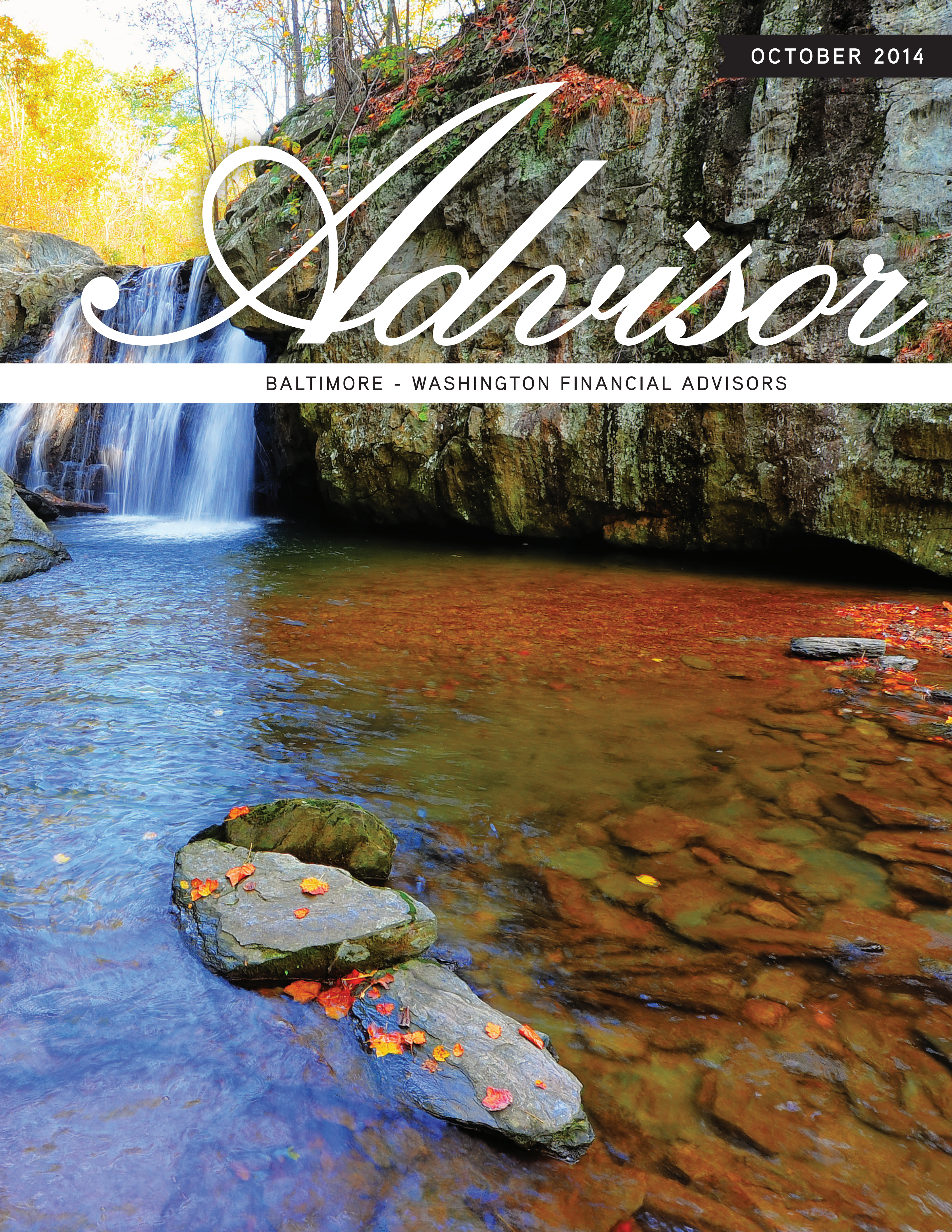
OCTOBER 2014
Advisor
BALTIMORE - WASHINGTON FINANCIAL ADVISORS

B | W | F | A

President's Address

TODAY'S INVESTMENT LANDSCAPE IS MORE COMPLEX THAN IT HAS EVER BEEN. INCREASINGLY, IT TAKES A TEAM OF DEDICATED EXPERTS TO MANAGE YOUR MONEY, AND MORE AND MORE PEOPLE ARE REALIZING THE VALUE OF WORKING WITH A REGISTERED INVESTMENT ADVISOR (RIA) SUCH AS BWFA.

Recently, the *Financial Times* recognized 300 of the top RIAs, based on a set of criteria that BWFA has always taken great pride in: assets under management (AUM), AUM growth rate, years in existence, compliance record, industry certifications (such as CFP® and CFA), and online accessibility. BWFA always strives to excel in each of these areas, and it's nice to be recognized alongside other RIAs that also seek to work in their clients' best interests.

While it's always nice to have an award, BWFA's main goal continues to be serving our clients. We appreciate the Financial Times for recognizing the hard work and dedication that we see as part of our responsibility to our clients' best interests. The greatest award we could ever receive, however, is knowing that we've worked hard to achieve the goals that we and our clients have set.

FT SPECIAL REPORT

FT 300

Top Registered Investment Advisers

Thursday June 26 2014 www.ft.com/reports | @ftreports

Bright lights in tough times

FINANCIAL TIMES THURSDAY JUNE 26 2014

FT 300 Top Registered Investment Advisers

What are the characteristics of an adviser in the Financial Times Top 300? *Loren Fox* explains

As baby boomers retire, the demand for top-quality advice accelerates

The average FT 300 practice saw its assets under management rise 23 per cent in 2013

Robert Carpenter

FT FINANCIAL TIMES | Top Financial Advisers 2014

Financial Times Top 300 Advisers 2014

The leading firms in the FT 300

FT 300 Top Registered Investment Advisers

Firm name	City	Client segments served: Retail (individuals with <$1m)	HNW (individuals with $1m – $10m)	Ultra HNW (individuals with $10m +)	Institutional
Maryland					
Baltimore Washington Financial Advisors	Columbia	✓	✓	✓	✓
Chevy Chase Trust	Bethesda	✓	✓	✓	
Convergent Wealth Advisors	Potomac		✓	✓	✓
FBB Capital Partners	Bethesda	✓	✓	✓	
Heritage Investors Management Corp.	Bethesda	✓	✓	✓	✓
Highline Wealth Management, LLC	Rockville		✓	✓	✓
HighTower Bethesda	Bethesda	✓	✓	✓	✓
HighTower's Kelly Wealth Management	Hunt Valley	✓	✓	✓	✓
Maryland Capital Management	Baltimore	✓	✓	✓	✓
Pinnacle Advisory Group, Inc.	Columbia	✓	✓	✓	✓
Retirement Management Systems	Annapolis	✓	✓		
WMS Partners, LLC	Towson	✓	✓	✓	

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Baltimore-Washington

FINANCIAL ADVISORS

Disclosure: Third-party rankings from Financial Times and other publications are no guarantee of future investment success. Working with a highly-ranked adviser does not ensure that a client or prospective client will experience a higher level of performance or results. These rankings should not be construed as an endorsement of the adviser by any client. Rankings are based on information prepared and submitted by the adviser. The Financial Times ranking is based upon a firm's assets under management, asset growth rate, years in existence, compliance record, industry certifications, and online accessibility.

Advisor

Do you know someone

WHO COULD USE GUIDANCE WITH THEIR INVESTMENTS?

MAYBE YOU KNOW SOMEONE WHO IS RETIRED OR NEARING RETIREMENT AND COULD BENEFIT FROM OUR SERVICES?

WE ASK YOU, OUR EXISTING CLIENTS, TO RECOMMEND OUR SERVICES TO FRIENDS OR FAMILY MEMBERS THAT COULD BENEFIT FROM OUR SUPPORT.

BY HELPING US GROW OUR "FAMILY OF CLIENTS," WE GET TO SHARE OUR PASSION WITH MORE PEOPLE JUST LIKE YOU.

PLEASE CONTACT MEGHAN AT MMANAS@BWFA.COM

COVER PHOTO: Kilgore waterfall at Rocks State Park

OCTOBER 2014
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Office Manager

Retirement Ready

AM I READY TO RETIRE?

SAXON BIRDSONG
FOUNDER

I retired 25 months ago. Every day since then has been wonderful, and it just keeps getting better. I haven't missed working for even a minute. I find this puzzling, because my friends and family—and I myself—had guessed that the transition to retirement would be difficult. I have always enjoyed challenges, and I assumed quite naturally that I would miss the challenges and excitement of running a fairly complicated small business like BWFA. So why wasn't the transition more difficult?

For 25 years, I loved my job—the employees, the clients, our young interns, the vendors ...everything about the work that I did. I was proud of the company we had built and felt privileged to play a significant role in making it better from one day to the next. How could it possibly be that I didn't miss any of this? Curious, indeed.

I think the answer lies in the fact that I was ready to retire, for a few reasons:

- I was confident that my partners, employees, and I had accomplished our objectives and created a company that would continue to deliver on its commitments to our clients. The people and all the other components necessary for a business to run well were in place. I wasn't leaving a sinking ship.
- Early in my life, while living and studying in Europe in the late 1960s, I developed a deep interest in history and art. Although I have since spent the majority of my life in finance, accounting, and investments, that interest has never left me, and I welcomed the time and mental freedom that retirement would give me to reconnect with such pursuits. The prospect was exciting.
- Because of a serious health event, I became acutely aware that we all have a finite amount of time on earth, and I wanted the freedom to see and pursue more than my work schedule had permitted me to do. I have always had an avid interest in anything with a motor—cars, auto racing, and boats—and I could pursue these interests in retirement as well.
- I was finally financially prepared.

Interestingly, if any one of these items had been missing from the list, I don't think I would have retired when I did. I have since labeled the above items my "confirming facts."

What's your set of confirming facts? While each person's list would be a little different, it seems to me that most people eventually get to the stage where they know it's time—they have developed their list of confirming facts, and they are pretty clear as to why it's time to retire.

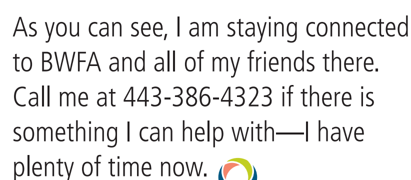
My own experience has led me to think about what those who are still working might do to help ensure that they are better prepared for this next chapter in their lives. **Specifically, I think you should ask yourself the following questions:**

- Am I/Are we financially prepared for retirement? (Taxes and healthcare deserve special attention, and preparing a financial plan with a competent professional can be helpful.) If the answer to this one isn't "yes," then the rest of these are moot.
- What do I want to accomplish in my work before I retire?
- Could I phase out of my job (e.g., work part time) and into retirement? Is this what I want?
- Is my partner/spouse ready? Do we agree on what we will do in retirement? What adjustments should we make to our daily routine to accommodate our new schedule?
- Will retirement give me/us the opportunity to...?
- Do I/we want to relocate?
- Do I/we want to consider downsizing (e.g., condo-style housing) if travel is a big part of our plans? (Of course, unconventional plans like living on a boat or traveling the world in an RV would have all sorts of special challenges and opportunities for you!)

And finally, here are a few of the more important things that I have discovered in retirement:

- You will never run out of things to do. (Other retirees always told me this, and it's true!)
- Exercise is essential to a good retirement. Now that you are not rushed to fit exercise into your schedule, it's quite tolerable.
- It's easier to meet people and make friends in retirement.
- Why doesn't everyone retire to South Florida?

As you can see, I am staying connected to BWFA and all of my friends there. Call me at 443-386-4323 if there is something I can help with—I have plenty of time now.



Financial Planning

CLEAR AS MUD

MARK STINSON
CPA, CFP®, MBA
DIRECTOR OF PLANNING

The IRS has issued new "guidance" for IRA rollover rules, and investors are confused.

Here is what the IRS website states:

"Beginning as early as January 1, 2015, you can make only one rollover from an IRA to another (or the same) IRA in any 12-month period, regardless of the number of IRAs you own (Announcement 2014-15). You can, however, continue to make as many trustee-to-trustee transfers between IRAs as you want. You can also make as many rollovers from traditional IRAs to Roth IRAs ("conversions") as you want."

As my father says, "Clear as mud!" Financial planners understand what the IRS is saying—normal people, however, do not.

What exactly are rollovers and trustee-to-trustee transfers? According to Investopedia, a rollover is when an investor:

1. Reinvests funds from a mature security into a new issue of the same or a similar security.
2. Transfers the holdings of one retirement plan to another without suffering tax consequences.

Investopedia does not have a definition of "trustee-to-trustee transfer." However, it does define a direct transfer as a "transfer of assets from one type of tax-deferred retirement plan or account to another. Direct transfers are not considered to be distributions and are therefore not taxable as income or subject to any penalties for early distribution."

Guess what? Neither of those definitions fits the IRS definition. Confused? Then you are normal. Here is what is going on.

There are two ways to transfer money from one IRA to another IRA: a rollover or a trustee-to-trustee transfer.

ROLLOVER

According to the IRS, the proper definition of a rollover is when an investor receives a check made out to him or her from an IRA and deposits the proceeds into another IRA within 60 days. This is also referred to as a "60-day rollover." The key feature of a rollover is that the investor takes possession of the funds—either by check or wire transfer.

If the investor does not deposit the check into an IRA within 60 days, then the investor is deemed to have taken a withdrawal from the IRA and must pay ordinary income tax on the amount of the distribution. If the investor is younger than 59 ½, then the investor will also pay a 10 percent early withdrawal penalty.

TRUSTEE-TO-TRUSTEE TRANSFER

The second way to transfer money is a trustee-to-trustee transfer—sometimes referred to as a "direct transfer" (correct) or "direct rollover" (incorrect). In a trustee-to-trustee transfer, the investor does not take possession of the funds. Instead, transfer checks are made out to the receiving custodian (for example, TD Ameritrade, "For Benefit Of (FBO) Happy Retiree"). Alternatively, the funds are wired from one existing IRA to another IRA. The key is that the investor never has possession of the funds. The investor can make an unlimited number of trustee-to-trustee transfers.

Investors should always use the trustee-to-trustee transfer to move IRA funds because:

1. The once-a-year rule does not apply.
2. There is no 60-day deadline.
3. There are no taxes withheld on the transfer.

WHAT IS THE BIG DEAL?

IRS Publication 590, "Individual Retirement Arrangements (IRAs)," states that investors can make one rollover per year in each IRA that they own. Now, under the new guidance, investors can only make one roll-over, no matter how many IRAs they have.

Apparently, what is printed in Publication 590 is a *proposed* regulation and not an *approved* regulation. Therefore, the IRS has issued guidance that contradicts a proposed regulation. Therefore, we still do not have an approved regulation. Still confused (normal)...?

The IRS has issued new guidance due to abuse of the 60-day rule—investors have been withdrawing funds from IRAs for non-retirement purposes with the expectation that they will redeposit

those funds within 60 days. For example, funds are withdrawn as a bridge loan between the purchase of a new house and the settlement on the old house. Sometimes the withdrawal is purely speculative, though, like lottery tickets.

Sometimes, as you might guess, things don't go as expected, and the investor is unable to redeposit the withdrawn funds within 60 days, resulting in the taxes and penalties noted above.

THE FINE PRINT

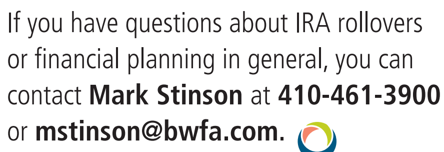
In addition, under the new guidance, any additional rollovers after the first could be deemed "excess contributions," which incur a 6-percent excess contribution penalty for each year the excess contribution remains in the IRA.

This new guidance only applies to IRA-to-IRA or Roth IRA-to-Roth IRA transfers. It would not apply to a rollover to or from an employer-sponsored retirement plan. The IRS will not enforce this guidance retroactively.

BOTTOM LINE

Never use rollovers and only use trustee-to-trustee transfers.

If you have questions about IRA rollovers or financial planning in general, you can contact **Mark Stinson** at **410-461-3900** or **mstinson@bwfa.com**.



KNOW YOUR SOCIAL SECURITY OPTIONS

THAD ISMART
CFP®
FINANCIAL PLANNER

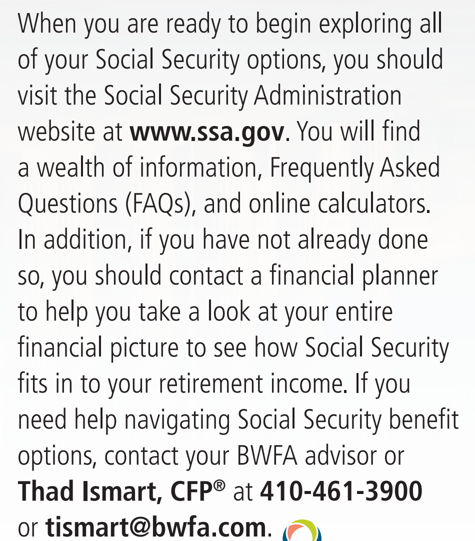
As your retirement approaches, it is important to understand how Social Security factors into your retirement income. Having a clear picture of all of your Social Security options can help you create a plan to maximize your benefits.

Imagine you are about to start a new job, and the time comes to talk to your boss about your income. He tells you that there are many different ways that you can be paid, and you can start receiving your income at hundreds of different times. In addition, he tells you that there are payroll employees who can assist you with basic questions you may have, but determining how and when you get paid is ultimately up to you.

For those who have dealt with the Social Security Administration (SSA), this all too familiar. The SSA is dedicated to providing a service, not providing financial advice. Many times applicants know little about their options, the complexity of the program, and the many ways they can collect benefits. Often, some SSA employees' lack of service and knowledge leaves the applicant without clear answers.

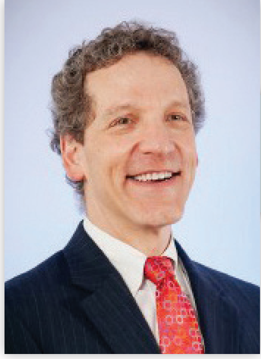
HAVING A CLEAR PICTURE OF ALL OF YOUR SOCIAL SECURITY OPTIONS CAN HELP YOU CREATE A PLAN TO MAXIMIZE YOUR BENEFITS.

SSA employees do not know about your financial situation, your health, the amount of life insurance you have, or if you plan to work in retirement; and, to be fair, it is not their job to know. It is up to you to research and learn about, or solicit help to learn about, your Social Security benefit options. If, for example, you are adamant about collecting benefits early (age 62), locking in a lower benefit for you, and possibly your spouse, the SSA is not going to counsel you or help you explore other options.



When you are ready to begin exploring all of your Social Security options, you should visit the Social Security Administration website at **www.ssa.gov**. You will find a wealth of information, Frequently Asked Questions (FAQs), and online calculators. In addition, if you have not already done so, you should contact a financial planner to help you take a look at your entire financial picture to see how Social Security fits in to your retirement income. If you need help navigating Social Security benefit options, contact your BWFA advisor or **Thad Ismart, CFP®** at **410-461-3900** or **tismart@bwfa.com**.

Investment Research



ASSESSING MANAGEMENT QUALITY

PHILIP WEISS
CFA, CPA
CHIEF INVESTMENT ANALYST

When evaluating companies for potential investment, two of the most important aspects are valuation and management quality. Although our research process is based on bottom-up fundamental analysis, it still requires a considerable amount of qualitative assessment. In other words, we do more than analyze the numbers when making a decision to buy, hold or sell a security; we also perform qualitative analysis of the management team. Both are essential components in the investment process.

Typically, our evaluation of management starts with the numbers, as they are an integral part of the process. By analyzing financial data, we can gain insight into how effectively management allocates capital. Numbers can also help us determine if the information presented in a company's financial statements represents a true picture of the company's financial performance. It is also important to evaluate profit margins. We prefer companies that do not simply chase incremental sales for the sake of short-term revenue growth. We want to see that an increase in sales generates higher operating cash flow.

Capital allocation is senior management's most important fundamental responsibility. While we do not question their intentions, our main concern is that a CEO may lack the knowledge required to effectively allocate capital. The objective is to build long-term value per share. The emphasis should be placed on building value for the long-term and letting the stock market reflect that value. Companies that dwell on boosting their stock price in the short term often make decisions that run contrary to the principle of enhancing long-term value. If companies were able to consistently allocate capital effectively, reports of restructuring plans, cost overruns, and failed projects would be more infrequent.

It is important to have insight into whether a company may be growing its asset base too quickly. Academic research shows that rapid asset growth often leads to poor shareholder returns. Correspondingly, companies that shrink their asset base (for example, through divestitures, sales or spinoffs) may meaningfully increase value per share. Capital allocation is a dynamic process, so the answer to nearly all capital allocation questions is, "it depends." Intelligent capital allocation requires an understanding of the long-term value of potential opportunities as well as knowledge of the value of a firm's individual assets. The willingness to sell assets when they are worth more to others is also required.

Successful capital allocation means converting inputs, including money, things, ideas and people into something more valuable than they would be otherwise. If a company successfully allocates cash, it means that $1 invested in the business is worth more than $1 in the market. This occurs when the present value of the long-term cash flow generated by an investment exceeds its initial cost.

As noted above, a qualitative assessment of management is also a critical part of evaluating a company. Philip Fisher is considered one of the greatest investors of all time. Perhaps the best-known of Fisher's followers is Warren Buffett. Fisher practiced long-term investing, and strove to buy great companies at reasonable prices. Fisher's famous "Fifteen Points to Look for in a Common Stock" from his book *Common Stocks and Uncommon Profits* provide a qualitative guide to finding well-managed companies with growth prospects. According to Fisher, a company must qualify on most of his 15 points to be considered a worthwhile investment. Included among Fisher's points are the following:

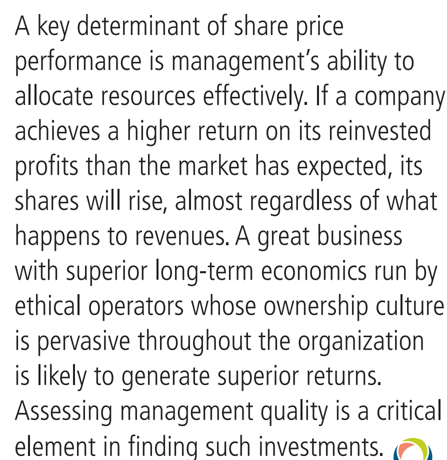
- Does the company have outstanding executive relations?
- Does the company have depth to its management?
- Does the company have a long-term outlook in regard to profits?
- Does management talk freely to investors about its affairs when things are going well, as well as when troubles and disappointments occur?
- Does the company have a management of unquestioned integrity?

In order to answer questions such as these, BWFA reviews the company's publicly filed proxy statements to review management incentives and the appropriateness of compensation. We also listen to management conference calls (or read

the related transcripts). Our research includes internet searches for information related to key members of the management team. We also try to answer the following questions: Is management's strategy and approach consistently applied? Do management's priorities change frequently? Does management remain true to the company's stated mission statement?

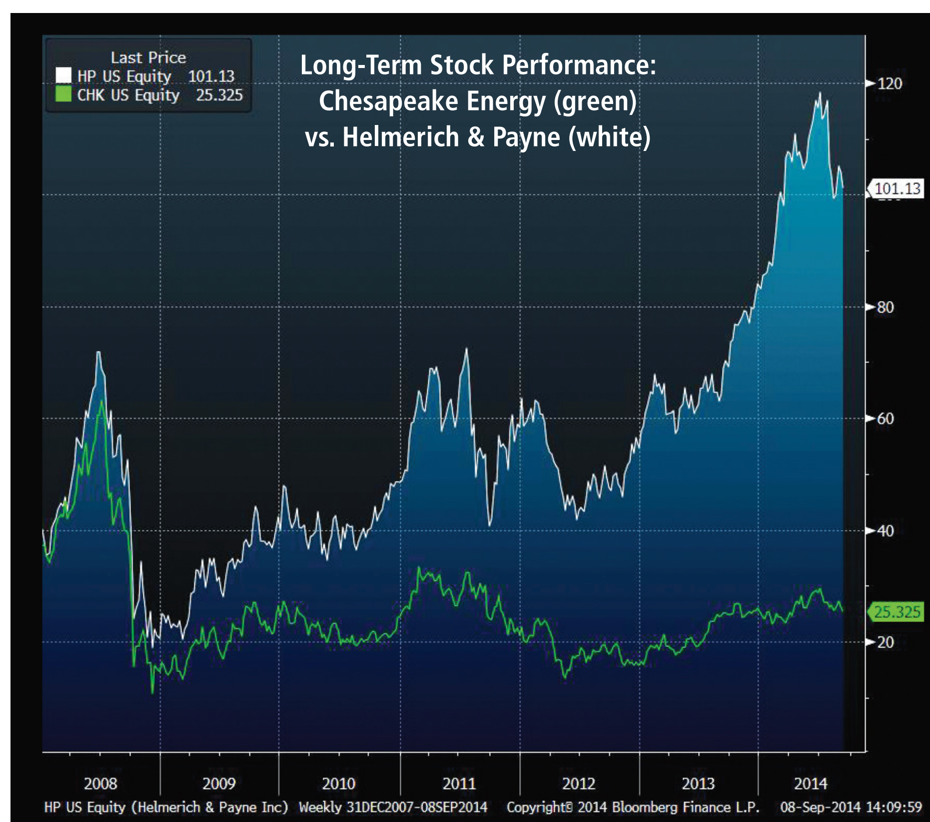
An example of how management quality and approach can have an impact on returns can be seen by comparing two companies in the oil and gas industry: Chesapeake Energy (CHK) and Helmerich & Payne (HP)[1]. Aubrey McClendon was formerly CHK's CEO. Under Mr. McClendon's leadership CHK accumulated leading positions in many of the US's largest unconventional oil and natural gas basins. However, in our view, Mr. McClendon was a poor capital allocator. The company constantly had to borrow to support its growth efforts. It also used considerable financial engineering to obfuscate the company's true financial picture. Additionally, the company's compensation policies enriched Mr. McClendon even when the company's financial performance lagged. The shares have underperformed considerably after reaching an all-time high of $62.39 in 2008's second quarter. Ultimately, activist shareholders forced Mr. McClendon's departure.

On the other hand, the shares of Helmerich & Payne (HP) – which operates rigs used to drill oil and gas wells in many of the same locations in which Chesapeake owned meaningful acreage – has strongly outperformed CHK over the long term. HP is generally considered a well-run company with many long-term employees. It only allocates capital to build new rigs when it can secure at least a three-year contract before the rig is built. The company would not enter into new contracts with Chesapeake during Mr. McClendon's tenure, because he always wanted a break on rig rates. CHK also had a reputation for taking longer than peers to pay its bills.



Given the relative quality of the two management teams, HP's outperformance is hardly a surprise.

A key determinant of share price performance is management's ability to allocate resources effectively. If a company achieves a higher return on its reinvested profits than the market has expected, its shares will rise, almost regardless of what happens to revenues. A great business with superior long-term economics run by ethical operators whose ownership culture is pervasive throughout the organization is likely to generate superior returns. Assessing management quality is a critical element in finding such investments.



[1]*At the time of publication, neither HP nor CHK were on BWFA's Buy, Sell or Hold list.*

Mergers & Acquisitions

Growing Your Business Through Acquisitions

Brian MacMillan
Managing Director
Mergers & Acquisitions

There are two main ways to grow a business: organically (increasing your customer base, obtaining new contracts, growing current client relationships, etc.) and through acquisitions. Growing a business organically is commonplace and is the method that most businesses are comfortable implementing. Many small- and lower-middle-market business owners do not fully understand how to go about acquiring another company and many erroneously believe it is only large businesses that can acquire other companies.

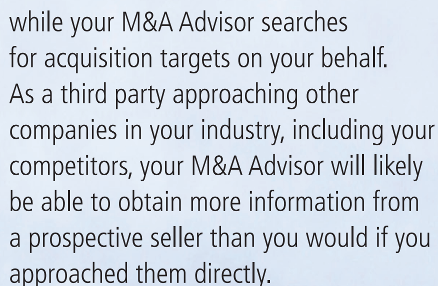
Growing a business through acquisitions can be a great way for any sized business to expand. Small- and middle-market companies are actually best situated to improve their market position through acquisitions. Acquiring another company can allow business owners to quickly: add significant revenue and profitability; enter specific markets where they may not have a foothold; and add talented employees. For example, a government contractor with a great track record in the information technology space and a significant work history with the Department of Energy may find it difficult to obtain contracts in other departments such as the Department of Homeland Security. However, it can quickly gain access to the Department of Homeland Security by acquiring a company that is already working with it. This acquisition can provide the company with access to revenue and profit-producing contracts that they otherwise might not have been able to win.

GROWING A BUSINESS THROUGH ACQUISITIONS CAN BE A GREAT WAY FOR ANY SIZED BUSINESS TO EXPAND.

However, acquiring another company is not easy and can be more difficult for an organization if they do not have a well-thought-out proactive strategy. A recent study by Deloitte indicates that "serial acquirers" were much more successful than companies that were "ad hoc acquirers."

Most small- and middle-market companies cannot afford to hire their own team of individuals to actively pursue acquisitions. However, engaging a good outside Mergers & Acquisitions team can be an effective way to proactively target companies that may be good acquisitions for your company.

Mergers & Acquisitions professionals can guide you through the entire acquisition process. You can continue to focus on running your business



while your M&A Advisor searches for acquisition targets on your behalf. As a third party approaching other companies in your industry, including your competitors, your M&A Advisor will likely be able to obtain more information from a prospective seller than you would if you approached them directly.

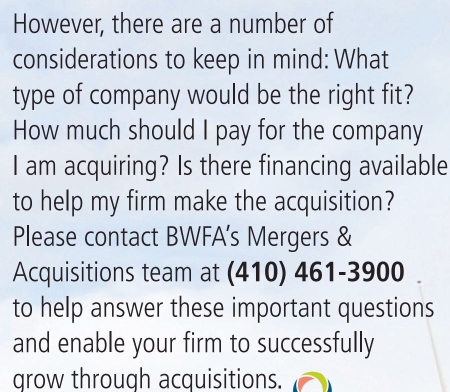
MERGERS & ACQUISITIONS PROFESSIONALS CAN GUIDE YOU THROUGH THE ENTIRE ACQUISITION PROCESS.

Once engaged, your M&A Advisor will help you determine the type of business you want to acquire. Specific industry segments should be discussed along with the geographic location in which to acquire, the size of business that would be the best fit, and other criteria. Your M&A Advisor will develop a list of specific target companies to approach and contact them confidentially on your behalf. He/She will enter into non-disclosure agreements with any interested parties and obtain relevant information that will allow you to make a determination on whether the company is the right fit. This information can include financial statements and tax returns, contract details, employee information, etc.

After reviewing the details of the target acquisition with you, your M&A Advisor can schedule a conference call or meeting with the owner of the selling entity to answer any additional questions you may have about the business and help determine if you will be able to work with this individual or group to get the deal closed and through the transition. Owners of small- and middle-market businesses can sometimes be emotional when contemplating the sale of their businesses. One of the main roles of M&A Advisors is to keep the emotion out of the transaction as much as possible. As a third party, the M&A Advisor can minimize the impact of strongly held sentiments to help ensure that the transaction is successfully completed.

If you determine that the business is one you would like to pursue, your M&A Advisor will help craft an offer or Letter of Intent for the business. An experienced M&A Advisor should also be able to introduce you to other professionals (due diligence specialists, M&A attorneys, etc.) that are crucial to successfully completing an acquisition. Some M&A Advisors can also facilitate the financing required to purchase the target company, as they would have developed relationships with local, regional, and national lenders.

ACQUIRING OTHER COMPANIES CAN BE A GREAT WAY TO GROW YOUR COMPANY'S REVENUE AND PROFITABILITY.



However, there are a number of considerations to keep in mind: What type of company would be the right fit? How much should I pay for the company I am acquiring? Is there financing available to help my firm make the acquisition? Please contact BWFA's Mergers & Acquisitions team at **(410) 461-3900** to help answer these important questions and enable your firm to successfully grow through acquisitions.

Investment Management

BWFA'S APPROACH TO RISK MANAGEMENT

CHRIS KELLY
CPA, CFP®, M. ACCY
FINANCIAL ADVISOR & PORTFOLIO MANAGER

The Merriam-Webster Dictionary defines risk as, "the chance that an investment will lose value." This "chance of loss" is what the professional portfolio managers at BWFA strive to manage on an ongoing basis.

Before delving into the intricacies of BWFA's risk management techniques and procedures, let me first provide the foundation of what risk really means for our investment management clients.

All investors are averse to risk. Most investors are able to tolerate the potential for loss if their accounts are professionally managed according to their individual risk profile and asset allocation model. If an asset allocation is riskier than the client's tolerance for that risk, she may not be able to handle the volatility and inevitable market downturns. On the other hand, if an asset allocation is less risky than a client's tolerance, this may force her to spend less and save more to reach her desired future goals.

Just as there is never a safe time to be in the markets, there also is never a safe time to be sitting on the sidelines. Market risk premiums are only rewarded to those investors willing to remain in the markets through the most trying of times. Playing it totally safe, more often than not, leads to a loss of future purchasing power—courtesy of higher inflation relative to total return.

HELPING EACH CLIENT CHOOSE AN INVESTMENT MODEL THAT FITS HER SPECIFIC RISK TOLERANCE IS AN IMPORTANT PART OF OUR JOB.

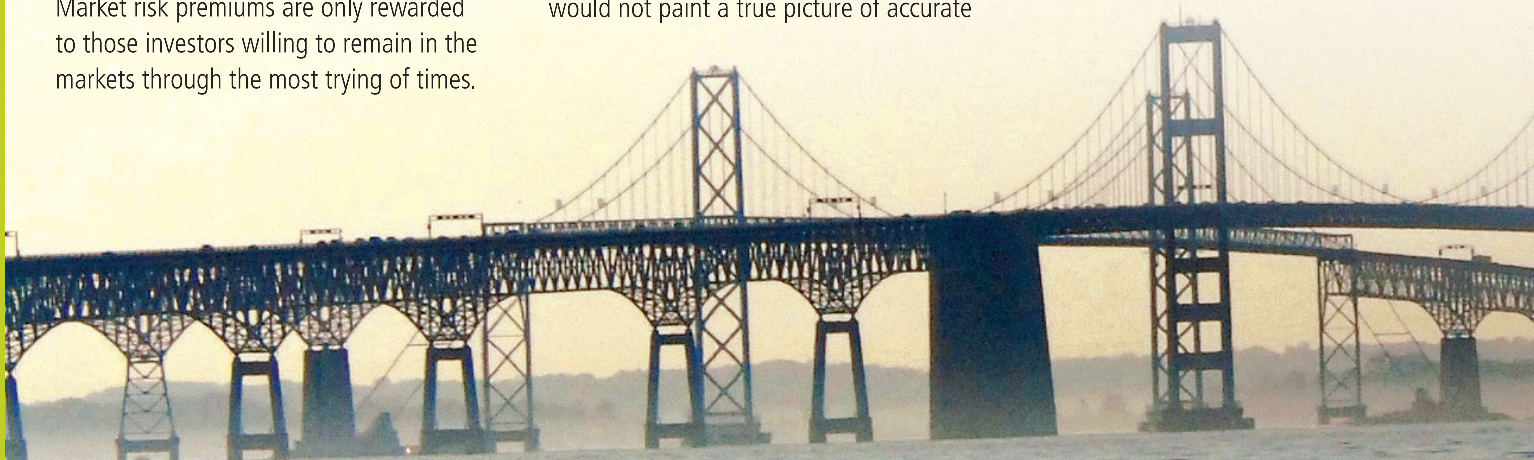
The professionals at BWFA approach risk management in a calculated and thoughtful manner. We use several measurement processes so that we are better able to attain a broad understanding of underlying risk factors.

In our quest to uncover quality investments, we analyze financial data and research many aspects of the companies we buy for clients. The analysis of corporate balance sheets, projected earnings, and cash flow data are staples of sound investment due diligence, and they are critical evaluation components employed at BWFA. However, the above analyses alone would not paint a true picture of accurate portfolio risk, unless they are performed in conjunction with other important statistical measurements.

The statistical measurements defined on facing page are the core of the investment and portfolio risk analysis process undertaken at BWFA. The terms and calculations may seem complex and convoluted, but more important than our clients' complete comprehension of the terms is the acknowledgement that we are committed to maintaining a healthy risk environment for our clients.

Helping each client choose an investment model that fits her specific risk tolerance is an important part of our job. Equally important is our follow-through with regard to risk analysis, and investment selection and application, so as to maintain portfolio balance that is in line with our clients' risk expectations.

Feel free to contact a BWFA professional or stop by our offices if you'd like to discuss your specific investment strategy and objectives.



STANDARD DEVIATION	The variance around the mean (average) return of a portfolio over time.	$\sqrt{\frac{\sum (R_i - \overline{R})^2}{n}}$	Determines the portfolio's volatility compared to the volatility of the S&P 500 Index. Higher Standard Deviation indicates a higher level of risk.
BETA	A measure of the volatility, or systematic risk, of a portfolio in comparison to the S&P 500 Index.	$\frac{Cov(r_a, r_p)}{Var(r_p)}$	A beta < 1 means the portfolio was less volatile than the market. A beta > 1 means the portfolio was more volatile than the market.
ALPHA	Measure of the difference between a portfolio's actual return and its expected return, given its level of risk (as measured by beta).	$R_p - R_{rf} - \beta(R_m - R_{rf})$	The value that a portfolio manager adds to or subtracts from a portfolio's return. A positive alpha implies that the portfolio had a higher return than predicted by its beta.
R SQUARED	Measures the correlation between the returns of the portfolio and the returns of the S&P 500 index.	$\left[\frac{(n\sum R_m R_p - \sum R_m R_p)^2}{\left[n\sum (R_m)^2\right]\left[n\sum (R_p)^2\right]}\right]$	Defines the usefulness of the beta calculation. The closer R-squared is to 1, the more accurate beta is. If Beta is not an acurate statistic, the portfolio moves independent to the S&P 500 Index. If R-squared is less than 0.85, beta is a less-useful statistic.
SHARPE RATIO	A measure of risk-adjusted return. It is the excess return per unit of total risk.	$\frac{(R_p - R_{rf})}{\sigma}$	Implies whether a portfolio's returns are due to smart investment decisions or a result of excess risk. The greater a portfolio's Sharpe ratio, the better its risk-adjusted performance has been. A negative Sharpe ratio indicates that a risk-less asset would perform better than the portfolio being analyzed.
TREYNOR RATIO	A measure of risk-adjusted return. The excess return per unit of market risk. Similar to the Sharpe ratio, with the difference being that the Treynor ratio uses beta as the measurement of risk.	$\frac{(R_p - R_{rf})}{\beta}$	Implies whether a portfolio's returns are due to smart investment decisions or a result of excess risk. The greater a portfolio's Treynor ratio, the better its risk-adjusted performance has been. A negative Treynor ratio indicates that a risk-less asset would perform better than the portfolio being analyzed.

Tax Services

PLANNING FOR RMDs

JOSEPH HILL, JR.
CPA, MBA, MSF
TAX MANAGER

After investors reach age 70 ½, "the tax man cometh." That's when the IRS requires mandatory withdrawals from traditional Individual Retirement Accounts (IRAs), employer-sponsored retirement plans such as 401(k)s, 403(b)s, 457s, and the federal Thrift Savings Plan. The total amount of this mandatory withdrawal—or required minimum distribution (RMD)—is taxed as ordinary income at each taxpayer's respective individual federal income-tax rate. State and local taxes may also apply to these withdrawals from retirement accounts. While RMDs are structured to aid in the gradual payment of taxes owed on retirement assets, there are some strategies to taking those withdrawals that can save individuals money.

The first RMD must be taken no later than April 1 of the year following the calendar year in which an individual reaches age 70 ½. After the initial RMD, all subsequent RMDs must be distributed by December 31 each year. Delaying the first RMD until April 1, however, would require two distributions in the same year, because the second distribution must be taken by December 31. Taking two distributions in the same year could significantly increase the tax obligation, trigger alternative minimum tax, and may require additional federal income taxes on Social Security benefits.

Many retirees have more than one retirement account. Having more than one IRA requires calculating the RMD separately for each, but the total withdrawal can come from a single account or from a combination of two or more accounts. The same rule applies for multiple 403(b) accounts. To avoid paying more than is necessary, someone who has multiple accounts should consider withdrawing from the IRA that is most advantageous.

Likewise, having multiple 401(k)s and 457(b)s requires an RMD from each. An individual who is still working after age 70 ½ can delay distributions from his/her current 401(k)—but not from an IRA—until April 1 of the calendar year after retiring. Failing to take an RMD or taking too small of a distribution could result in a 50 percent excise tax on the amount not distributed. Consolidating multiple IRAs into a single IRA could reduce the probability of a calculation error. Moreover, some IRAs offer automatic RMD plans, but the amount calculated automatically isn't always in the taxpayer's best interest.

If the RMD is not needed for living expenses, the distribution might be considered an annual financial nuisance. However, these withdrawals could be converted into opportunities. For example, an individual could deposit the RMD into a brokerage account and invest those dollars according to the individual's overall retirement plan, or a grandparent could start an education fund for a grandchild. In addition, rather than taking the whole distribution at the end of each year, distributions could be spaced throughout the calendar year to obtain a range of sale prices for longer-term assets. In these cases, consultation with a financial planner and/or an investment advisor is recommended, in order to maximize these opportunities.

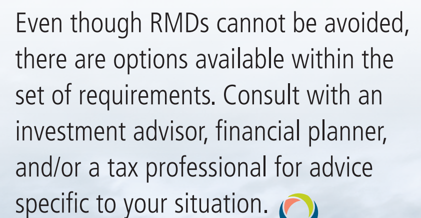
FAILING TO TAKE AN RMD OR TAKING TOO SMALL OF A DISTRIBUTION COULD RESULT IN A 50 PERCENT EXCISE TAX ON THE AMOUNT NOT DISTRIBUTED

What about withdrawing more than the RMD? This is permitted, but excess withdrawals will not be applied toward future RMDs. In other words, an individual will still need to take at least the RMD amount each year, even if the taxpayer has taken more than required in the previous year. There might be times when it makes financial sense to take more than the minimum, but not if the intention is to reduce future distributions.

As in other areas, the rules are slightly different for Roth IRAs. RMD rules do not apply to the original owner of a Roth IRA. (However, RMD rules do apply to the beneficiary of an inherited Roth IRA.) Converting excess withdrawals to a Roth IRA in years of small or no taxable income would add tax diversification and flexibility to the retirement withdrawal. Consultation with a financial advisor and a tax advisor can help to determine if a Roth conversion is in someone's best interest.

To minimize the tax on RMDs even further, assets can be placed in a diversified portfolio. Placing low-growth assets in traditional IRAs and high-growth assets in Roth IRAs will reduce the RMD, and the Roth IRA growth will be accelerated in a tax-favorable account. "Bucketing" IRAs and retirement-plan assets is a strategy by which assets are divided into short-term cash or cash-like accounts to help address RMD and other income needs, intermediate-term assets (such as bonds) that are next in line for distributions, and long-term assets. Working with an investment advisor to diversify and allocate assets in a portfolio is strongly recommended.

Even though RMDs cannot be avoided, there are options available within the set of requirements. Consult with an investment advisor, financial planner, and/or a tax professional for advice specific to your situation.



What's Happening at BWFA

NEW TECHNOLOGY: BWFA CLIENT CLOUD

MEGHAN MANAS
OFFICE MANAGER

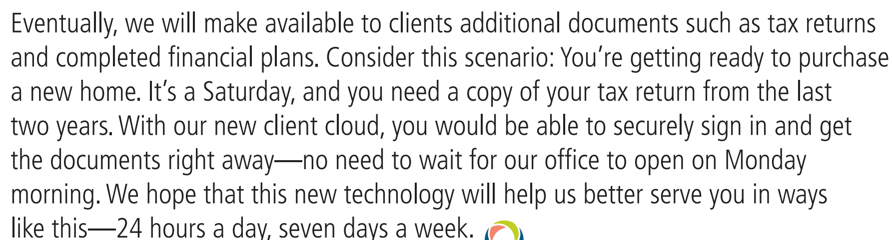
BWFA is pleased to announce the rollout of our new client cloud! At BWFA, we are always striving to provide the best possible customer service. Now, by introducing our new client cloud, we will be able to securely send and receive client documents. In addition, we can easily integrate those documents with all our client information, capturing files in real time and adding them to our clients' electronic profiles. Joe Caputo, BWFA's Chief Information Officer, said, "As technology advances and our client base becomes more mobile, there is an ever important need for secure, cloud-based file sharing."

Sending and receiving files via the BWFA Client Cloud is extremely secure. All communications between our client cloud and the client are encrypted using either Secure Socket Layer (SSL) or Transport Layer Security (TLS) encryption protocols. These protocols are standard encryption technologies, used by financial, retail, and government websites to securely transmit account information and to make online transactions.

Over the next few quarters, BWFA plans to start integrating the client cloud into our day-to-day operations in the following ways:

1) Financial Plan Documents – We will give our financial planning clients the ability to upload documents we request from them, as we prepare their financial plans.

2) Electronic Statements – We will begin giving our clients the option of having their quarterly statements, financial planning documents and/or tax documents uploaded to the Client Cloud. (Of course, receiving paper copies of your statements and any other documents will still be an option.)



Eventually, we will make available to clients additional documents such as tax returns and completed financial plans. Consider this scenario: You're getting ready to purchase a new home. It's a Saturday, and you need a copy of your tax return from the last two years. With our new client cloud, you would be able to securely sign in and get the documents right away—no need to wait for our office to open on Monday morning. We hope that this new technology will help us better serve you in ways like this—24 hours a day, seven days a week.

Congratulations

BWFA FAMILY NEWS!

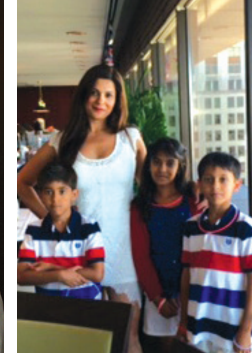
BWFA's Tax Director, Ben Dorsey and his wife Sherri, welcomed their daughter, **BAILEY**, on July 14, 2014! **CONGRATS TO THE NEW FAMILY.**

WANT TO SAVE 10 PERCENT ON YOUR BWFA TAX BILL?

We're always happy when our clients refer someone to us, and now we're giving back when they do. BWFA will take 10 percent off an existing client's 2014 tax bill when they refer someone to BWFA and that person then signs up for one of our services! **Know someone who could benefit from financial planning, investment management, or tax services? We'd love to talk to them!**

GIVE THE GIFT OF A FINANCIAL BLUEPRINT

In 2014, BWFA introduced our new Financial Blueprint Plan. This plan addresses issues of concern for people who are at or near the beginning of their careers. If you are interested in giving this plan to a child, grandchild or friend this holiday season, please contact Meghan Manas at either **mmanas@bwfa.com** or **410-461-3900**.



Celebrating 4TH OF JULY

MEGHAN MANAS
OFFICE MANAGER

2 MILES FOR 2 HEARTS

Ellicott City Memorial Run

2014

On August 16, 2014, more than 600 runners/walkers turned out for the second annual **2 Miles for 2 Hearts** charity event. BWFA was proud to be the premier sponsor.

In August of 2012, two amazing young ladies, Elizabeth "Liz" Nass and Rose Mayr, lost their lives when a train derailed in Historic Ellicott City. 2 Miles for 2 Hearts is a memorial race that benefits two scholarship funds while celebrating the lives of Liz and Rose and bringing families and the community together to incorporate some of the things these girls loved most—music, exercise, and food.

If you would like to make a donation to the **Elizabeth Nass Memorial Scholarship** and/or the **Rose Mayr Nursing Scholarship** please visit:

2MILESFOR2HEARTS.COM
AND CLICK ON "DONATE."

ENJOY THE PICTURES OF THE EVENT!

We look forward to supporting this race in the future and hope to see some of you running next to us!

MEMORIAL RACE

B|W|F|A

Baltimore-Washington

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