a DAF. [This is because you can avoid paying long-term capital gains taxes and still deduct the fair market value of the securities \(if held over a year\).](#) If you buy a security at \$100 and put it in a DAF when it's worth \$200, you get to deduct \$200 of charitable giving without paying taxes on the \$100 in gains.

Contributions of long-term capital gain property, like appreciated securities, can be deducted up to 30% of adjusted gross income (AGI). For all other contributions, including cash, you can deduct up to 50% of your AGI. If your contributions exceed your deductible limit, you can carry them forward to the next tax year.

Also, all contributions can be invested within the DAF to grow tax-free. Once assets are in a DAF, they belong to a charity and are therefore exempt from taxes.

COULD A DONOR-ADVISED FUND SAVE YOU MONEY ON TAXES? (CONTINUED)

How Are Donor-Advised Funds Used?

Let's return to our previous example and assume all your spending numbers will be the same for the years 2019 and 2020. The 2019 standard deduction for a married couple is \$24,000 and we will assume it stays the same for 2020. If you continue to give \$10,000 to charity a year and itemize as usual, then you will have itemized deductions of \$26,000 each year. That means you only receive a tax benefit for \$1,600 of your giving each year and your total deductions over the two years are \$52,000.

Assume, instead, that you open a donor-advised fund in 2019 and contribute \$20,000 to it to cover your charitable giving for 2019 and 2020. In 2019, you will have itemized deductions of \$36,000. Then, in 2020, you can simply take the standard deduction since you have no charitable giving to report. Your total deductions over the two years will be \$60,400.

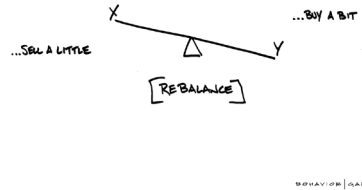
By utilizing a donor-advised fund, you end up with \$8,400 more in deductions over the course of two years. If you are in the 35% tax bracket, that's a tax savings of nearly \$3,000, money which can be put toward the causes you believe in. And if you donate appreciated securities to the DAF and avoid your embedded capital gains, your tax savings will be even greater.

How a Donor-Advised Fund May Work for You

Donor-advised funds make it possible to continue receiving a tax benefit for charitable giving even with the new higher standard deductions. If you are a generous giver and want to learn more about how a donor-advised fund can save you money on taxes, call (844) 377-4963 or email windgate@windgatewealth.com for a complimentary consultation.

Donor-advised funds make it possible to continue receiving a tax benefit for charitable giving even with the higher standard deductions.

WHY IT'S IMPORTANT TO REBALANCE YOUR PORTFOLIO EACH YEAR



We believe that rebalancing your portfolio should be done regularly. Although it may feel completely counter-intuitive, it can make or break your investing progress because it can help reduce portfolio risk and maintain your established asset allocation. But what does “rebalancing” mean?

It's not complicated, though it may seem backwards at first. Rebalancing means selling some of your better performing investments and buying a bit of your laggards (“sell high” and “buy low”). The goal is to reestablish your target asset allocation. Here's an example:

For simplicity's sake, let's say your desired asset allocation is 70% stocks and 30% bonds (this will vary based on your personal situation and [the idea that your portfolio has been designed with purpose](#)). As time goes on, stock prices rise, causing your allocation to shift to 80% stocks and 20% bonds. To rebalance your portfolio to 70/30, you'd have to sell some stocks and buy more bonds.

It sounds simple. But don't be surprised if it feels wrong.

Rebalancing Can Be Difficult to Execute

Intuitively it feels wrong to sell the best performing assets in your portfolio and buy more of the worst. After all, we'd make the opposite decision in almost any other area outside of investing. For example, if you own a business with two divisions and one is doing poorly while the other is thriving, it's reasonable to consider terminating the underperforming unit and re-allocating resources to the successful one.

Investing is different. There's an old saying that great companies make for great investments at great prices. Remember that the investment in your portfolio that has gone up in value has also gone up in price. It is, in effect, more expensive to buy (or hold). Respectively, the investment that has gone down in value is now less expensive. It's like an item that goes on sale and is now available at a discount.

Because markets tend to work in cycles, it's likely that the underperforming assets may soon be back in favor as investors begin to feel that they are priced at a discount and provide good opportunity. This is the classic scenario of buy low, sell high.

Rebalancing Reduces Risk

So, while it's tempting to double up on your winners, we know this isn't always wise. Not only does it go against the fundamental reasoning of "buy low, sell high," but it also adds risk. If one asset class starts to constitute too much of your portfolio, it means you have too many eggs in one basket. If that asset class starts crashing, a sizeable chunk of your portfolio will fall with it.

This goes both ways. If an asset class performs poorly and starts to make up less of your portfolio, you now have too few eggs in one basket. If you fail to rebalance and this asset class starts doing well, you won't be able to take full advantage of it.

If you never rebalance your portfolio, your allocation will gradually shift so you're no longer invested according to your risk tolerance (either too aggressive or not aggressive enough).

A general recommendation is to rebalance every year. This is a good guide for most people, although the best method is to create a disciplined process to rebalance whenever an asset allocation changes by a predetermined percentage.

Rebalancing Allows for a Deep Inspection

Rebalancing is not only a time to balance asset allocation, but it's also a time for balancing investments within each asset class.

For example, you may look at the small-cap stock funds and realize one fund has grown substantially more than the rest. When this happens, try to fight your natural reaction to buy more of this investment. If you follow the "buy low, sell high" philosophy, you would sell some of this high-performing fund to buy more promising underperforming funds. This way, you'll decrease risk by not having one investment representing too much of an asset class, and potentially gain more upside on the undervalued asset.

It should be noted that rebalancing can potentially trigger tax consequences when done in taxable accounts (i.e., outside of IRAs or retirement plans). These potential tax issues should be considered in relation to the benefits of rebalancing. As always, check with your tax advisor.

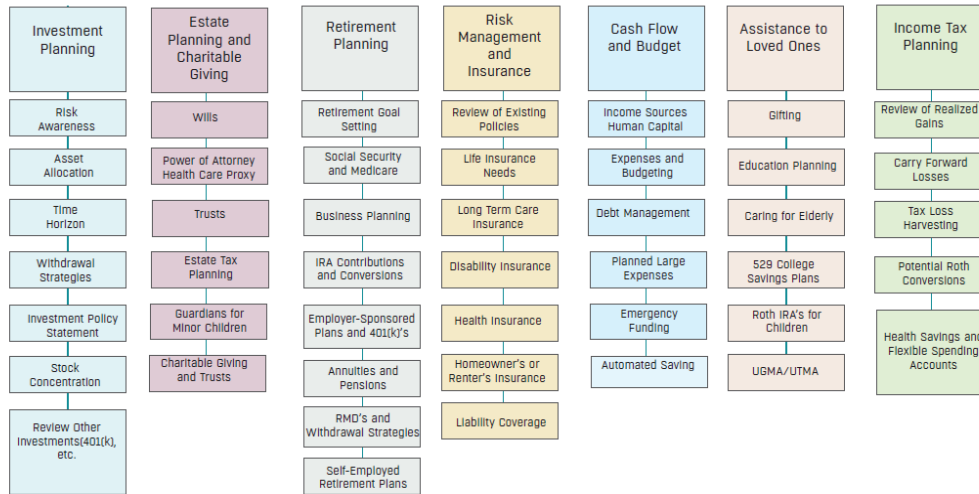
Next Steps

It would be easy if creating your portfolio were a "set it and forget it" type of deal. Unfortunately, it shouldn't be. Investment management requires regular maintenance and upkeep. If neglected, your performance will suffer. That's why it's a smart idea to work with a professional advisor who can keep an eye on it for you.

IS IT TIME FOR A FINANCIAL PLANNING REVIEW?

With the end of the calendar year fast approaching, we are working diligently to make sure year-end goals are planned for properly. Whether it is tax planning, changes in investment risk tolerance, or future cash needs, we are ready to listen and take appropriate action. And if you can't think of any financial needs that call for a discussion, the image below titled "Uncovering Your Financial Blind Spots" may help you reconsider items that matter. If you'd like to discuss any of the items below, or other topics on your mind, email windgate@windgatewealth.com or call us at 844-377-4963.

Uncovering Your Financial Blind Spots



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