Schneider
WEALTH STRATEGIES

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WEALTH MANAGEMENT REPORT

After Five Great Years For Stocks, What's Next?

Once again, investors have been taught about the power of investing in stocks for the long run. The lesson is illustrated in this chart of returns of a diverse array of 13 investments, including European stocks, commodities, and bonds as well as U.S. stocks. It is a lesson investors have been taught many times before but remains difficult to learn. The chart spans a five-year period, which is a long time, and it covers investments that in the past behaved differently from one another.

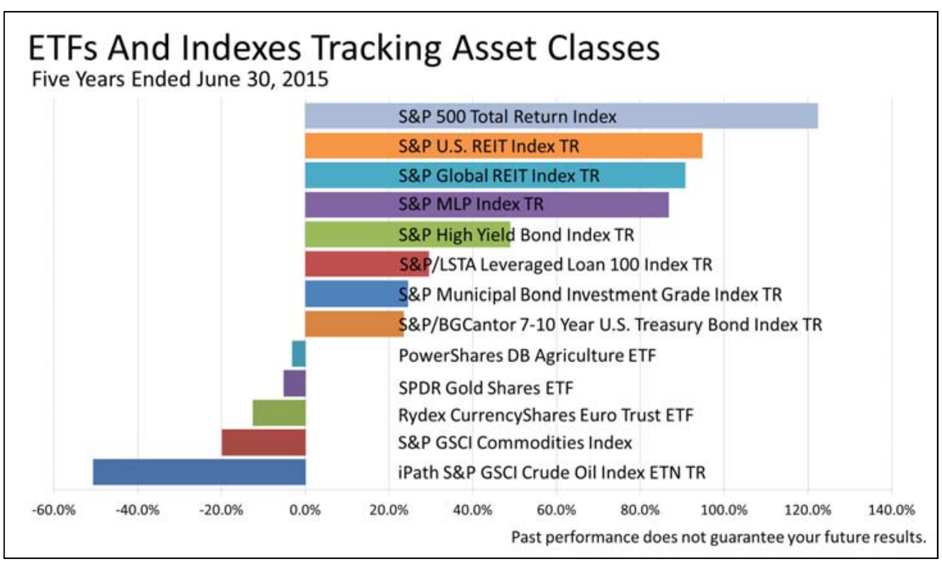
Atop the chart, the best investments by far, were America's blue-chip publicly held companies. Also among the best-performing asset classes for the five years were real estate investment trusts (REITs), both U.S. and foreign, and master limited partnerships.

The worst asset class on the list for the past five years was crude oil and other commodities, along with the euro currency. The euro lost 13% versus the U.S. dollar over the five years.

As for the bond total return indices, U.S. Treasuries returned 23%, or 4.6% per year. Municipal bonds gained 25%, or about 5% per year. Leveraged loans gained 30%, or about 6% annually, while high-yield "junk" bonds gained 49%, about 9.8% per year.

An ounce of gold, in this five-year period, shot from approximately $1,200 to $1,800 before losing luster, recently settling at $1,120. Gold bulls had counted on the Fed's liquidity program going too far, triggering inflation and "debasing" the U.S. dollar. It never happened. Inflation and bond yields are lower than investors, including the Federal Open Market Committee, the central bankers who make up the Federal Reserve, had expected.

But the most important takeaway from this accompanying chart is not the returns on specific asset classes over



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Putting Recent Market Action In Perspective

The market's performance in August of 2015 was the worst in 17 years, with major indices now officially in correction territory, down 10% plus. Although past performance is not a guarantee of future returns, here are a few key points to remember:

- 10% or greater corrections typically occur about every 18 months. Yet until now, we hadn't seen one for almost four years. So we've actually been long overdue for a correction.
- Corrections always happen for a reason. This time it was China and the Fed. Next time it will be something else.
- Bear markets, declines of 20% or more, typically occur every 4½ to 5 years on average. Therefore, historically, only one out of three 10%+ corrections has gone on to be a bear market. (Sources: Bianco Research, Kiplinger's, Birinyi Associates.)
- Although there is no evidence that we are actually at the beginning of a bear market, bear markets, like corrections, are parts of investing and always have been. A 50-year-old should expect six or more bear markets to occur over the rest of his or her lifetime. Despite this, stocks are still likely to outperform most other asset classes over the rest of his or her lifetime.

4 Estate Issues For Business Owners

Estate planning is essential for almost everyone, but it's especially important if you own a business. Your company may account for the majority of what you leave to your heirs. And while you may be years away from retirement, it's far better to get started sooner rather than later. Consider these factors that you may need to address in your estate plan:

1. **Succession plan.** This can have a ripple effect on other aspects of your estate planning. Do you plan to sell the business to an outsider, or perhaps to hand the reins to a member of your family? If you're grooming a family member for the top spot, it's a good idea to make that clear to everyone involved. Similarly, if power within the company is to be shared among several family members, spell out how that will work. Establish how much control you may want to keep, and make sure you document the arrangement so there won't be misunderstandings.

2. **Buy-sell agreement.** A buy-sell agreement may work hand in hand with a succession plan. A buy-sell agreement is a contract between a company's co-owners or shareholders specifying what will happen if a principal dies or is disabled. The main benefit is that such an agreement establishes a value for the business, which may be helpful for various purposes—for example, if someone wants to buy or sell shares from or to another co-owner.

3. **Estate taxes.** The specter of potential tax consequences often lurks in the background for small businesses. Even with the generous federal estate tax exemption ($5.43 million in 2015), your heirs may face tax complications, especially on the state level. Because most businesses have a minimum of cash on hand to pay estate taxes, the company might have to be sold to satisfy federal or state obligations. Estate tax returns are generally due within nine months of death, so make provisions now to avoid a distress sale in the future. And find out what tax breaks could benefit the estate—for instance, a federal tax law provision that allows deferral of estate tax payments when a business interest comprises at least 35% of a taxable estate.

4. **Life insurance.** One way to avoid a forced sale of a business is to secure adequate life insurance protection for the owner or co-owners. Proceeds from a life insurance policy can be used to pay estate taxes, debts, or other business obligations when an owner dies. Life insurance also may be an essential part of a buy-sell agreement. Depending on your needs, you might choose a form of whole life insurance, term insurance, or another variation.

To avoid problems down the line, consider all of the estate planning implications of owning your business. We will be glad to assist you with the specifics based on your personal circumstances. ●

8 Smart Moves For College Grads

Have you or one of your kids recently graduated from college? There's a lot to look forward to—a first job, maybe marriage and family and financial success. But college graduates can't assume that good things will happen automatically. Here are eight moves to make as soon as the ink on the diploma dries:

1. **Get organized.** Put your house in order by collecting vital papers such as your Social Security card, passport, and any investment documents and insurance policies. For optimal protection, store papers you don't need regularly in a bank safe deposit box or another secure location.

2. **Start paying down debt.** If you've borrowed money while earning your degree, chip away at your liability. The top priority is to wipe out credit card debt, on which you're likely paying a sky-high interest rate. What about student loans? Often those interest rates are low and much of your repayment will make a dent in the principal.

3. **Devise a monthly budget.** Once you have a firm grasp on both your monthly income and expenses—rent, car payments, and the like—create a budget. The goal is to be in the black, spending less than you earn, with some savings to spare, but allocate funds for entertainment, too.

4. **Open bank accounts.** If you don't already have them, set up checking and savings accounts at a local bank. But don't overdo things with your new debit card. And be careful with credit cards—using them can help establish your credit history but try to pay off your borrowing quickly to avoid high interest charges.

5. **Look to invest.** Now that you have an income, think about how to use some of it to earn more money. For starters, open a brokerage account with a reputable firm. At this early stage in your life, you generally can afford to be relatively aggressive with your

IRS Zeroes In On The Dirty Dozen Tax Scams

Each year, the IRS provides a list of what it calls a "dirty dozen" tax scams. But in 2015, instead of simply announcing the list, the tax agency issued press releases on each scam. Here's a rundown on this year's top offenders:

1. **Phone scams.** This is traditionally near the top of the list and often proliferates during tax-filing season. Typically, someone will alter a caller ID number in order to make it look like it's the IRS on the phone. Then the scammer is likely to threaten dire consequences if the victim doesn't immediately provide financial information and access to bank accounts.

2. **Phishing.** In a similar approach, criminals try to lure in victims through fake emails or websites and then gain access to personal information that's used to commit identity or financial theft. The IRS never initiates contact by phone or email, so don't be fooled into giving a caller your personal information.

3. **Identity theft.** Scammers may try to steal your Social Security number so they can file a fraudulent tax return claiming a tax refund. The IRS says it is continuing to step up its methods for identifying false returns and expanding partnerships with financial institutions to identity and stop bogus refunds.

4. **Tax return preparer fraud.** While the vast majority of tax return preparers are honest, there are still some people out there who may try to goad you into bad decisions to their benefit. To protect yourself from unscrupulous preparers, look for recommendations from friends or for advisors in your area who have a good reputation.

5. **Unreported offshore accounts.** A common tax dodge is to hide income via offshore bank or brokerage accounts or nominee entities and then use debit or credit cards or wire transfers to tap the funds. In a similar scam, taxpayers may use foreign trusts, employee-leasing schemes, private annuities, or insurance plans for the same purpose. The IRS is ramping up efforts to thwart these schemes.

6. **Inflated refund claims.** Some scam artists pose as tax preparers during tax return season. They lure in people by promising outlandish federal tax refunds, then collect big fees and disappear.

7. **False charities.** After major disasters, scammers may impersonate charities to pry money or private information from the concerned public. Sometimes these thieves will reach out by telephone or email to solicit money or financial information. Or they might contact disaster victims directly and claim to be working for the IRS.

8. **False 1099s and W-2s.** Filing a phony information return, such as a Form 1099 or W-2, may reduce your tax liability. Some criminals provide self-prepared, corrected, or fake forms that improperly report taxable income as zero. Another approach is to submit a statement rebutting wages and taxes reported by a third-party payer to the IRS.

9. **Abusive tax shelters.** These range from relatively simple structuring of abusive domestic and foreign trust arrangements to sophisticated strategies based on foreign financial secrecy laws. Although a trust may be used for legitimate estate- and tax-planning purposes, the IRS could challenge questionable transactions.

10. **False income.** Some people may falsify income reported on their tax returns to claim refundable credits, such as the earned income tax credit, and sometimes their tax preparers are in on the scam. Violators could be punished by having to pay restitution, interest, and penalties and might face criminal prosecution.

11. **Excessive claims for fuel credits.** The fuel tax credit generally is limited to off-highway business use or use in farming. Yet while it isn't available to most taxpayers, some fraudulently claim the credit to inflate their refunds.

12. **Frivolous tax arguments.** The IRS and the courts may dismiss certain claims as being frivolous and a waste of time and money. See the 2015 version of "The Truth about Frivolous Tax Arguments" provided to taxpayers. One illegitimate approach is to refuse to pay taxes on religious or moral grounds by invoking the First Amendment. ●

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investment choices, because you'll have time to overcome temporary losses. But keep in mind your personal tolerance for investment risk.

6. **Create a "rainy day" fund.** It's impossible to anticipate all of the expenses you'll incur during the next few years. Try to set aside something extra in case of emergencies. For instance, you might face a layoff or an unexpected medical or dental bill. Have enough savings on hand to carry you through for a few months.

7. **Think about retirement.** That's not a misprint. Although you're still decades from calling it quits, the sooner you start saving for retirement, the better. Take advantage of company plans such as a 401(k) (especially if your company matches contributions) and consider supplementing your savings with an IRA.

8. **Obtain financial guidance.** Fortunately, you don't have to do it all on your own. We can provide assistance based on your personal circumstances. Don't hesitate to contact our office for more details. ●

Compare Minor's Account To 529 Plan

Until the Section 529 college savings plan came along, parents looking ahead to the high cost of college for their children often set up accounts under their states' Uniform Gifts to Minors Act (UGMA) or Uniform Transfers to Minors Act (UTMA). But the broad benefits of 529 plans have made them more popular than UGMAs and UTMAs in recent years. Here's how the two saving vehicles compare:

UGMA/UTMA accounts: These are custodial accounts to which you contribute money for a minor's benefit. As the custodian, you control the investments until the child reaches age 18 or 21, depending on the laws of your state.

However, for tax purposes, any earnings on account assets are taxed to your children at their lower tax rates. For 2015, the first $1,050 of earnings in a custodial account is tax-free and the next $1,050 is taxed at the child's rate. But earnings beyond $2,100 are generally subject to the so-called kiddie tax—they're taxed at the parents' top rate. And whether you pay or your child pays that tax, it creates an annual drain on the account during the years you're trying to build up funds for college.

Section 529 plans: With this type of state-sponsored plan, you contribute to an account for which you name your child as beneficiary. Then you're in charge of how the money is invested (though only among the options the plan offers, and the ability to switch investments is limited). Unlike in a custodial account, earnings from investments aren't taxed while they're accumulating. And distributions from the plan that go to pay qualified college expenses, such as tuition, also aren't taxed.

Those provisions give 529 plans a dramatic advantage over a custodial account. There aren't any kiddie tax complications with a 529 because the growth in the account you've set up for your child isn't taxed at all during the years leading up to college. And whereas you may owe capital gains tax when you sell investments in a custodial account to pay college expenses, that doesn't happen when you take money from a 529 to pay for college.

In addition, if your kids have a custodial account, they get control of the money once they reach the age of majority in your state—and they can use it any way they want, not just for college. That doesn't happen with a Section 529 plan—you stay in control of the account regardless of the age of the beneficiary.

A final disadvantage of a custodial account is that it may hurt a student's eligibility for federal financial aid because it counts as that student's asset, not that of the parents. Section 529 plans, in contrast, are treated as if they belong to the parents and aren't likely to affect financial aid eligibility.

So while there may be situations in which a custodial account makes sense in saving for college, in most cases a 529 plan will work better. ●

After Five Great Years

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these last five years, but the unpredictable nature of investments. At the end of 2009, Time magazine declared the two biggest news stories of the year were the "non-recovery" of the economy and the war in Afghanistan. Who would have thought the U.S. recovery would go so well and that oil prices and commodities would plunge in the years ahead? Who would have known in 2009, amid the global slowdown, that the U.S. was leading the world from recession and the stock market had just started one of the biggest bull markets of the century? Such things are unpredictable, which is why our investment approach is guided by long-term wisdom about markets and human nature.

With the outperformance of U.S. stocks over this five-year period, today's markets are different than they were five years ago. Stock prices have tripled, and only three bull markets have lasted as long as this one since the advent of the modern securities markets in the 1920s. The longer the bull market goes on, the more likely it will be interrupted by a period of sharp losses. However, bull markets have continued longer than expected many times in the past and this one could go on. It would be folly to abandon stocks now as though we can predict what will happen over the coming five years.

While investors must be realistic about the possibility of a bear market, stock valuations by historic standards were not out of line in the third quarter of 2015. Corporate earnings were in line with analysts' predictions, and the U.S. economy was continuing to grow. You never should expect past performance to predict your investment results reliably, you should expect the next five years to be totally different from the last five years. But enduring truths about how asset classes historically behave and the power of stocks over the long run remain paramount. ●

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