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July 2015

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What's New in the Housing Market for 2015?



Home buyers and sellers finally have reason to celebrate in 2015. After almost a decade of limping along toward recovery, it seems as though the housing market has finally hit a more comfortable stride.

According to the S&P/Case-Shiller Home Price Indices, well-known gauges of the U.S. housing market, real estate is finally showing healthy signs of improvement.

Data released by Case-Shiller at the end of April indicates that home prices have continued to rise across the United States. (Source: S&P/Case-Shiller Home Price Indices, April 2015) And as it turns out, no one factor is responsible for the trend. Rather, a variety of factors are being credited for the recovery.

Low mortgage interest rates

This year, mortgage rates have remained at all-time lows. (Source: Freddie Mac U.S. Economic & Housing Market Outlook, April 2015) A slower-than-expected economic recovery may be partly responsible, with the Federal Reserve holding off on raising interest rates until the economy is on more solid ground. And while interest rates are expected to go up at some point (possibly later this year), home buyers are taking advantage of the historically low rates while they can.

Less-stringent mortgage lending

Obtaining a mortgage has gotten easier this year thanks to less-stringent lending requirements. (Source: Mortgage Credit Availability Index, March 2015) A number of changes are being credited for making mortgage lending more readily available.

Fannie Mae and Freddie Mac lowered their down payment thresholds this past December to as little as 3% of a home's purchase price, a boon for first-time home buyers and buyers with low down payment funds available.

In addition, the Federal Housing Administration (FHA) announced this past January that it will lower what it charges for annual mortgage insurance premiums. The 0.5% decrease, from 1.35% to 0.85%, is expected to reduce an FHA borrower's annual mortgage payment by \$900 per year, on average. (Source: U.S. Department of Housing and Urban Development, HUD No. 15-001)

Low housing inventory

A low housing inventory frequently gives home sellers the advantage, since it often leads to an increase in housing prices. While inventory does vary by location, total unsold inventory was on the lower end, with a 4.6-month available supply. (Source: National Association of Realtors, News Release, April 2015)

Buying a home is more affordable than renting

According to Trulia's Rent vs. Buy Index, it was cheaper to buy a home than to rent one in all of the nation's largest 100 cities in late 2014. And nationwide, owning was 38% less expensive than renting, although the gap varied widely by location. (Source: Trulia.com, Rent vs. Buy Index, October 2014)

Millennials are entering the market

Despite living with high student debt and a tepid job market, millennials are finally entering the real estate market. In fact, adults age 34 and younger made up the largest percentage of home buyers in 2014, accounting for 32% of all home purchases nationwide. (Source: National Association of Realtors, Home Buyer and Seller Generational Trends study, 2015)

Of course, this doesn't mean that all millennials are buying homes. Those with the highest student loan debt may have trouble meeting the debt-to-income ratios required by lenders for a mortgage. Others are postponing starting a family, which affects their urgency to purchase a home.

Five Steps to Tame Financial Stress



Seventy-two percent of adults report feeling stressed about money at least some of the time, and 22% say that the amount of stress they experience is extreme.

Source: American Psychological Association

Do you sometimes lie awake at night thinking about bills that need to be paid? Does it feel as though you're drowning in debt? If this describes you, you might take solace in the fact that you're not alone. A recent report released by the American Psychological Association (APA) showed that 72% of adults feel stressed about money at least some of the time, and 22% said the amount of stress they experienced was extreme.¹

The bad news is that stress can be responsible for multiple health problems, including fatigue, headaches, and depression. And, over time, stress can contribute to more significant health issues, including high blood pressure and heart disease.² The good news is that there are some simple steps you can take to reduce or eliminate some of the financial stress in your life.

1. Stop and assess

The first step in reducing financial stress is to look at your situation objectively, creating a snapshot of your current financial condition. Sit down and list all of your financial obligations. Start with the items that are causing you the most stress. For debts, include the principal due, the applicable interest rate, and the minimum payment amount. If you're not already doing so, review your bank account and credit-card statements to track where your money is going. The goal here is not to solve the problem; it's to determine and document the scope of the problem. You might find that this step alone significantly helps alleviate your stress level (think of it as facing your fears).

2. Talk to your spouse

If you're married, talk to your spouse. It's important to communicate with your spouse for several reasons. First, you and your spouse need to be on the same financial page; any steps you take to improve your situation are going to be most effective if pursued jointly. Second, not being on the same page as your spouse is only going to lead to additional stress. In fact, the APA report showed that 31% of spouses and partners say that money is a major source of conflict or tension in their relationship.³ Additionally, your spouse or partner can be a valuable source of emotional support, and this emotional support alone can lower stress levels.⁴ If you're not married, family or friends might fill this role.

3. Take control

First, go back and take a look at where your money is going. Are there changes you can make that will free up funds you can save or apply elsewhere? Even small changes can make a difference. And exerting control over your situation to any degree can help reduce your overall stress level. Start building a cash reserve, or emergency fund, by saving a little bit each paycheck. Think of the emergency fund as a safety net; just knowing it's there will help reduce your ongoing level of stress. Work up to a full spending plan (yes, that's another way of saying a budget) where you prioritize your expenses, set spending goals, and then stick to them going forward.

4. Think longer term

Look for ways to reduce debt long term. You might pay more toward balances that have the highest interest rates. Or you might consider refinancing or consolidation options as well. Beyond that, though, you really want to start thinking about your long-term financial goals, identifying and prioritizing your goals, calculating how much you might need to fund those goals, and implementing a plan that accounts for those goals. Having a plan in place can help you with your stress levels, both now and in the future.

5. Get help

Always remember that you don't need to handle this alone. If the emotional support of a spouse, friends, or family isn't enough, or the level of stress that you're feeling is just too much, know that there is help available. Consider talking to your primary-care physician, a mental health professional, or an employee assistance resource, for example.

A financial professional can also be a valuable resource in helping you work through some of the steps discussed here, and can help direct you to other sources of assistance, like credit or debt counseling services, depending on your needs.

The most important thing to keep in mind is that you have the ability to control the amount of financial stress in your life.

^{1,3,4} American Psychological Association, "Stress in America™: Paying with Our Health," www.stressinamerica.org, February 4, 2015

² Mayo Clinic Staff, "Stress Symptoms: Effects on Your Body and Behavior," www.mayoclinic.org, July 19, 2013

Planned Charitable Giving



Planned giving is the process of thinking strategically about charitable giving to maximize the personal, financial, and tax benefits of your gifts.

There may be costs and expenses associated with trusts, private foundations, and donor-advised funds. Income from charitable trusts and charitable gift annuities is not guaranteed.

Today more than ever, charitable institutions stand to benefit as the first wave of baby boomers reach the stage where they're able to make significant charitable gifts. If you're like many Americans, you too may have considered donating to charity. And though writing a check at year-end is one of the most common ways to give to charity, planned giving may be even more effective.

What is planned giving?

Planned giving is the process of thinking strategically about charitable giving to maximize the personal, financial, and tax benefits of your gifts. For example, you may need to receive income in exchange for the assets you donate, or you may want to be involved in deciding how your gift is spent--things that typically can't be done with standard checkbook giving.

Questions to consider

To help you start thinking about your charitable plan, consider these questions:

- Which charities do you want to benefit?
- What kind of property do you want to donate (e.g., cash, stocks, real estate, life insurance)?
- Do you want the gift to take effect during your life or at your death?
- Do you want to retain an interest in the property you donate?
- Do you want to be involved in deciding how your gift is spent?

Gifting strategies

There are many ways to donate to charity, from a simple outright cash gift to a complex trust arrangement. Each option has strengths and tradeoffs, so it's a good idea to consider which strategy is best for you. Here are some common options:

Outright gift. An outright gift is an immediate gift for the charity's benefit only. It can be made during your life or at your death via your will or other estate planning document. Examples of property you can gift are cash, securities, real estate, life insurance proceeds, art, collectibles, or other property.

Charitable trust. A charitable trust lets you split a gift between a charitable and a noncharitable beneficiary, allowing you to integrate financial needs with philanthropic desires. The two main types are a charitable remainder trust and a charitable lead trust. A typical charitable remainder trust provides an annuity or unitrust interest for one or two persons for life. An annuity interest provides fixed payments, while a unitrust interest

provides for payments of a fixed percentage of trust assets (valued annually). At the end of the trust term, assets remaining in the trust pass to the charity. This can be an attractive strategy for older individuals who seek income. There are a few other variations of the charitable remainder trust, depending on how the income stream is calculated. With a charitable lead trust, the order is reversed; the charity gets the first, or lead unitrust or annuity interest, and the noncharitable beneficiary receives the remainder interest at the end of the trust term.

Charitable gift annuity. A charitable gift annuity provides a fixed annuity for one or two persons for life. It's easier to establish than a charitable remainder trust because it doesn't require a formal trust document.

Private foundation. A private foundation is a separate legal entity you create that makes grants to public charities. You and your family members, with the help of professional advisors, run the foundation--you determine how assets are invested and how grants are made. But in doing so, you're obliged to follow the many rules and regulations governing private foundations.

Donor-advised fund. Similar to but less burdensome than a private foundation, a donor-advised fund is an account held by a charity to which you can transfer assets. You can then advise, but not direct, how your assets will be invested and how grants will be made.

Tax benefits

Charitable giving can provide you with great personal satisfaction. But let's face it, the tax benefits are valuable, too. Your gift can result in a substantial income tax deduction in the year you make the donation, and it may also reduce capital gains and estate taxes. With a charitable remainder trust, you generally receive an up-front income tax deduction equal to the estimated present value of the interest that will eventually go to charity.

Charitable contribution deductions are generally limited to 50% of your adjusted gross income (AGI), or 30% or 20% of AGI depending on the type of charity and the property donated. Disallowed amounts can generally be carried over and deducted in the following five years, subject to the percentage limits in those years. Your overall itemized deductions may also be limited based on the amount of your AGI.

The charity must be a qualified public charity in order for you to enjoy these tax benefits. Not all tax-exempt charities are qualified charities for tax purposes. To verify a charity's status, check IRS Publication 78, or visit www.irs.gov.

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What is the Roth 401(k) five-year rule?

The Roth 401(k) five-year rule determines when you can begin receiving tax-free qualified distributions from your 401(k) plan Roth account.

While it's similar to the five-year rule that applies to Roth IRAs, there are important differences.

Withdrawals from your Roth 401(k) plan account—including both your contributions and any investment earnings—are completely tax and penalty free if you satisfy a five-year holding period *and* one of the following also applies:

- You've reached age 59½
- You have a qualifying disability, or
- The withdrawal is made by your beneficiary or estate after your death

The five-year holding period begins on the first day of the calendar year in which you make your first Roth 401(k) contribution (regular or rollover) to the plan. For example, if you make your first Roth contribution to your company's 401(k) plan in December 2015, your five-year holding period begins on January 1, 2015, and ends on December 31, 2019.

If you participate in 401(k) plans maintained by different employers, your five-year holding period is determined separately for each plan. But there's an important exception. If you make a direct rollover of Roth dollars from your prior employer's plan to your new employer's plan, your five-year holding period for the new plan will be deemed to start with the year you made your first Roth contribution to the prior plan.

For example, Beth made Roth contributions to the Acme 401(k) plan beginning in 2011. In 2015, she changed jobs and began making Roth contributions to the Beacon 401(k) plan. Her five-year holding period for the Acme plan began on January 1, 2011, and ends on December 31, 2015. Her five-year holding period for the Beacon plan began on January 1, 2015, and ends on December 31, 2019. In 2015, Beth decides to make a direct rollover of her Acme Roth account to Beacon's 401(k) plan. Because of the rollover, Beth's January 1, 2011, starting date at Acme will carry over to the Beacon plan, and any distributions she receives from her Beacon Roth account after 2015 (rather than 2018) will be tax free (assuming she's at least age 59½ or disabled at the time of distribution).



What is the Roth IRA five-year rule?

Actually, there are *two* five-year rules you need to know about. The first five-year rule determines when you can begin receiving tax-free qualified distributions from your Roth IRA.

Withdrawals from your Roth IRA—including both your contributions and any investment earnings—are completely tax and penalty free if you satisfy a five-year holding period *and* one of the following also applies:

- You've reached age 59½ by the time of the withdrawal
- The withdrawal is made due to a qualifying disability
- The withdrawal is made for first-time homebuyer expenses (\$10,000 lifetime limit)
- The withdrawal is made by your beneficiary or estate after your death

This five-year holding period begins on January 1 of the tax year for which you made your first contribution (regular or rollover) to any Roth IRA you own. For example, if you make your first Roth IRA contribution in March 2015 and designate it as a 2014 contribution, your

five-year holding period begins on January 1, 2014 (and ends on December 31, 2018). You have only one five-year holding period for determining whether distributions from any Roth IRA you own are tax-free qualified distributions. (Roth IRAs you *inherit* are subject to different rules.)

The second five-year rule is a little more complicated. When you convert a traditional IRA to a Roth IRA, the amount you convert (except for any after-tax contributions you've made) is subject to income tax at the time of conversion. However, your conversion isn't subject to the 10% early distribution penalty, even if you haven't yet reached age 59½.

But what the IRS gives it can also take away. If you withdraw any portion of your taxable conversion within five years, you'll have to pay the 10% early distribution penalty on those funds that you previously avoided—unless you've reached age 59½ or qualify for another exemption from the penalty tax. This five-year holding period starts on January 1 of the year you convert your traditional IRA to a Roth IRA. And if you have more than one conversion, each will have its own separate five-year holding period for this purpose.