New England Capital Financial Advisors
Independent Objective Advice

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Special Interest Articles:

Value versus Cost of Holistic, Relationship Based-Wealth Management Services

By Christopher W. Beale, CFP®

Good advice shouldn't be expensive but bad advice will always cost you, no matter how little you pay for it.

I believe everyone wants to avoid bad advice. But how much should good advice cost? As a Registered Investment Adviser, New England Capital Financial Advisors, LLC typically charges a fee as a percentage of the money we manage. Our fee, as listed in our disclosure brochure (filed with the Securities and Exchange Commission, provided to all new clients and offered to all existing clients annually) starts at 1.5% of the assets we manage. This percentage decreases as the account size increases, similar to the way a large box of laundry detergent or a large bag of potato chips will have a lower unit cost than a smaller box or bag. The average fee our clients pay is about 1%.

Fee transparency is very important to us as well as to you. I think we do a good job of disclosing our charges to you. Today I want to disclose our value to you.

I have always felt at New England Capital we have added value through our relationship oriented services and holistic approach to wealth management and financial planning. Our value proposition is typically easier to describe then define. Quantifying our process, however, with specific numbers to show the true benefit of working with us has been a challenge. A distribution or annual rate of return is easily calculated, but trust, peace of mind, or the feeling of true financial freedom doesn't translate to exact numbers on a personal balance sheet or income statement.

(Continued on Page 2)

Are You Paying Your Fair Share of Taxes? And then some?

By Christopher M. Lee, CFP®

Over the past couple of months we have fielded phone calls from clients who have owed money on their taxes – in some cases a lot of money. There are many different reasons why some people have paid more in taxes than in previous years. (Let me preface this by saying that I am not a tax advisor or a tax accountant – for your individual case you should always seek guidance from a tax professional). Later in this article I will list some tax tips that may help you reduce that check to Uncle Sam, but first let us look at what was different in your 2013 tax return from your 2012 return. Some of the biggest changes you may have not noticed in 2013 were:

- Payroll Tax: increase in the Social Security portion of the payroll tax from 4.2% to 6.2% for workers. This hits all Americans earning a paycheck—not just the “wealthy.” For example, The Wall Street Journal calculated that the “typical U.S. family earning $50,000 a year” will lose “an annual income boost of $1,000.”
- Top marginal tax rate: increase from 35% to 39.6% for taxable incomes over $450,000 ($400,000 for single filers).
- Phase out of personal exemptions for adjusted gross income (AGI) over $300,000 ($250,000 for single filers).
- Phase down of itemized deductions for AGI over $300,000 ($250,000 for single filers).
- Tax rates on investment: increase in the rate on dividends and capital gains from 15% to 20% for taxable incomes over $450,000 ($400,000 for single filers).

(Continued on Page 3)

Value versus Cost of Holistic, Relationship Based-Wealth Management Services

(Continued from Page 1)

While the benefits we provide our clients can be subjective and will vary based upon individual situations, a recent research paper from the Vanguard Group estimated the value financial advisors bring to clients each year to be as much as 3%. The strategies Vanguard identifies which can create this 3% average annual added value are:

- Proper asset allocation
- Diversification within asset classes
- Portfolio rebalancing
- Total return versus income investing
- Spending and distribution strategies
- Cost-effective implementation of strategies
- Behavioral coaching

It's important to be aware that 3% added value can't be expected annually. In fact this return, like most market returns, is likely to be very lumpy, with greater value added in some years and less value added in others. Overtime, 3% may prove to be a low estimate. The Boston-based research firm, Dalbar, has shown one strategy--behavioral coaching-- to be extremely valuable over time. Dalbar research has shown that investor returns in balanced asset allocation funds have been 2.29% over the last 20 years. At the same time market returns on a balanced asset allocation strategy has returned 7.4% annually over the last 20 years. This difference is attributed to bad investor behavior of selling low by panicking and buying high by chasing returns. On a $100,000 investment over 20 years the difference would be $157,000 versus $417,000, or a difference of $260,000 in added value.

In my next newsletter, I will explore some of these strategies in greater detail than space allows here. I would like to conclude this newsletter with a partial list of other activities and services we can provide for our clients:

- Develop financial goals including creating a timeline to accomplish your goals
- Identify how much money you need to save to accomplish those goals
- Manage expectation by understanding risk tolerance and expected returns
- Use data to analyze existing investments and make recommendations for future investments
- Help decide which investments to own in non-retirement accounts versus retirement accounts
- Look for ways to reduce taxable income
- Understand when taxes are incurred and timing investment purchases and sales
- Provide access and knowledge to many types of retirement accounts to use, for example, IRAs, Roth IRAs, 401(k) s etc.
- Analyze insurance needs including life, long-term care, disability, even property casualty and health insurance
- Review employer benefits including 401ks, pensions and stock options
- Make mortgage recommendations including refinancing
- Evaluate the purchase of vacation properties or other large purchases
- Work with accountants and attorneys to coordinate tax and estate planning strategies on behalf of you and your family

My goal for you at New England Capital has been the same for over 30 years: it is to far exceed in value what you will ever pay us in a fee.

"Believe you can and you're halfway there."

-Theodore Roosevelt
26th US President

"Don't judge each day by the harvest you reap but by the seeds that you plant."

-Robert Louis Stevenson
Novelist, poet, travel writer

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(Continued from Page 1)

Obamacare tax increases that took effect:

- Another investment tax increase: 3.8% surtax on investment income for taxpayers with taxable income exceeding $250,000 ($200,000 for singles).
- Another payroll tax hike: 0.9% increase in the Hospital Insurance portion of the payroll tax for incomes over $250,000 ($200,000 for single filers).

Hopefully, now that your 2013 tax return has been filed (or close to it), let's look at what you can do in 2014 to reduce your overall tax liability:

Earn Tax-Free Income. Certain types of income aren't subject to income tax at all. The single best way to avoid taxes is to earn as much tax-free income as possible. Some of the most common ways are selling your home (the home sale tax exclusion), saving money for your children's education (below), investing in municipal bonds, contributing to a health savings account, receiving health insurance and certain other employee benefits from your employer, and spending some of your salary on out-of-pocket health costs.

Fund a 529 Plan (for a child OR grandchild). Money invested in a 529 college savings plan grows tax free and when you later take the money out to pay for college, the appreciation or gains that have accumulated in a 529 plan are also tax free. Best of all, many states (CT included!) offer a state tax credit for 529 Plan contributions.

Take Advantage of Tax Credits. Obtaining a tax credit is the next best thing to paying no taxes at all because it reduces your taxes dollar for dollar -- something a deduction does not do. Congress has taken a great liking to tax credits in recent years and is adding new credits all the time. Some examples include tax credits for buying a hybrid car or making certain home energy improvements, such as adding insulation or a solar water heater to your home. There are also child and child care tax credits and there are also two education-related tax credits. The Hope Credit is for students in their first two years of college. The Lifetime Learning Credit is for anyone taking college classes. The classes do not have to be related to your career.

Save energy, save taxes. Congress extended a $500 tax credit for energy-efficient home improvements, such as new windows, doors and skylights, through 2013. Be advised, though, that $500 is the lifetime maximum, so if you claimed $500 in energy-efficient credits before this year, you can't claim this credit. There are also restrictions on specific projects; for example, the maximum you can claim for new energy-efficient windows is $200.

Tally job-hunting expenses. If you count yourself among the millions of Americans who are unemployed, make sure you keep track of your job-hunting costs. As long as you're looking for a new position in the same line of work (your first job doesn't qualify), you can deduct job-hunting costs including travel expenses such as the cost of food, lodging and transportation, if your search takes you away from home overnight. Such costs are miscellaneous expenses, deductible to the extent all such costs exceed 2% of your adjusted gross income.

In your taxable investment accounts, sell your losses when you can (we try to do that in the portfolios for you). Remember that you can deduct up to $3,000 of net capital losses from your other income. Net capital losses in excess of $3,000 can be carried forward to offset future gains and income. In the event you feel an emotional or sentimental attachment to a losing stock, part ways with it for 30 days and then buy it back. If you repurchase the stock inside of 30 days however, the transaction will result in a wash sale with the loss being disallowed.

Put away your checkbook. If you plan to make a significant gift to charity, consider giving appreciated stocks or mutual fund shares that you've owned for more than one year instead of cash. Doing so supercharges the saving power of your generosity. Your charitable contribution deduction is the fair market value of the securities on the date of the gift, not the amount you paid for the asset, and you never have to pay tax on the profit. However, don't donate stocks or fund shares that lost money. You'd be better off selling the asset, claiming the loss on your taxes, and donating cash to the charity.

"It is well enough that people of the nation do not understand our banking system, for if they did, I believe there would be a revolution before tomorrow morning."

--Henry Ford: American Industrialist, Founder of the Motor Ford Company

"I always wanted to be somebody, but now I realize I should have been more specific."

-Lily Tomlin: American actress, comedian, writer, producer

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(Continued from page 3)

Keep track of what you spend while doing charitable work, from what you spend on stamps for a fundraiser, to the cost of ingredients for casseroles you make for the homeless, to the number of miles you drive your car for charity (at 14 cents a mile). Add such costs with your cash contributions when figuring your charitable contribution deduction.

The number one way to reduce taxes is to **reduce your income**. And the best way to reduce your income is to contribute money to a 401(k) or similar retirement plan at work (i.e. Simple IRA, SEP-IRA, and possibly a Traditional IRA). Your contribution reduces your wages, and lowers your tax bill. You may also want to avoid additional taxes. If at all possible, avoid early withdrawals from an IRA or 401(k) retirement plan. The amount you withdraw will become part of your taxable income, and on top of that there will be additional taxes to pay on the early withdrawal.

Enrollment for health insurance under Obamacare went through March 31, 2014. If you didn't buy an insurance plan, you could face a penalty. The charge for 2014 is either 1 percent of your yearly household income or $95 per uninsured adult and $47.50 per child, up to $285 for a family. You pay whichever amount is higher. If you get insurance for part of the year, your penalty will be prorated.

These are just a few ways to save tax dollars in 2014. Unfortunately, our current tax code is very complex. If you are currently not working with a tax professional, and are interested in working with one – please feel free to call our office for a referral. As Albert Einstein once said, "The hardest thing to understand in the world is the income tax."

NECFA NEWS……..

****Upcoming Seminar****

On April 22nd 2014 at 6pm we will be hosting a Long Term Care Insurance seminar with a guest speaker from the CT Partnership for Long Term Care program which was the first partnership program in the country!

So call or email Michelle (michelleacanfora@newenglandcapital.com) to reserve your spot at this educational session!! Seating will be limited.

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