

FINANCIALink

Your Money Management Newsletter

TARANTO FINANCIAL SERVICES & CPAs

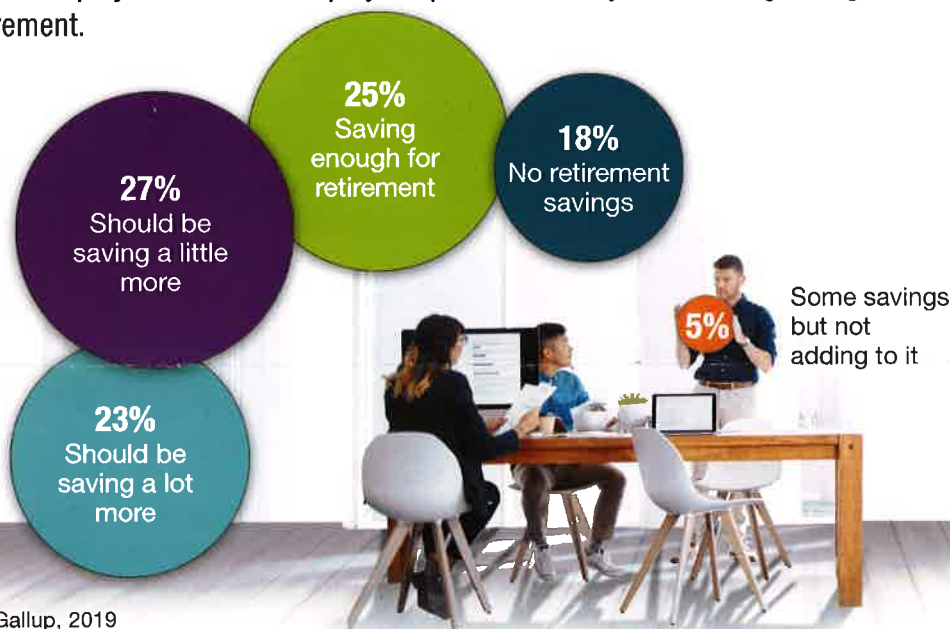
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Gregory Taranto, CPA

Good News, Bad News for Retirement Savings

In an April 2019 poll, 57% of nonretired Americans said they were confident they would have enough money to live comfortably in retirement, up from 51% in 2018 and the highest percentage since 2004. However, this optimism may be due more to a strong economy and stock market than increased savings. Only 25% of those who were employed or had an employed spouse said they were saving enough for retirement.



Source: Gallup, 2019



88%

Decline in Chinese investment in the United States from an all-time high of \$46.5 billion in 2016 to a nine-year low of \$5.4 billion in 2018. The big drop may be due to a combination of China's stronger government controls on Chinese investors abroad and increased U.S. scrutiny of foreign investments.

Source: The Hill, July 22, 2019

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Practical insights for your **FINANCIAL GOALS**

Give and Receive with a Charitable Remainder Trust

Scientific research suggests it really is better to give than to receive — that spending money for the benefit of others may lead to longer-lasting happiness than spending money on yourself.¹ However, by structuring a donation using a charitable remainder trust (CRT), you might have the best of both worlds: a substantial gift to your favorite charity and a flow of income during your lifetime.

To understand the potential benefits of a CRT, consider what would typically occur if you sold assets, such as securities or property, in order to give the proceeds to a charitable organization. In most cases, you would incur capital gains taxes on any appreciation in asset value, which would reduce the value of your charitable contribution (if you paid the taxes out of the proceeds) or require an out-of-pocket expenditure. Although you might receive an income tax deduction in the year of your donation, you would receive no further financial benefit from the contribution.

A Strategic Approach

With a CRT, you donate by first placing the assets in the trust. In addition to naming the charitable organization as the first beneficiary, you can designate an income beneficiary — yourself or anyone else you choose — to receive specified payments from the trust for a set term of up to 20 years or for your lifetime (or the lifetime of your surviving spouse or designated beneficiary). Income payments must be made at least once a year and may be fixed or variable depending on the type of CRT you use. Upon your death (or the death of your surviving spouse or designated beneficiary), the assets in the trust go to the charity.

After the assets are transferred to the charitable trust, the trustee may sell them and reinvest the proceeds in income-producing assets without incurring capital gains taxes. This maintains the full asset value to fund your specified income

and could increase the ultimate value of the gift to the charity.

Although the annual trust income is usually taxable, you may qualify for an income tax deduction based on the estimated present value of the remainder interest that will eventually go to the charity.

Types of CRTs

A CRT can be an *inter vivos* (living) trust funded during your lifetime or a *testamentary* trust funded at your death for the benefit of your heirs. In either case, there are two basic types of CRTs, with significant differences in the payment structure.

A **charitable remainder annuity trust (CRAT)** pays a fixed percentage of the trust's initial value to the donor (or selected beneficiary) each year. A **charitable remainder unitrust (CRUT)** pays a set percentage of the trust's annual fair market value to the donor (or selected beneficiary) as income each year. The appropriate structure depends on your personal preference and situation, including your age, risk tolerance, and income needs, as well as the type of asset.

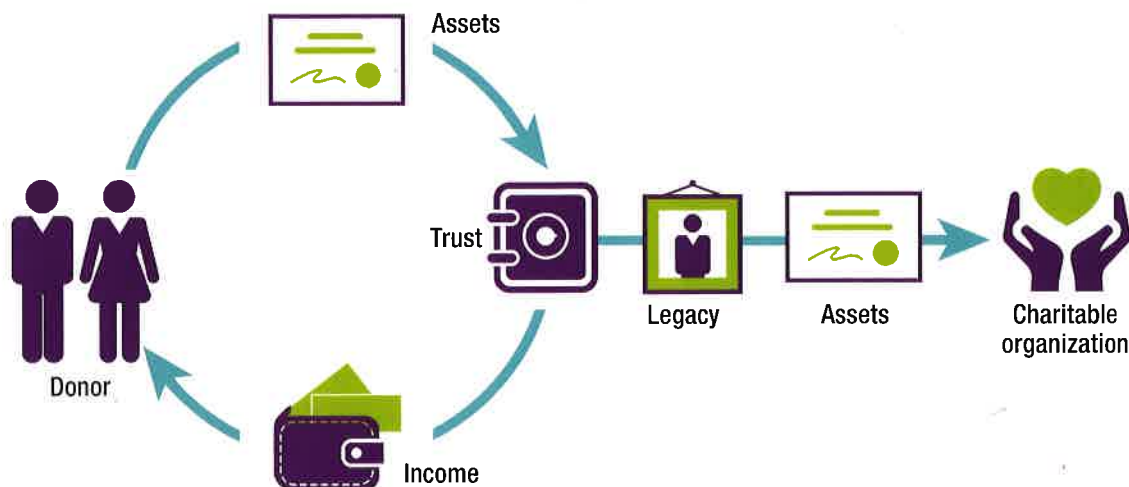
A Win-Win Proposition

A CRT could be a win-win proposition for you and your favorite charity. However, it's important to remember that a CRT is an irrevocable trust. Once you've made your decision, you cannot change your mind.

While trusts offer numerous advantages, they incur up-front costs and often have ongoing administrative fees. The use of trusts involves a complex web of tax rules and regulations. You should consider the counsel of experienced estate planning, legal, and tax professionals before implementing such strategies.

1) *Psychological Science*, December 27, 2018

What Goes Around Comes Around



Running with the Dogs

The Dogs of the Dow is a simple investing strategy that combines an emphasis on dividends and value. It involves investing in the 10 stocks from the Dow Jones Industrial Average (the Dow) that have the highest dividend yields on the last trading day of a given year.

Typically, the purchases are made on the first trading day of the new year, with working capital spread evenly among the 10 stocks. The stocks are then held until the end of the year, when the process is repeated.

Underperformance or Value?

In investing parlance, a “dog” is a chronically underperforming stock that drags down overall portfolio performance. However, there are seldom any true “dogs” in the Dow, which is composed of 30 of the largest, most stable U.S. companies.

In fact, the Dogs strategy is based in part on the assumption that companies listed in the Dow offer consistent dividends, so when a company’s dividend yield increases beyond its typical range, the share price is generally lower than usual and might be undervalued. (Dividends are typically expressed as a fixed amount per share, so a lower share price increases the dividend yield.) By this logic, the company’s stock may be poised to rise in value, thus offering share price appreciation along with a higher dividend. Some companies tend to offer higher-than-average dividends that regularly place them in the annual Dogs list even at higher share-price valuations.

New Dogs for New Years

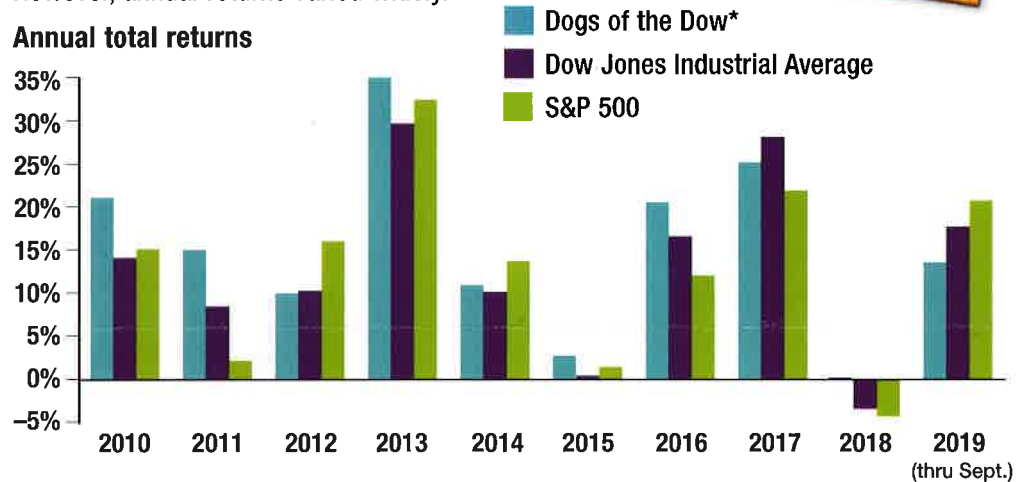
The Dogs of the Dow is a long-term strategy, with capital reapportioned as appropriate at the beginning of each year. This requires selling stocks that have dropped off the Dogs list, buying stocks that have been added, and rebalancing the Dogs portfolio to maintain 10% investment proportions in each of the 10 highest-yielding stocks.

A Decade of Dogs

Over the 10-year period ending in September 2019, the Dogs of the Dow strategy produced an annualized total return of 15.47%, outpacing the Dow (13.56%) and the S&P 500 (13.24%). However, annual returns varied widely.



Annual total returns



*The Dogs of the Dow are represented by the Dow Jones High Yield Select 10 Index.

The Dow Jones Industrial Average and the S&P 500 are unmanaged groups of securities that are considered to be representative of the U.S. stock market in general. The performance of an unmanaged index is not indicative of the performance of any specific investment. Individuals cannot invest directly in an index. Past performance does not guarantee future results. Actual results will vary.

Source: S&P Dow Jones Indices, 2019

One convenient way to implement the strategy is through a unit investment trust (UIT) that purchases a portfolio composed of the Dogs of the Dow and sells shares (units) to individual investors. UITs have a specified termination date. Typically, a Dogs UIT will terminate at the end of the year, and the sponsor will offer the opportunity to roll over funds to a new UIT holding the new Dogs of the Dow in equal proportions. All UIT dividend and interest payments are distributed as they are received and generally can be reinvested. Distributions are not guaranteed.

Investing in dividends is a long-term commitment. You should be prepared for periods when dividend payers drag down, not boost, an equity portfolio. The amount of a company’s dividend can fluctuate with earnings, which are influenced by economic, market, and political events. Dividends are typically not guaranteed and could be changed or eliminated.

The return and principal value of stocks and UITs fluctuate with changes in market conditions. Stock shares and UIT units, when sold, may be worth more or less than their original cost. UITs might carry additional risks, including the potential for a downturn in the financial condition of the issuers of the underlying securities. UITs employ a long-term strategy, so investors should consider their ability to pursue investing in successive UITs. There may be tax consequences associated with the termination of the UIT and rolling over an investment into a successive UIT.

UITs are sold by prospectus. Please consider the investment objectives, risks, charges, and expenses carefully before investing. The prospectus, which contains this and other information about the investment company, can be obtained from your financial professional. Be sure to read the prospectus carefully before deciding whether to invest.

Rain, Sleet, Snow — and Lawsuits?

The winter months are a great time for entertaining. In many areas of the country, they can also be a time for icy sidewalks and slippery steps. Naturally, you should make every effort to help ensure that your house and the surrounding area are safe for guests. But no matter how careful you are, accidents can happen at any time of the year.

You might face increased risk if you have a dog, a swimming pool, a trampoline, teenage drivers, or employ workers in your home. Many states have social liability laws that could hold you responsible for an accident caused by guests drinking alcohol on your property.

Another Layer of Protection

American society is litigious, and some legal judgments seem excessive. Standard homeowners and auto insurance policies generally cover personal liability, but you may not have enough coverage to protect your income and assets in the event of a high-dollar judgment. That's when umbrella insurance could be a big help, providing additional coverage, up to policy limits.

Typically, you can obtain \$1 million in coverage for a couple of hundred dollars annually; higher coverage amounts can be even more cost-effective. Before adding umbrella insurance, however, you generally must purchase a certain amount of liability coverage on your homeowners and auto policies (typically \$300,000 and \$250,000, respectively), which serve as a deductible for the umbrella policy.¹

On top of the liability coverage amount, an umbrella policy may help pay legal expenses and compensation for



Source: ushistory.org, 2019

time off from work to defend yourself in court. It might also cover situations not included in standard homeowners policies, such as libel, slander, invasion of privacy, and defamation of character.

Umbrella insurance is not just for wealthy households; it is also appropriate for middle-income families with substantial home equity, retirement savings, and current and future income that could be used to satisfy a large jury award. (Qualified retirement plan assets may have some protection from creditors under federal and/or state law, depending on the plan and jurisdiction, but you would still be liable for any judgments.)

It might be helpful to consider your assets, potential exposure, and what you consider to be an acceptable risk. Protecting yourself with an umbrella policy could help avoid expensive consequences down the road.

1) Insurance Information Institute, 2019

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*Would you like to discuss the potential role of dividends in your portfolio strategy?
Call us for an appointment today.*

Working toward a better financial future,

A handwritten signature in black ink, consisting of stylized, overlapping loops and lines.