Starboard Wealth Advisors, Inc.
Hank Persia, CFP®
Financial Advisor & Branch Manager
5574-B Garden Village Way
Suite 1
Greensboro, NC 27410
Direct: 336-763-4190
Tol Fr: 855-633-9014
hank.persia@raymondjames.com
www.starboardwealthadvisors.com

Starboard
WEALTH ADVISORS
An Independent Practice

Captain's Log

Guiding Your Financial Journey

Time for a Mid-Year Investment Check

Many investors may be inclined to review their portfolios only when markets hit a rough patch, but careful planning is essential in all economic climates. So whether the markets are up or down, periodically reviewing your portfolio with your financial professional can be an excellent way to keep your investments on track, and midway through the year is a good time for a checkup. Here are three questions to consider.

1. How have my investments performed so far this year?

Review a summary of your portfolio's total return (minus all fees) and compare the performance of each asset class against a relevant benchmark. For example, for stocks, you might compare performance against the S&P 500 (for domestic large caps), the Russell 2000 (for small caps), or the Global Dow (for global stocks). For mutual funds, you might use the Lipper indexes to see how your funds performed against a relevant benchmark. (Keep in mind that the performance of an unmanaged index is not indicative of the performance of any specific security; you can't invest directly in an unmanaged index.)

Consider any possible causes of over- or underperformance in each asset class. If any result was concentrated in a single asset class or investment, was that performance consistent with the asset's typical behavior over time? Or was recent performance an anomaly that bears watching or taking action?

In addition, make sure you know the total fees you are paying (e.g., mutual fund expense ratios, transaction fees), preferably as a dollar amount and not just as a percentage of assets.

2. Do I need to make adjustments?

Review your financial goals (e.g., retirement, college, home purchase) and the market outlook for the remainder of the year to determine whether your investment asset mix for each goal continues to meet your time frame, risk tolerance, and overall needs. Of course, no one knows exactly what the markets will do in the future, but by looking at current conditions and projections for interest rates, inflation, and economic growth, you might identify factors that could influence the markets in the months ahead. With this broader perspective, you can update your investment strategy as needed.

Remember, even if you've chosen an appropriate asset allocation strategy for various goals, market forces may have altered your mix without any action on your part. For example, maybe your asset allocation preference is 60% stocks and 40% bonds, but now due to investment returns your portfolio is 75% stocks and 25% bonds.

To return your asset mix back to its original allocation, you may want to rebalance your investments. This can be done by selling investments in the overrepresented classes and transferring the proceeds to the underrepresented asset classes, or simply by directing new contributions into asset classes that have been outpaced by others until the target allocation is reached. Keep in mind that rebalancing may result in commission costs, as well as taxes if you sell investments for a profit.

Asset allocation does not guarantee a profit or protect against loss; it is a method used to help manage investment risk.

3. Am I maximizing my tax savings?

Taxes can take a bite out of your overall investment return. You can't control the markets, but you can control the accounts you use to save and invest, as well as the assets you hold in those accounts and the timing of when you sell investments. Dividing assets strategically among taxable, tax-deferred, and tax-exempt accounts may help reduce the effect of taxes on your overall portfolio.

In sum, by taking the time to periodically review your portfolio in good economic times as well as bad, you can feel confident knowing that your investing strategy is attuned to current market conditions and your overall needs.

All investing involves risk, including the possible loss of principal, and there can be no guarantee that any investing strategy will be successful.

How Does the Federal Reserve Affect the Economy?

The Fed's mission

The Federal Reserve is the central bank of the United States. Its mission is to provide the nation with a safer, more flexible, and more stable monetary and financial system. For more information on the Federal Reserve, visit federalreserve.gov.

FOMC meeting schedule

The Federal Open Market Committee meets eight times a year. Scheduled FOMC meetings in 2019: January 29-30, March 19-20, April 30-May 1, June 18-19, July 30-31, September 17-18, October 29-30, and December 10-11.

If you follow financial news, you've probably heard many references to "the Fed" along the lines of "the Fed held interest rates," or "market watchers are wondering what the Fed will do next." So what exactly is the Fed and what does it do?

What is the Federal Reserve?

The Federal Reserve — or "the Fed" as it's commonly called — is the central bank of the United States. The Fed was created in 1913 to provide the nation with a safer, more flexible, and more stable monetary and financial system.

Today, the Federal Reserve's responsibilities fall into four general areas:

- Conducting the nation's monetary policy by influencing money and credit conditions in the economy in pursuit of full employment and stable prices
- Supervising and regulating banks and other important financial institutions to ensure the safety and soundness of the nation's banking and financial system and to protect the credit rights of consumers
- Maintaining the stability of the financial system and containing systemic risk that may arise in financial markets
- Providing certain financial services to the U.S. government, U.S. financial institutions, and foreign official institutions, and playing a major role in operating and overseeing the nation's payments systems

How is the Fed organized?

The Federal Reserve is composed of three key entities — the Board of Governors (Federal Reserve Board), 12 Federal Reserve Banks, and the Federal Open Market Committee.

The Board of Governors consists of seven people who are nominated by the president and approved by the Senate. Each person is appointed for a 14-year term (terms are staggered, with one beginning every two years). The Board of Governors conducts official business in Washington, D.C., and is headed by the chair (currently, Jerome Powell), who is perhaps the most visible face of U.S. economic and monetary policy.

Next are 12 regional Federal Reserve Banks that are responsible for typical day-to-day bank operations. The banks are located in Boston, New York, Philadelphia, Cleveland, Richmond, Atlanta, Chicago, St. Louis, Minneapolis, Kansas City, Dallas, and San Francisco. Each regional bank has its own president and oversees thousands of smaller member banks in its region.

The Federal Open Market Committee (FOMC) is responsible for setting U.S. monetary policy. The FOMC is made up of the Board of Governors and the 12 regional bank presidents. The FOMC typically meets eight times per year. When people wait with bated breath to see what the Fed will do next, they're usually referring to the FOMC.

How does the Fed impact the economy?

One of the most important responsibilities of the Fed is setting the federal funds target rate, which is the interest rate banks charge each other for overnight loans. The federal funds target rate serves as a benchmark for many short-term interest rates, such as rates used for savings accounts, money market accounts, and short-term bonds. The target rate also serves as a basis for the prime rate. Through the FOMC, the Fed uses the federal funds target rate as a means to influence economic growth.

To stimulate the economy, the Fed lowers the target rate. If interest rates are low, the presumption is that consumers can borrow more and, consequently, spend more. For instance, lower interest rates on car loans, home mortgages, and credit cards make them more accessible to consumers. Lower interest rates often weaken the value of the dollar compared to other currencies. A weaker dollar means some foreign goods are costlier, so consumers will tend to buy American-made goods. An increased demand for goods and services often increases employment and wages. This is essentially the course the FOMC took following the 2008 financial crisis in an attempt to spur the economy.

On the other hand, if consumer prices are rising too quickly (inflation), the Fed raises the target rate, making money more costly to borrow. Since loans are harder to get and more expensive, consumers and businesses are less likely to borrow, which slows economic growth and reels in inflation.

People often look to the Fed for clues on which way interest rates are headed and for the Fed's economic analysis and forecasting. Members of the Federal Reserve regularly conduct economic research, give speeches, and testify about inflation and unemployment, which can provide insight about where the economy might be headed. All of this information can be useful for consumers when making borrowing and investing decisions.

Charitable Giving After Tax Reform

Some of the recent changes to the standard deduction and itemized deductions may affect your ability to obtain an income tax benefit from your charitable contributions. Incorporating charitable giving into your year-end tax planning may be even more important now. If you are age 70½ or older and have a traditional IRA, you may wish to consider a qualified charitable distribution.

Tax reform changes to the standard deduction and itemized deductions may affect your ability to obtain an income tax benefit from charitable giving. Projecting how you'll be affected by these changes while there's still time to take action is important.

Income tax benefit of charitable giving

If you itemize deductions on your federal income tax return, you can generally deduct your gifts to qualified charities. However, many itemized deductions have been eliminated or restricted, and the standard deduction has substantially increased. You can generally choose to take the standard deduction or to itemize deductions. As a result of the changes, far fewer taxpayers will be able to reduce their taxes by itemizing deductions.

Taxpayers whose total itemized deductions other than charitable contributions would be less than the standard deduction (including adjustments for being blind or age 65 or older) effectively have less of a tax savings incentive to make charitable gifts. For example, assume that a married couple, both age 65, have total itemized deductions (other than charitable contributions) of $15,000. They would have a standard deduction of $27,000 in 2019. The couple would effectively receive no tax savings for the first $12,000 of charitable contributions they make. Even with a $12,000 charitable deduction, total itemized deductions of $27,000 would not exceed their standard deduction.

Taxpayers whose total itemized deductions other than charitable contributions equal or exceed the standard deduction (including adjustments for being blind or age 65 or older) generally receive a tax benefit from charitable contributions equal to the income taxes saved. For example, assume that a married couple, both age 65, have total itemized deductions (other than charitable contributions) of $30,000. They would be entitled to a standard deduction of $27,000 in 2019. If they are in the 24% income tax bracket and make a charitable contribution of $10,000, they would reduce their income taxes by $2,400 ($10,000 charitable deduction x 24% tax rate).

However, the amount of your income tax charitable deduction may be limited to certain percentages of your adjusted gross income (AGI). For example, your deduction for gifts of cash to public charities is generally limited to 60% of your AGI for the year, and other gifts to charity are typically limited to 30% or 20% of your AGI. Charitable deductions that exceed the AGI limits may generally be carried over and deducted over the next five years, subject to the income percentage limits in those years.

Year-end tax planning

When making charitable gifts during the year, you should consider them as part of your year-end tax planning. Typically, you have a certain amount of control over the timing of income and expenses. You generally want to time your recognition of income so that it will be taxed at the lowest rate possible, and to time your deductible expenses so they can be claimed in years when you are in a higher tax bracket.

For example, if you expect that you will be in a higher tax bracket next year, it may make sense to wait and make the charitable contribution in January so you can take the deduction next year when the deduction results in a greater tax benefit. Or you might shift the charitable contribution, along with other itemized deductions, into a year when your itemized deductions would be greater than the standard deduction amount. And if the income percentage limits above are a concern in one year, you might consider ways to shift income into that year or shift deductions out of that year, so that a larger charitable deduction is available for that year. A tax professional can help you evaluate your individual tax situation.

Qualified charitable distribution (QCD)

If you are age 70½ or older, you can make tax-free charitable donations directly from your IRAs (other than SEP and SIMPLE IRAs) to a qualified charity. The distribution must be one that would otherwise be taxable to you. You can exclude up to $100,000 of these QCDs from your gross income each year. And if you file a joint return, your spouse (if 70½ or older) can exclude an additional $100,000 of QCDs.

You cannot deduct QCDs as a charitable contribution because the QCD is excluded from your gross income. In order to get a tax benefit from your charitable contribution without this special rule, you would have to itemize deductions, and your charitable deduction could be limited by the percentage of AGI limitations. QCDs may allow you to claim the standard deduction and exclude the QCD from income.

QCDs count toward satisfying any required minimum distributions (RMDs) that you would otherwise have to receive from your IRA, just as if you had received an actual distribution from the plan.

Caution: *Your QCD cannot be made to a private foundation, donor-advised fund, or supporting organization. Further, the gift cannot be made in exchange for a charitable gift annuity or to a charitable remainder trust.*

Starboard Wealth Advisors, Inc.
Hank Persia, CFP®
Financial Advisor & Branch Manager
5574-B Garden Village Way
Suite 1
Greensboro, NC 27410
Direct: 336-763-4190
Tol Fr: 855-633-9014
hank.persia@raymondjames.com
www.starboardwealthadvisors.com

As a business owner, what should I know before adding a financial wellness program?

Financial wellness programs are gaining traction among employee benefit offerings, and for good reason: In an International Foundation of Employee Benefit Plans (IFEBP) survey, 96% of employers said employees' personal financial issues had an impact on their overall job performance. If you're thinking of adding a financial wellness program to your benefits lineup, consider the following points.

Understand what "financial wellness" is. In 2014, the Consumer Financial Protection Bureau (CFPB) conducted a study to help measure the effectiveness of financial literacy programs. As part of their initial work, researchers sought to define financial well-being. After conducting nearly 60 hours of open-ended interviews with consumers, study authors concluded that financial well-being is achieved when people (1) are able to control day-to-day and month-to-month finances, (2) have the capacity to absorb a financial shock, (3) are on track to meet their financial goals, and (4) have the financial freedom to make choices that allow them to enjoy life.

Assess employee concerns. The IFEBP also found that 40% of employers report an increased demand for financial education. Toward this end, Prosperity Now, a nonprofit organization dedicated to helping all Americans prosper, recommends that employers conduct a needs assessment to determine the most pressing financial concerns of their workforces. While the IFEBP said the top three most popular financial topics covered through such plans are retirement benefits, pre-retirement planning, and budgeting, a workforce composed of relatively young employees may be more concerned with repaying student loans and saving for a down payment on a first home. To position your financial wellness program for success, be sure it's designed to tackle challenges that are specific to your primary employee demographic.

Determine how you will measure your success. Prosperity Now recommends considering the following metrics: participation rates; financial well-being as measured by the CFPB's Financial Well-Being Scale; employee retention, satisfaction with employer, morale, and stress levels; and company cost savings.

How long could it take to double your money?

If you're saving for college, retirement, or a large purchase, it can be useful to quickly calculate how an anticipated annual rate of return will affect your money over time. To find out, you can use a mathematical concept known as the Rule of 72. This rule can give you a close approximation of how long it would take for your money to double at any given rate of return, assuming annual compounding.

To use this rule, you simply divide 72 by your anticipated annual rate of return. The result is the approximate number of years it will take for your money to double.

For example, if your anticipated annual rate of return is 6%, you would divide 72 by 6. Your money can be expected to double in about 12 years. But if your anticipated annual rate of return is 8%, then your money can be expected to double in about 9 years.

The Rule of 72 can also be used to determine what rate of return you would need to double your money in a certain number of years. For example, if you have 12 years to double your money, then dividing 72 by 12 would tell you that you would need a rate of return of 6%.

Another way to use the Rule of 72 is to determine when something will be halved instead of doubled. For example, if you would like to estimate how long it would take for annual inflation to eat into your savings, you could divide 72 by the rate of inflation. For example, if inflation is 3%, then it would take 24 years for your money to be worth half its current value. If inflation jumped to 4%, then it would take only 18 years for your purchasing power to be halved.

Although using a calculator will give you more precise results, the Rule of 72 is a useful shortcut that can help you understand how long it might take to reach a financial goal, and what annual rate of return you might need to get there.

Starboard
WEALTH ADVISORS
An Independent Practice