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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.

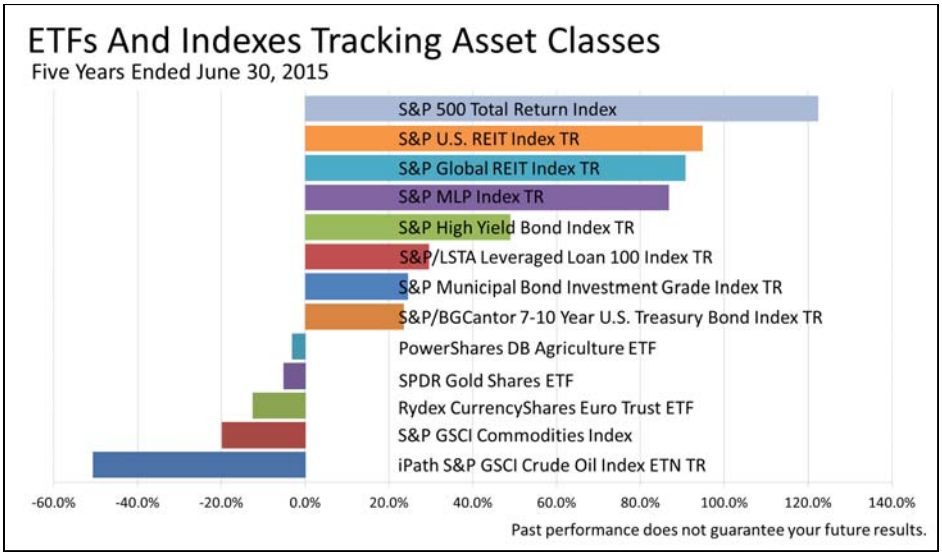
Atop the chart, the best investments by far, were America's blue-chip publicly held companies. Also among the best-performing asset classes for the five years were real estate investment trusts (REITs), both U.S. and foreign, and master limited partnerships.

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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Spotlight On... Andrea Vermirovska

Hello, my name is Andrea Vermirovska and I work as the administrative assistant here at Mosaic.

I was born in the Czech Republic but have been living in Chicago most of my life. I attended Lincoln Park High School and later obtained my Bachelor's degree from Northeastern Illinois University in Community Health and Wellness.

While in college, my main focus was health disparities throughout Chicago's low-income neighborhoods, which led me to volunteer for the Chicago Recovery Alliance. This is a needle-exchange program that promotes safety, harm reduction, and fights the spread of HIV and hepatitis among drug users.

My last year of college, I interned for the Congress for the New Urbanism, where I grew more and more interested in the area of urban planning, which I hope to pursue once I return back to school. After college, I joined Mosaic as an administrative assistant. I really appreciate getting the opportunity to work with such a wonderful team of people and I am really looking forward to what the future brings!

In my spare time, I enjoy being active, reading, traveling, going to concerts and movies, spending time with friends and family, and exploring our wonderful city. If you are ever looking for witty short stories, Etgar Keret is a great way to pass time.

Three Ways To Defuse Estate Rifts

It's impossible to know what will happen to your family after you're gone, but it's doubtful you're envisioning a bitter squabble over your possessions. Yet many a family is torn asunder when a patriarch or matriarch leaves this world.

Although there are no guarantees the claws won't come out, here are three documents that may reduce the potential for a serious rift:

1. A will. Virtually every adult with assets of any value needs a will. Typically, a will is the centerpiece of an estate plan and covers everything from appointing guardians for young children and addressing estate tax issues to determining who will receive your most valuable assets. A will gives you the opportunity to spell out who will inherit the beach house or expensive jewelry as well as other items of sentimental value.

A properly executed will is legally enforceable, so it's crucial that yours meets all of the technicalities of your jurisdiction. If you have significant assets you'll probably need to hire an attorney to draw up the document. It's likely that it will need to be updated in the future as your family circumstances change.

2. Personal property memorandum. Your will likely won't cover every last trinket you own, and it's a hassle to revise it all the time for minor changes. A personal property memorandum can supplement a will and may be referred to in the will itself. The memorandum can list all of your personal assets and your intended beneficiary for each item.

More than half of the nation's states have laws recognizing a personal property memorandum as legally binding. To avoid confusion, include a detailed description of your property. Make sure your executor has an official copy of both the will and the memorandum.

3. Letter of instruction. This is the last piece of the puzzle. Although a letter of instruction isn't legally binding, it can clarify certain issues and provide additional guidance to your heirs. The letter may include:

- The location of important documents, such as your will, insurance policies, titles, and deeds;
- Details of cemetery plots and funeral arrangements;
- Contacts for legal, tax, and financial information;
- A list and descriptions of all financial assets, including savings and checking accounts, stocks, bonds, and retirement accounts;
- The location of your tax returns for the past three years;
- The location of safe deposit boxes and keys; and
- Other special requests (for example, preferences for grandchildren attending college).

Last, but not least, your family members need to know about these three documents and where to find them. ●

You Know You're Getting Old When You Get RMD Notice

Growing older is something everyone must face, even if it's only one day at a time. But what is old, and how do you know when you get there? One way is when you get a notice that you have reached the year of your 70th birthday and must begin taking required minimum distributions from your 401(k) or other retirement plan or a traditional IRA account. This is a wakeup call, and a shock, for some people.

Here is a typical notice from an IRA custodian. Sent this year, it reads, "Federal tax law requires that you receive taxable payments from your traditional IRA every year once you reach age 70½. These payments are called required minimum distributions (RMDs). If the RMD is not taken, the IRS could assess a 50% excess accumulation penalty tax on the amount of the payment that should have been distributed but was not. According to our records, you have a traditional IRA with us and will attain age 70½ in 2015."

Owners of Roth IRAs do not receive these notices because there's no tax deduction for Roth contributions—that money already has been taxed—and withdrawals therefore are tax-free.

A woman who recently received a RMD notice called her IRA custodian and exclaimed that she was shocked into reality about her age when she received the notice. "Even though I was of course aware of my age at one level, the notice shocked me into reality that indeed I am getting old." Although still working, she said she plans to retire after she takes her first withdrawal by April of 2016. By law, RMDs may be taken as late as April of the year following the year a person turns 70½.

Now, back to the question of how old is old. According to statistics compiled by the Organization for

Don't Be Caught Unawares By This Stealth Tax

Most of us are all too familiar with the regular income tax calculation on Form 1040. But a somewhat lesser-known tax, the alternative minimum tax, or AMT, could end up giving you a larger tax bill. The AMT was designed initially to apply only to the very wealthiest taxpayers, but for many years now, this so-called "stealth tax" has ensnared millions of taxpayers at less rarified income levels. You could be one of them.

The AMT runs on a track parallel to the regular tax computation. The difference is calculated on Form 6251 (Alternative Minimum Tax—Individuals). If your AMT calculation results in a higher tax, that's what you must pay.

This isn't a straightforward process. The AMT computation involves various technical adjustments, subtraction of an exemption amount and application of the AMT tax rate. For 2015, the AMT rate is 26% on the first $185,400 of AMT income ($92,700 if married and filing separately) and 28% above that threshold.

For your regular tax calculation, you add up all of your income, subtract deductions, and then apply the applicable tax rates. Then you can further offset what you owe with various credits. With the AMT, you don't include the standard deduction, personal exemptions or certain itemized deductions. Furthermore, some types of income, which aren't subject to regular tax, are added for AMT purposes. This can result in a higher tax under the AMT than you would have to pay with the regular tax.

After making the technical adjustments referred to above, items that are "added back" to AMT income may trigger the alternative tax. The list includes the following:

- State and local income taxes
- Medical expenses
- Miscellaneous expense deductions (for example, unreimbursed employee business expenses)
- Interest on home equity debt
- Accelerated depreciation
- Exercise of incentive stock options (ISOs)
- Tax-exempt interest from "private activity" municipal bonds
- Foreign tax credits
- Net operating loss deductions
- Passive income or losses
- Investment interest expenses

This list is not all-inclusive, but it gives you a good idea of items that may cause AMT liability. Typically, the AMT wipes out the tax benefits derived from some deductions. In particular, residents of states with a high income tax are vulnerable.

The AMT exemption is based on your filing status and is indexed annually for inflation. For 2015, the exemption amount is $53,600 for single filers and heads of household, $83,400 for joint filers and qualifying widows or widowers, and $41,700 for married people filing separately.

But that's not the end of the story. These exemption amounts are phased out for upper-income taxpayers.

The phaseout is equal to 25 cents for each dollar of AMT income above an annual threshold. The threshold for 2015 is $119,200 for single filers and heads of household, $158,900 for joint filers and qualifying widows or widowers, and $79,450 for married people filing separately

There's not much you can do if you owe the AMT for last year, but you might be able to reduce or avoid AMT liability for this year through one or more tax strategies. Here are five ideas to consider:

1. Sell ISOs when you exercise them. If you do both, you'll be subject to regular tax on the income, but not the AMT. But if you exercise ISOs and don't sell them, you will have income for AMT purposes. Alternatively, you might postpone the exercise of ISOs until a later year.

2. Seek reimbursement for employee business expenses. These expenses may be claimed as miscellaneous expense deductions, which are added back in the AMT calculation. In contrast, employer reimbursements are tax-free if they are properly accounted for.

3. Adjust state income tax withholding. Try to pay just enough so you won't owe state income tax, but don't overpay. This will lower your state income tax deduction. Remember that this is frequently one of the adjustments triggering AMT liability.

4. Don't prepay property taxes. In the same vein, avoid paying the property tax installment for next year at the end of this year. Keep your deduction for state and local taxes as low as possible.

5. Watch out for private activity bonds. These bonds often are used to finance stadiums and similar ventures.

Of course, you still can be caught up in the AMT despite your best intentions. Consult with a tax expert as how to best address your personal situation. ●

Economic Cooperation and Development (OECD), whose membership is composed of 36 nations, the average man in the U.S. as of 2011 could expect to live to age 76. Women in the U.S. the same year can expect to live to an average age of 81.

As far as longevity is concerned, the U.S. doesn't fare very well when compared to other nations. This country ranked No. 26 among the 36 OECD member nations, with an overall life expectancy for both genders of 78.7.

That's the bad news. Now, here's the good news: people are living longer as time passes.

Here's proof: according to statistics compiled by Infoplease, overall life expectancy in the U.S. in 2014 had moved up to 79.56 years.

Time is precious. Enjoy the rest of your life on earth. Proper retirement planning will help ensure your life's enjoyment after you reach "old age."

We are more than happy to assist with your planning. ●

Wash Sale Rule Isn't For Gains

If you're an experienced investor, you probably know about the "wash sale" rule for security sales. It means you can't deduct a capital loss from the sale of securities for federal income tax purposes if you buy new shares of "substantially identical" securities within 30 days.

But you may not realize that there's no corresponding rule for capital gains. In other words, you can reap all of the usual tax benefits when you harvest a capital gain at the end of the year, even in a declining market.

Consider today's tax landscape. As the year winds down, you may want to sell stocks in order to harvest capital losses that can offset capital gains you've realized during the year. If your losses exceed your gains, you can use the excess amount to offset up to $3,000 of ordinary income and then carry over any remainder to next year. This can be an especially attractive opportunity if you can reduce the amount of your short-term capital gains that otherwise would be taxed at ordinary income rates reaching up to 39.6%.

If, after the recent market downturn, some of your holdings are worth less than you paid for them, you can take a loss to offset capital gains. But you may not want to offset long-term gains on stocks you've held for more than a year. The maximum tax rate on long-term gains is normally 15% or 20% for those in the top ordinary income tax bracket. A 0% rate applies to long-term gains for investors in the two lowest tax brackets.

And the wash sale rule may hinder you if you believe a particular stock or mutual fund is poised to rebound. You'll normally have to wait at least 31 days after a sale before you buy back the same securities. One way around the rule is to "double up," buying the same securities right away and waiting at least 31 days to sell your original shares.

But there's no such restraint if you're harvesting capital gains rather than losses. You could cash in a long-term gain and buy back the same stock or mutual fund immediately with no tax worries.

For example, suppose you bought a stock three years ago for $10,000. The value increased to $15,000, but now has dropped back to $12,000. However, you're bullish on the stock's future prospects.

Assuming that it otherwise makes sense, you can sell the stock and pocket a $2,000 long-term gain. If you're in the 35% tax bracket or lower, the most you have to pay in capital gains tax is $300 (15% of $2,000). Then you can buy it again and hold the stock until you sell it later at either a gain or a loss. The wash sale rule never comes into play.

Of course, there are other factors to consider in your investment decisions, including a stock's fundamentals. The best approach is to consult your financial advisors concerning all of the tax and investment ramifications of your decisions. ●

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 last 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. ●