Arizona Investment Alliance Financial Group, Inc.

The Quarterly Rapport

1st Quarter 2014

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From the Desk of . . . .
Chuck Testino

I hope your holiday season was filled with memorable times with family and friends. As we start the New Year it is my wish for you to find peace, happiness and success throughout 2014. This quarter's newsletter touches on issues of saving, IRA investing, taxes and the economy. As we head into tax season, it is mindful to understand the benefits of tax-advantaged investing through IRAs, 403(b)s and 401(k)s. In the article, "4 Simple Rules for Investing in IRAs", I provide a brief overview of IRA investing. To discuss whether a Traditional IRA or Roth IRA or a combination of the two would be best for your personal situation, call my office. I would be happy to provide you with additional information to help you make a more informed decision about your retirement investing.

Creating a Cushion

Advisors tell people to keep six months' worth of expenses stashed away for emergencies. These days it might not be enough. An estimated 3.7 million Americans have been out of work for more than six months. Unemployment benefits cover only a fraction of expenses. So consider expanding savings to a full year's worth of expenses. For most people, the savings vehicle of choice is a money market fund. It's easy to withdraw your money and historically have involved very little risk. The flip side is they offered little growth. But when it comes to your emergency savings, the name of the game is preservation, not expansion.

If you don't have a financial cushion, now is the time to create one. By putting money aside from each paycheck, you may be surprised by how quickly your savings add up. The important thing is to start now and don't stop until you've reached your target.

(https://personal.vanguard.com/us/insights/saving-investing/emergency-savings)

2014 Contribution Limits

Plan	2014 Limit		Over Age 50		"Catch-Up"		Total
IRA/Roth	5,500	+	1,000	+	N/A	=	6,500
403b	17,500	+	5,500	+	3,000	=	26,000
457/401(k)	17,500	+	5,500	+	N/A	=	23,000

**Note - If you will be 50 or older by the end of 2014, you have the benefit of being able to make "catch up" contributions.*
**SEP IRAs do not allow for catch up contributions.*

Considering Taxes

From tax rates to capital gains, 2013 brought some changes to the federal tax codes. For the first time, we have a new top income tax rate of 39.6%, and that will apply to high-income earners at a threshold of $400,000 for individuals or $450,000 for married couples. For individuals, who meet those same income thresholds, the long-term capital gains tax rate will now be 20%, as opposed to 15% last year. Most of the changes apply to the highest-income brackets.

However, some changes may affect you. If you fall below the $200,000 threshold in income, there are fewer changes and less negative impact. Tax implication will be different for everyone. It's important to consult with your tax advisor to see exactly how all the 2013 changes in the tax code may affect your individual situation.

(https://personal.vanguard.com/us/insights/video/2511-Exc3)

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The information provided here is for informational purposes only. Always consult with a professional tax advisor to determine your potential tax consequences.

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Investing for retirement doesn't have to be complicated. Here are four simple rules to investing for retirement:

Just Do It: Contributing - The maximum contribution amount for the 2014 tax year if you're under age 50 is $5,500. You can save even more if you're age 50 or older by using the catch-up contribution$6,500 for the 2014 tax year. The limits apply to the combined contributions you make to all the IRAs you hold, whether traditional or Roth. If you're married, your spouse can also make an IRA contribution even if he or she doesn't have earned income. (At least one of you does need to have earned income.) Your spouse will be subject to the same maximum contribution limits if you file a joint tax return and your adjusted gross income is less than $178,000 for the 2014 tax year.

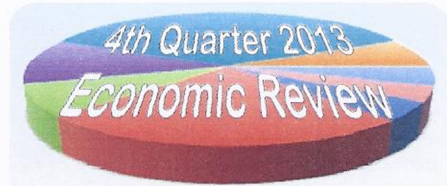
Know the Difference between Roth and Traditional IRAs - Choosing the right type of IRA hinges on the question of when you want to pay taxes now or later. With a traditional IRA, your contributions may be tax-deductible if you meet certain eligibility requirements. Your earnings can then grow tax-deferred until you begin making withdrawals, at which point you'd be taxed at whatever rate you're subject to at the time of withdrawal (which could be higher or lower than your current rate).* With a Roth IRA, you're contributing after-tax money. You don't get an immediate tax deduction, but your earnings grow tax-free, assuming they meet certain requirements.* For many investors, the appeal of a Roth IRA is obvious: tax-free growth, no lifetime requirements for required minimum distributions (RMDs), and the opportunity for tax diversification.

Check the "back door" if your income's too high - If you can't contribute to a Roth IRA because your income exceeds the allowable limit, you may be able to take advantage of what's often called a "back door" Roth IRA. Here's how it works: You fund a nondeductible traditional IRA and then immediately convert it to a Roth. This strategy works best if you don't have other traditional IRA assets. If you have significant IRA assets funded with pre-tax contributions, you might not want to open this back door. Federal law requires you to aggregate all your IRA assets for tax purposes, so you might be looking at a tax bite if you use this strategy.

Pay Attention to Costs - Market performance isn't the only thing that affects your IRA's bottom line. Investment costs can have a significant "drag" on your long-term retirement savings and unlike market returns, which can be positive one year and negative the next, operating expenses keep eating away at your account in good years and bad. Always check the cost of doing business.

*If you make withdrawals from a traditional IRA before age 59½, you may have to pay ordinary income tax plus a 10% federal penalty tax on withdrawals unless an exception applies. Note that the amount you convert to a Roth IRA is not subject to the 10% penalty. With a Roth IRA, distributions of contributions are tax- and penalty-free; however, withdrawals of earnings before age 59½ may be subject to a 10% federal penalty tax and income taxes unless an exception applies.

(https://personal.vanguard.com/us/insights/article/5-simple-ira-rules-032013)



The economy continues to plod along at a below average rate. Despite such tepid growth, domestic equity markets have performed quite well. For the first eight months of 2013, the market gains were substantially greater than historical averages with the S&P 500 rising 16.15%, the Dow Jones Industrial Average 15.02% and the Russell 2000 up 20.03%. Generally speaking, foreign markets experienced single digit gains, while emerging markets fell anywhere between single and double digits. The U.S. has been one of the best places to be invested in equities in 2013.

The rise in mortgage rates hurt the housing sector, with new housing sales slowing and the stocks of homebuilders retracing much of the gains made earlier in the year. Average home prices continued to rise, bolstering homeowners' balance sheets.

The unexpected surge in stock prices has created a safety net for continued consumer spending for the balance of the year, while corporations continue to feign uncertainty as to why they are not investing more into their businesses. Corporate America is cash-rich and benefitting from low inflation and low interest rates. While earning growth has slowed, nominal earnings are very high by historical standards and can help provide plenty of ammunition for stock market support should companies go on the hunt for acquisitions or engage in buying back stock.

(PlanMember Update, Fall 2013)

HAS YOUR CONTACT INFORMATION CHANGED?
If so, please email or call me!

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