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2nd Quarter 2017

Tax Benefits of Homeownership
Buying a Fuel-Efficient Vehicle
What are bond ratings?
What bond ratings do agencies use?

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Financial Insight Quarterly

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Investing That Makes an Impact

Socially responsible investing (SRI) has come to represent various investment strategies that favor companies with business practices generally viewed as socially responsible, ethical, and/or sustainable.

Overall, investor interest in SRI has been gaining momentum. In fact, the number of investment funds incorporating ESG (environmental, social, and governance) factors has increased 12% in the last two years alone, from 894 in 2014 to 1,002 in 2016. These 1,002 funds represent $2.6 trillion in net assets.[1]

What is SRI?

Fundamentally, SRI is an investment strategy in which companies' social and environmental records and objectives are factored in when building a portfolio.

Money managers who use SRI strategies often integrate ESG factors with traditional financial analysis to choose securities for their funds. The heightened focus on corporate sustainability issues allows investors to compare how businesses in the same industry have adapted to meet social and environmental challenges, and provides some insight into which companies may be exposed to risks or have a competitive advantage. For example, in some instances, poor decisions and lack of planning could cause negative financial results for a company, whereas good corporate citizenship may boost a company's public image and help create value.

Why is SRI attractive to investors?

Individual investors may have different opinions about which policies and practices have a positive or negative impact on society. Fortunately, there are a number of SRI options to choose from. This gives investors the ability to build a portfolio that aligns with their personal values and offers the potential for earning positive returns.

In addition, investors may have difficulty measuring the intangible value associated with socially responsible companies, which means these companies may be undervalued and represent a potential buying opportunity.

What might investors find unappealing?

SRI opponents claim that investing should be about making money first; therefore, social and environmental issues are viewed as noble impediments to that goal. Focusing on SRI strategies limits the total universe of available investments and could make it more challenging to diversify and maintain your desired asset allocation. Diversification and asset allocation are methods used to help manage investment risk; they do not guarantee a profit or protect against investment loss.

Moreover, although data is available, it can be difficult to thoroughly assess the ethics of a given company. For example, beyond the value chains of a company itself, investors might also need to look at the different social standards among the contractors and subcontractors associated with the company.

Remember that different SRI funds may focus on very different ESG criteria, and there is no guarantee that an SRI fund will achieve its objectives.

All investing involves risk, including the possible loss of principal, and there can be no assurance that any investment strategy will be successful. The return and principal value of SRI stocks and mutual funds fluctuate with changes in market conditions. Shares, when sold, may be worth more or less than their original cost.

Mutual funds 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.

[1] The Forum for Sustainable and Responsible Investment, 2016

Tax Benefits of Homeownership

Limit on deductions

You are subject to a limit on certain itemized deductions if your adjusted gross income exceeds $261,500 for single taxpayers, $313,800 for married taxpayers filing jointly, $156,900 for married taxpayers filing separately, and $287,650 for head of household taxpayers. This limit does not apply for alternative minimum tax purposes, however.

Buying a home can be a major expenditure. Fortunately, federal tax benefits are available to make homeownership more affordable and less expensive. There may also be tax benefits under state law.

Mortgage interest deduction

One of the most important tax benefits of owning a home is that you may be able to deduct any mortgage interest you pay. If you itemize deductions on your federal income tax return, you can deduct the interest you pay on a loan used to buy, build, or improve your home, provided that the loan is secured by your home. Up to $1 million of such "home acquisition debt" ($500,000 if you're married and file separately) qualifies for the interest deduction.

You may also be able to deduct interest you pay on certain home equity loans or lines of credit secured by your home. Up to $100,000 of such "home equity debt" (or $50,000 if your filing status is married filing separately) qualifies for the interest deduction. The interest you pay on home equity debt is generally deductible regardless of how you use the loan proceeds. For alternative minimum tax purposes, however, interest on home equity debt is deductible only for debt used to buy, build, or improve your home.

Deduction for real estate property taxes

If you itemize deductions on your federal income tax return, you can generally deduct real estate taxes you pay on property that you own. For alternative minimum tax purposes, however, no deduction is allowed for state and local taxes, including real estate property taxes.

Points and closing costs

When you take out a loan to buy a home, or when you refinance an existing loan on your home, you'll probably be charged closing costs. These may include points, as well as attorney's fees, recording fees, title search fees, appraisal fees, and loan or document preparation and processing fees. Points are typically charged to reduce the interest rate for the loan.

When you buy your main home, you may be able to deduct points in full in the year you pay them if you itemize deductions and meet certain requirements. You may even be able to deduct points that the seller pays for you.

Refinanced loans are treated differently. Generally, points that you pay on a refinanced loan are not deductible in full in the year you pay them. Instead, they're deducted ratably over the life of the loan. In other words, you can deduct a certain portion of the points each year. If the loan is used to make improvements to your principal residence, however, you may be able to deduct the points in full in the year paid.

Otherwise, closing costs are nondeductible. They can, however, increase the tax basis of your home, which in turn can lower your taxable gain when you sell the property.

Home improvements

Home improvements (unless medically required) are nondeductible. Improvements, though, can increase the tax basis of your home, which in turn can lower your taxable gain when you sell the property.

Capital gain exclusion

If you sell your principal residence at a loss, you can't deduct the loss on your tax return. If you sell your principal residence at a gain, you may be able to exclude some or all of the gain from federal income tax.

Capital gain (or loss) on the sale of your principal residence equals the sale price of your home minus your adjusted basis in the property. Your adjusted basis is typically the cost of the property (i.e., what you paid for it initially) plus amounts paid for capital improvements.

If you meet all requirements, you can exclude from federal income tax up to $250,000 ($500,000 if you're married and file a joint return) of any capital gain that results from the sale of your principal residence. Anything over those limits may be subject to tax (at favorable long-term capital gains tax rates). In general, this exclusion can be used only once every two years. To qualify for the exclusion, you must have owned and used the home as your principal residence for a total of two out of the five years before the sale.

What if you fail to meet the two-out-of-five-year rule? Or you used the capital gain exclusion within the past two years with respect to a different principal residence? You may still be able to exclude part of your gain if your home sale was due to a change in place of employment, health reasons, or certain other unforeseen circumstances. In such a case, exclusion of the gain may be prorated.

Other considerations

It's important to note that special rules apply in a number of circumstances, including situations in which you maintain a home office for tax purposes or otherwise use your home for business or rental purposes.

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Buying a Fuel-Efficient Vehicle

Fuel-efficient vehicles are designed to help reduce pollution emissions and fossil fuel dependence, which can limit the effects of climate change. These factors make fuel-efficient vehicles appealing to drivers looking to be more green. But there are pros and cons to consider before buying an electric or hybrid car.

You're searching for a new car and interested in fuel-efficient vehicles. On the surface, they sound like a good idea: You may save money by making fewer trips to the gas station, and you'll help protect the environment. However, there are pros and cons to owning and driving a fuel-efficient vehicle, particularly when it comes to your finances.

Know your options

Many different vehicles fall into the fuel-efficient category. There are electric vehicles (EVs), which run solely on electricity. One or more electric motors are powered by rechargeable battery packs. Some EVs have built-in chargers, whereas others must be plugged into external chargers. EVs produce zero emissions and run quietly.

Another kind of fuel-efficient vehicle is the traditional hybrid, which exists in two forms: parallel and series. Parallel hybrids have a small internal combustion engine as well as batteries that power an electric motor. The vehicle's transmission and wheels can be powered by both the engine and electric motor. Series hybrids use an on-board generator to produce electricity which, in turn, charges batteries or powers the electric motor. The vehicle is never directly powered by the gasoline engine.

Plug-in hybrids are very similar to traditional hybrids, but plug-ins rely on a different primary energy source. The battery-powered electric motor functions as the main source of power. When the battery reaches a certain level, the internal engine's power kicks in and the vehicle uses gasoline to extend its range. The battery is recharged by plugging the vehicle into an external charger, hence the name.

In addition to EVs and hybrids, vehicles that run on alternative fuel are also considered fuel-efficient. Alternative fuels include diesel, bio-diesel, ethanol, compressed natural gas, and hydrogen fuel cells.

Weigh the advantages against the disadvantages

One of the biggest factors in deciding whether to buy a fuel-efficient vehicle is cost. Generally, fuel-efficient vehicles come with a higher purchase price that can be off-putting when comparing them to standard vehicles. And if your fuel-efficient car is equipped with an expensive battery, you must be prepared to pay even more when the battery eventually needs to be replaced.

Other drawbacks include scarcity of public chargers, limited driving range, and fewer model options to choose from (as opposed to traditional vehicles).

On the other hand, driving a green vehicle could add some green to your wallet. Many EVs and hybrids qualify for a federal income tax credit. Depending on your vehicle's battery capacity, you could earn a credit ranging from $2,500 up to $7,500. However, certain restrictions do apply. For more information, see IRS Form 8936, Qualified Plug-in Electric Drive Motor Vehicle Credit.

Your auto insurance provider may also offer discounts if you drive an EV or hybrid. It's worth checking to see whether you will save on insurance by driving a fuel-efficient vehicle.

Chances are good that a fuel-efficient vehicle will save you money at the gas station. Fuel-efficient vehicles typically have superior fuel economy, which means you'll likely be taking fewer trips to refuel your car. Over time, the savings from reduced gas station stops could be significant.

Decide what suits your lifestyle

Financial considerations aside, think about what kind of car best fits your needs. To help decide, ask yourself these questions:

- Can you afford a more expensive fuel-efficient vehicle, or does it make more sense to buy a conventional vehicle?
- How much driving do you do in a typical week?
- Do you want an EV or a hybrid? Or do you want to consider an alternative fuel option?
- If you choose an EV or plug-in, are you able to charge it at home? If you frequently drive longer distances, will you be able to recharge it easily on the road?
- When will you need to replace the battery in your vehicle? How expensive will it be?
- What kind of gas mileage should you expect to get from an EV or hybrid?
- Are there any reliability or safety issues associated with EVs or hybrids?

If you don't drive your vehicle on a consistent basis, you might consider sticking with a conventional vehicle. For example, after just one week of not driving an EV or hybrid vehicle, the battery could be affected and may not function properly.

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What are bond ratings?

Bond ratings are an essential tool when considering fixed-income investments. Ratings provide a professional assessment of credit risk, or the risk of default, which can be measured to some degree by analyzing the bond issuer's financial condition and creditworthiness.

Credit rating agencies perform this type of analysis and issue ratings that reflect the agency's assessment of the bond issuer's ability to meet the promised interest payments and return the principal upon maturity. The best-known independent rating agencies — Standard & Poor's, Moody's Investors Service, and Fitch Ratings — use similar scales in descending alphabetical order, ranging from AAA/Aaa for the most creditworthy bonds to C/D for the least creditworthy.

Bonds rated BBB/Baa or higher are considered "investment grade." Lower-rated bonds, commonly called "junk bonds," are non-investment grade; they generally offer higher yields and are considered speculative with higher credit risks. Bond insurance can add a layer of protection, but it is only as good as the insurer's credit quality and ability to pay.

A credit rating is not a recommendation to purchase a bond. Even so, higher-rated bonds in general may be more appealing to investors, and — due to supply and demand — typically have a lower yield than similar bonds with a lower rating. Investors must balance risk and reward when choosing bonds that present a comfortable risk while providing a yield that is appropriate to help meet investment goals.

Ratings are very important to a bond issuer when the bond is first offered for sale, because a higher rating may reduce interest costs. After the initial sale, significant shifts in the issuer's financial condition could result in rating changes that may affect the bond's yield and market value. However, as long as the issuer does not default, a change in a bond's rating would not affect the coupon rate or the principal due upon maturity.

Bonds carry other risks as well, such as market risk, interest rate risk, and inflation risk. However, these depend on factors that are difficult to measure or predict.

The principal value of bonds fluctuates with changes in market conditions. A bond sold prior to maturity may be worth more or less than its original value.

What bond ratings do agencies use?

Bond rating agencies typically use similar scales, and it may be helpful to understand how to compare ratings from multiple agencies.

This chart compares bond ratings in descending order of creditworthiness (from left to right) as judged by the three best-known credit agencies.

Standard & Poor's and Fitch Ratings use the symbols + and – to denote the upper and lower ranges of ratings from AA to CCC; Moody's uses the numbers 1, 2, 3 to denote the upper, middle, and lower ranges from Aa to Caa.

	Investment Grade				**Non-Investment Grade**			
Standard & Poor's	AAA	AA	A	BBB	BB	B	CCC	CC/C/D
Moody's Investors Service	Aaa	Aa	A	Baa	Ba	B	Caa	Ca/C
Fitch Ratings	AAA	AA	A	BBB	BB	B	CCC	RD/D

Note: If a bond is insured (typically for lower-rated bonds), there will be two ratings, one for the bond issuer and one for the insurer. Bond insurance adds a potential layer of protection in the event that an issuer defaults, but it is only as good as the insurer's credit quality and ability to pay. An investor should not buy bonds based solely on the insurance.

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