

OCTOBER 2018

Advisor

BALTIMORE - WASHINGTON FINANCIAL ADVISORS



BOORDY
VINEYARDS

B | W | F | A

President's Address

THE GREAT JOY OF TRAVELING

ROBERT G. CARPENTER
PRESIDENT & CEO
rcarpenter@bwfa.com

SOME OF THE BEST CONVERSATIONS
I HAVE WITH OUR CLIENTS IS FINDING OUT
WHERE FOLKS HAVE GONE AND WHAT
ADVENTURES THEY HAVE ENCOUNTERED
DURING THE YEAR.

Nothing makes me happier than seeing our clients happy, healthy and yes, wealthy. Wealth permits us to enjoy some of life's luxuries, including travel. Travel is certainly an indulgence that we work hard to save for and enjoy, and many of us are fortunate to be able to experience this in our lives.

Travel can be a special adventure that adds to our immediate well being while also leaving us with special memories to feed our happiness for years to come. It is a great investment in our own personal welfare!

Of course, travel is made even better when shared with family and friends. Adventures can be enjoyed near or far. There are many beautiful treasures found right here in our own backyard, and I encourage you to explore all our country has to offer. I, however, have found that traveling internationally affords some of the best opportunities for broadening one's perspective and fully realizing some of the most noteworthy benefits of travel. Let's dive in and explore some of these.

1. TRAVEL MAKES YOU HEALTHIER

According to a joint study from the Global Commission on Aging and Transamerica Center for Retirement Studies, in partnership with the U.S. Travel Association, women who vacation at least twice a year show a significantly lower risk of suffering a heart attack than those who only travel every six years or so.

The study also made similar findings for men. Men who do not take an annual vacation show a 20 percent higher risk of death and a 30 percent greater risk of heart disease. Let's make sure to make vacation a priority.

2. TRAVEL RELIEVES STRESS

Although missing a connecting flight or losing baggage is sure to boost your anxiety, traveling has been scientifically proven to lower stress levels rather dramatically.

According to one study three days after taking a vacation, travelers report feeling less anxious, more rested and in a better mood. Interestingly, these benefits tend to linger for weeks after the trip has ended.

3. TRAVEL SHARPENS THE MIND

It is very easy for us all to get stuck in our everyday routines. Finding oneself in a foreign land triggers a dormant part of our minds and gets those old synapses firing anew. Our brain is stimulated, as we are required to navigate new places, read foreign words and signs, make quick decisions based on limited knowledge and adapt to different cultural norms. We literally become smarter because of these new experiences.

4. TRAVEL ENHANCES YOUR CREATIVITY

Our creativity is also enhanced by our foreign adventures. "Foreign experiences increase both cognitive flexibility and depth and imperativeness of thought, the ability to make deep connections between disparate forms," explains Galinsky, a professor at Columbia Business School who has authored a study that investigates the concrete links between creativity and international travel. Travel alone isn't enough, however. Galinsky has found that international travelers must be purposeful about engaging. "The key, critical process is multicultural engagement, immersion and adaptation." He continues, "someone who lives abroad and doesn't engage with the local culture will likely get less of a creative boost than someone who travels abroad and really engages in the local environment."

So when traveling internationally, go explore new places and soak up the local color! While enjoying the local scene, you'll make new neural connections and fuel your creative genius.

WHERE WILL YOUR TRAVELS TAKE YOU THIS YEAR?


So, there are clear, scientifically based benefits to traveling the world. You can gain a lot from packing your bags and visiting places you've never been. But where will you go? What adventure calls to you? Here are a few of my favorites that you may wish to put on your radar:

London, England. If you're new to international travel and want to get your feet wet, there's probably no better destination to begin than London. London is a must-visit city. Not only is there so much to see and do, it is relatively affordable and easy to reach from most major U.S. cities. There is also no language barrier, which is a bonus for those of us who only speak English, myself included.

Lucerne, Switzerland. If you have never been to Switzerland, Lucerne is a fantastic city to experience. It is conveniently located close to the Zurich airport and easily accessible by a comfortable train ride. The city is compact and lively. Not only are there many sites to see in the city proper, but you can also take a short excursion outside the city limits to the countryside to enjoy amazing hikes and stunning mountain vistas. Don't miss out on the delicious cheeses and chocolates either!

Banff, British Columbia and Lake Louise are all about sunshine, mountain adventures and jaw dropping natural beauty. Prepare to be wowed by the spectacular beauty of Banff National Park's mountains, lakes and valleys either on land via a scenic drive or in air by a helicopter flight. Unwind beside a campfire under the vast starry sky. Take time to connect with nature in one of its most beautiful settings. To date, our family's visit to this region is still one of our most favorite vacations.

Robert Carpenter

This issue of the *Advisor* highlights where the BWFA staff and their families have traveled this summer. We hope you enjoy seeing some of their trips. We, in turn, would love to hear from you about your recent adventures! Please share your recommendations. We wish you many fun and safe travels in the years to come! 





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

PHOTOS FEATURED THROUGHOUT: Boordy Vineyards, est. 1945
is Maryland's oldest family run winery. Located in Hydes, MD

OCTOBER 2018 TABLE OF CONTENTS

- 2 PRESIDENT'S ADDRESS**
ROB CARPENTER | President & CEO
- 3 WELLNESS SERIES**
Natural Therapies to Boost Immune Health
this Cold & Flu Season w/ Dr. Emily Telfair, N.D.
- 6 FINANCIAL PLANNING**
THAD ISMART | CFP®
Senior Financial Planner
- 8 INVESTMENT MANAGEMENT**
CHRIS KELLY | CPA, CFP®, M. Accy
Financial Advisor and Portfolio Manager
- 10 JOSEPH MANFREDI** | MBA
Chief Operating Officer
& Senior Portfolio Manager
- 11 CLIENT SERVICES**
MEGHAN MANAS
Director of Client Services
- 11 JOSEPH CAPUTO**
Chief Information Officer
& Associate Portfolio Manager
- 12 TAX SERVICES**
RACHEL DUNCAN
Tax Advisor
- 14 BOORDY VINEYARDS**
Historic Winery and Award-Winning Wines
- 16 BWFA IN THE COMMUNITY**
TYLER KLUGE
Senior Client Associate
- 17 BWFA SUMMER ADVENTURES!**
- 18 WHAT'S HAPPENING AT BWFA**



Series Spotlight: Wellness in 2018

NATURAL THERAPIES TO BOOST IMMUNE HEALTH THIS COLD & FLU SEASON WITH DR. EMILY TELFAIR, N.D.

Thursday, October 25th
11:45 AM to 1:00 PM at BWFA
*Lunch will be provided

PRESENTER:



DR. EMILY TELFAIR, N.D.
NATUROPATHIC DOCTOR
HEARTSPACE NATURAL MEDICINE

Baltimore-Washington Financial Advisors and Baltimore-based naturopathic doctor Emily Telfair, N.D. invite you to the next edition of our wellness series with a focus on strengthening your immune system in preparation for cold and flu season. Simple preventative measures taken now can minimize the need for stronger medical interventions later while improving your overall vitality through the winter months.

TOPICS WILL INCLUDE:

- Foods with immune supportive nutrients and high levels of antioxidants to amp up your defense against pathogens.
- Medicinal herbs with anti-microbial and anti-viral properties with discussion around safety and duration of use.
- Nutritional supplements for cold and flu prevention and what to take when you start to feel sick.
- Self-care practices that support a healthy immune system to prevent illness.



To register for the seminar:

Email Eve Kennedy at ekennedy@bwfa.com

Financial Planning



ESTATE PLANNING: TRUSTS

THAD SMART
CFP®
SENIOR FINANCIAL PLANNER
tismart@bwfa.com

Whether you're seeking to manage your own assets, control how your assets are distributed after your death, or plan for incapacity, trusts can help you accomplish your estate planning goals. Their power is in their versatility — many types of trusts exist, each designed for a specific purpose. Although trust law is complex and establishing a trust requires the services of an experienced attorney, mastering the basics isn't hard.

WHAT IS A TRUST?

A trust is a legal entity that holds assets for the benefit of another. Basically, it's like a container that holds money or property for somebody else. You can put practically any kind of asset into a trust, including cash, stocks, bonds, insurance policies, real estate, and artwork. The assets you choose to put in a trust depend largely on your goals. For example, if you want the trust to generate income, you may want to put income-producing securities, such as bonds, in your trust. Or, if you want your trust to create a pool of cash that may be accessible to pay any estate taxes due at your death or to provide for your family, you might want to fund your trust with a life insurance policy.

When you create and fund a trust, you are known as the grantor (or sometimes, the settlor or trustor). The grantor names people, known as beneficiaries, who will benefit from the trust. Beneficiaries are usually your family and loved ones but can be anyone, even a charity.

Beneficiaries may receive income from the trust or may have access to the principal of the trust either during your lifetime or after you die. The trustee is responsible for administering the trust, managing the assets, and distributing income and/or principal according to the terms of the trust. Depending on the purpose of the trust, you can name yourself, another person, or an institution, such as a bank, to be the trustee. You can even name more than one trustee if you like.

WHY CREATE A TRUST?

Since trusts can be used for many purposes, they are popular estate planning tools. Trusts are often used to:

- Minimize estate taxes
- Shield assets from potential creditors
- Avoid the expense and delay of probating your will
- Preserve assets for your children until they are grown (in case you should die while they are still minors)
- Create a pool of investments that can be managed by professional money managers
- Set up a fund for your own support in the event of incapacity
- Shift part of your income tax burden to beneficiaries in lower tax brackets
- Provide benefits for charity

The type of trust used, and the mechanics of its creation, will differ depending on what you are trying to accomplish.

In fact, you may need more than one type of trust to accomplish all of your goals. And since some of the following disadvantages may affect you, discuss the pros and cons of setting up any trust with your attorney and financial professional before you proceed:

- A trust can be expensive to set up and maintain — trustee fees, professional fees, and filing fees must be paid
- Depending on the type of trust you choose, you may give up some control over the assets in the trust
- Maintaining the trust and complying with recording and notice requirements can take up considerable time
- Income generated by trust assets and not distributed to trust beneficiaries may be taxed at a higher income tax rate than your individual rate

THE DUTIES OF THE TRUSTEE

The trustee of the trust is a fiduciary, someone who owes a special duty of loyalty to the beneficiaries. The trustee must act in the best interests of the beneficiaries at all times. For example, the trustee must preserve, protect, and invest the trust assets for the benefit of the beneficiaries. The trustee must also keep complete and accurate records, exercise reasonable care and skill when managing the trust, prudently invest the trust assets, and avoid mixing trust assets with any other assets, especially his or her own. A trustee lacking specialized knowledge can hire professionals such as attorneys, accountants, brokers, and bankers if it is wise to do so. However, the trustee can't merely delegate responsibilities to someone else.

Although many of the trustee's duties are established by state law, others are defined by the trust document. If you are the trust grantor, you can help determine some of these duties when you set up the trust.

LIVING (REVOCABLE) TRUST

A living trust is a special type of trust. It's a legal entity that you create while you're alive to own property such as your house, a boat, or investments. Property that passes through a living trust is not subject to probate — it doesn't get treated like the property in your will. This means that the transfer of property through a living trust is not held up while the probate process is pending (sometimes up to two years or more). Instead, the trustee will transfer the assets to the beneficiaries according to your instructions. The transfer can be immediate, or if you want to delay the transfer, you can direct that the trustee hold the assets until some specific time, such as the marriage of the beneficiary or the attainment of a certain age.

Living trusts are attractive because they are revocable. You maintain control — you can change the trust or even dissolve it for as long as you live. Living trusts are also private. Unlike a will, a living trust is not part of the public record. No one can review details of the trust documents unless you allow it.

Living trusts can also be used to help you protect and manage your assets if you become incapacitated. If you can no longer handle your own affairs, your trustee (or a successor trustee) steps in and manages your property. Your trustee has a duty to administer the trust according to its terms, and must always act with your best interests in mind. In the absence of a trust, a court could appoint a guardian to manage your property.

Despite these benefits, living trusts have some drawbacks. Assets in a living trust are not protected from creditors, and you are subject to income taxes on income earned by the trust. In addition, you cannot avoid estate taxes using a living trust.

IRREVOCABLE TRUSTS

Unlike a living trust, an irrevocable trust can't be changed or dissolved once it has been created. You generally can't remove assets, change beneficiaries, or rewrite any of the terms of the trust. Still, an irrevocable trust is a valuable estate planning tool. First, you transfer assets into the trust — assets you don't mind losing control over. You may have to pay gift taxes on the value of the property transferred at the time of transfer.

Provided that you have given up control of the property, all of the property in the trust, plus all future appreciation on the property, is out of your taxable estate. That means your ultimate estate tax liability may be less, resulting in more passing to your beneficiaries.

Property transferred to your beneficiaries through an irrevocable trust will also avoid probate. As a bonus, property in an irrevocable trust may be protected from your creditors.

There are many different kinds of irrevocable trusts. Many have special provisions and are used for special purposes. Some irrevocable trusts hold life insurance policies or personal residences. You can even set up an irrevocable trust to generate income for you.

TESTAMENTARY TRUSTS

Trusts can also be established by your will. These trusts don't come into existence until your will is probated. At that point, selected assets passing through your will can "pour over" into the trust. From that point on, these trusts work very much like other trusts. The terms of the trust document control how the assets within the trust are managed and distributed to your heirs. Since you have a say in how the trust terms are written, these types of trusts give you a certain amount of control over how the assets are used, even after your death.



Investment Management



CONCENTRATED STOCK POSITIONS: CONSIDERATIONS AND STRATEGIES

CHRIS KELLY
CPA, CFP®, M. ACCY
FINANCIAL ADVISOR AND PORTFOLIO MANAGER
ckelly@bwfa.com

Whether you inherited a large holding, exercised options to buy your company's stock, sold a private business, hold restricted stock, or have benefited from repeated stock splits over the years, having a large position in a single stock carries unique challenges. Even if the stock has done well, you may want more diversification, or have new financial goals that require a shift in strategy.

When a single stock dominates your portfolio, however, selling the stock may be complicated by more than just the associated tax consequences. There also may be legal constraints on your ability to sell, contractual obligations such as lock-up agreements, or practical considerations, such as the possibility that a large sale could overwhelm the market for a thinly traded stock. The choices appropriate for you are complex and will depend on your own situation and tax considerations, but here is a brief overview of some of your options.

SELL YOUR SHARES

Selling obviously frees up funds that can be used to diversify a portfolio. However, if you have a low cost basis, you may be concerned about capital gains taxes. Or you may want to avoid any perception of market manipulation or insider trading. You might consider selling shares over time, which can help you manage the tax bite in any one year, yet allow you to participate in any future growth.

You'll need to consider the tax consequences of any sale. Long-term capital gains are generally taxed at special capital gains tax rates of 0%, 15%, and 20% depending on your taxable income. By contrast, because short-term capital gains are taxed as ordinary income, the top short-term capital gains tax rate can be 37%. Higher-income taxpayers should be aware that they may be subject to an additional 3.8% Medicare unearned income tax on net investment income (unearned income includes capital gains) if their adjusted gross income exceeds \$200,000 (single filers) or \$250,000 (married joint filers).

If you hold restricted shares, you might set up a *10b5-1 plan*, which spells out a predetermined schedule for selling shares over time. Such written plans specify in advance the dates, prices and amounts of each sale, and comply with SEC Rule 144, which governs the sale of restricted stock and was designed to prevent insider trading. A 10b5-1 plan demonstrates that your selling decisions were made prior to your having any insider knowledge that could influence specific transactions. (However, terminating the plan early or selling too much too quickly could raise questions about the plan's legitimacy.)

You might also be able to avoid some of the restrictions on how much and when you can sell by selling shares privately rather than on the public market. However, you would likely have to sell at less than the market value, and would still face capital gains taxes.

HEDGE YOUR POSITION

You may want to try to protect yourself in the short term against the risk of a substantial drop in price. There are multiple ways to try to manage that risk by using options. However, bear in mind that the use of options is not appropriate for all investors.

Buying a *protective put* essentially puts a floor under the value of your shares by giving you the right to sell your shares at a predetermined price. Buying put options that can be exercised at a price below your stock's current market value can help limit potential losses on the underlying equity while allowing you to continue to participate in any potential appreciation. However, you also would lose money on the option itself if the stock's price remains above the put's strike price.

Selling *covered calls* with a strike price above the market price can provide additional income from your holdings that could help offset potential losses if the stock's price drops. However, the call limits the extent to which you can benefit from any price appreciation. And if the share price reaches the call's strike price, you would have to be prepared to meet that call.

A *collar* involves buying protective puts and selling call options whose premiums offset the cost of buying the puts. However, as with a covered call, the upside appreciation for your holding is then limited to the call's strike price. If that price is reached before the collar's expiration date, you would not only lose the premium you paid for the put, but would also face capital gains on any shares you sold. Be careful about closing one side of the collar while the other side of the trade remains outstanding.

For example, if you exercised the put but the shares you sell are later called away prior to the call's expiration date, you could be left with an uncovered call. You could potentially suffer a loss if you had to repurchase the shares at a higher price to fulfill the call.


DONATE SHARES TO A TRUST

If you want income rather than growth from your stock, you might transfer shares to a trust. If you have highly appreciated stock, consider donating

it to a *charitable remainder trust (CRT)*. You receive a tax deduction when you make the contribution. Typically, the trust can sell the stock without paying capital gains taxes, and reinvest the proceeds to provide an income stream for you as the donor. When the trust is terminated, the charity retains the remaining assets. You can set a payout rate that meets both your financial objectives and your philanthropic goals; however, the donation is irrevocable.

Another option is a *charitable lead trust (CLT)*, which in many ways is a

mirror image of a CRT. With a typical CLT, the charity receives the income stream for a specified time; the rest goes to your beneficiaries. There are costs associated with creating and maintaining trusts. Other philanthropic options include donating directly to a charity or private foundation and taking a tax deduction.

Managing a concentrated stock position is a complex task that may involve investment, tax, and legal issues. The professionals at BWFA are here to help you through the complexities. 



Investment Management



WHEN WILL THE BULL MARKET END?... WHEN DID IT ACTUALLY START?

JOSEPH MANFREDI
MBA
CHIEF OPERATING OFFICER / SENIOR PORTFOLIO MANAGER
jmanfredi@bwfa.com

- **S&P 500 average length of a bull market is 97 months**
- **S&P 500 average length of a bear market is 18 months**

Consider what are alleged to be the two longest running bull markets in modern financial history—one is the current one, purportedly starting back in March 2009, and the other one going from 1987 to 2000, some 12+ years in duration. Despite what appear to be clearly defined periods, there is still some debate as to which one is actually the longest.

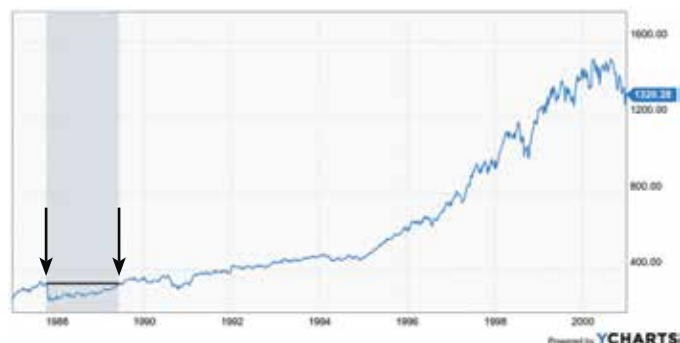
For purposes of this piece, we may simply leave that argument to others in the media, or to those who currently wish to use this bull market as a clarion call to demonstrate political excellence.

It is interesting to note that these two “champion bulls” both started after severe market crashes. Also of note, is that by definition a bull is traditionally defined to continue running so long as there is no stock market decline of 20% or more, and the longest bull period, which was continuous throughout the 1980s and 1990s, had one 19.9% downturn along the way—whew, just made it!

In any case, it is very important for us today to realize that it is foolhardy to base investment decisions on the length of a bull market, especially when we cannot really define when one begins or ends.

Let’s look a bit more closely at the crashes of 1987 and 2008:

S&P 500 CRASH OF 1987 Chart from pre crash to the “end of the bull market”



It took the market 2 years in the above example to recover from the crash of Black Monday 1987. Once the market got back to pre-crash levels it continued its historic bull run. Does that mean that the length quoted in the annals of financial history should be 2 years shorter?

S&P 500 CRASH OF 2008 Chart from the peak in 7/2007 to present



Here you see that the current S&P 500 bull market period did not recover to pre-crash levels of 2008 until January, 2013, almost 5 years later! So, did the current bull market start in 2008 or 2013? If it is the latter, then the current bull market is “only” 5 years running.

It would seem most prudent then to ignore the current headlines stating “this bull market is now the longest bull market in history!” illustrated in the above charts. As shown, pinpointing the start of a bull market may be in the eye of the beholder. Additionally, attempting to predict a market turn, and thus the end of the current bull market, based solely on its age is a useless endeavor (thus the old adage “Bull markets don’t die of old age”). Either way, the relative length of a bull market seems to be nebulous, and certainly not the overarching basis for making specific, or even broad-based, investment decisions.

At BWFA we look beyond the media headlines and focus on prudent long term investment decisions based on our long-standing investment process, our clients’ financial plan, backed by sound research.

Client Services



**NEW AND IMPROVED
ADVISORCLIENT.COM**

MEGHAN MANAS
DIRECTOR OF CLIENT SERVICES
mmanas@bwfa.com

The team at BWFA strives to provide an unparalleled level of service to all our clients. This includes addressing all client issues and concerns immediately and efficiently, providing important information to our clients that may help them better achieve their financial goals, and, at times, bringing our clients together for a little education and fun.

However, in between those direct interactions, it is also part of our client service mission to provide an easy way for you to access all client account information, wherever and whenever you like. To that end we are pleased to announce a new and improved online experience with AdvisorClient.com.

In a simpler, more readable format clients can now look for interesting new features including:

- **Upcoming cash activity:** Provides details on upcoming cash disbursements and deposits
- **Retirement information:** Contributions, Distributions, and RMD Information will be easily found on the landing page
- **Position level gain/loss information:** Sourced directly from our cost basis engine, Gainskeeper
- **Tax document e-delivery enrollment:** Clients will have the ability to opt into electronic delivery of tax statements in lieu of receiving a paper mailing

We are extremely excited about these enhancements and look forward to working with you to improve (or begin) your online experience. As always please do not hesitate to call us for help getting online, or for any other questions you may have regarding the AdvisorClient.com experience. It is our pleasure to serve you!



**BWFA ENCRYPTED
EMAIL SERVICE**

JOSEPH CAPUTO
CHIEF INFORMATION OFFICER
& ASSOCIATE PORTFOLIO MANAGER
jcaputo@bwfa.com

Though BWFA has always used email encryption technology, a new and improved platform is now available. Client confidentiality and safeguarding data is one of our top priorities. Whenever you need to send a sensitive message or confidential file to one of our staff members you can do so knowing that the message will be secure and fully encrypted by AppRiver technologies. BWFA invites all of you to begin using our new email encryption service available through our website bwfa.com/encryptedemail.com.

We always look for applications that we feel our clients will find easy to use and provide quality results. Simply sign on to our website (bwfa.com) and hover over Client Access. From here select Email Encryption Services on the drop-down menu. Simply follow the instruction on how to create an account and you’re finished.

If you have questions on any of our client services, please feel free to contact us anytime.



Tax Services



HOW CAN LOSSES HELP REDUCE TAXES AND BENEFIT YOUR LONG TERM RESULTS?

RACHEL DUNCAN
TAX ADVISOR
rduncan@bwfa.com

You are taxed on your earnings. Generally speaking, your earnings equal your income and gain, less your allowable expenses and losses. Because losses reduce your earnings, losses can help to reduce your tax liability. It is important, therefore, to know how losses arise, how losses are classified, and how losses are taxed. A thorough familiarity with the concept of losses may allow you to implement strategies to best utilize losses and to increase the after-tax return on your investments.

If you operate a business organized as a corporation, and the allowable deductions of that business exceed the business income, the business may have a net operating loss. This discussion is primarily about losses on your investments, and not on those of a corporation. Further, property held for personal use is a capital asset. Gain from the sale or exchange of that property is a capital gain. Loss from the sale or exchange of that property, however, is not deductible. You can deduct loss relating to personal use property only if it results from a casualty attributable to a federally declared disaster for 2018 to 2025.

DEDUCTIONS, LOSSES, AND INVESTMENTS IN GENERAL. WHAT DEDUCTIONS AND LOSSES ARE GENERATED BY YOUR INVESTMENTS?

Deductions and losses directly related to your investments are usually one of the following:

- Transaction costs from the purchase or sale of an investment
- Capital loss
- Losses from pass-through businesses
- Interest expense
- Incidental investment expenses

How do deductions and losses impact your investment earnings?

Deductions and losses reduce tax liability by lowering the amount of your income that is subject to tax. A variety of rules limit or disallow deductions for certain expenses or losses. To understand how deductions and losses impact your investment earnings, you need to know how to characterize deductions and losses, the limitations that apply to losses, and how to match losses with income or gain.

How can loss strategies increase your after-tax return on your investments?

Loss strategies attempt to match up your gains and losses. For instance, when you have income or gain, you can generate and take advantage of losses. Similarly, when you have unused losses, you can generate income or gains.

LIMITATIONS ON INVESTMENT LOSSES

Limitation on investment transaction expenses

Investment transaction expenses, such as commission and charges associated with the purchase or sale of an investment, are generally not deductible. This amount must be added to basis. The effect of this rule is to decrease the gain or increase the loss on the sale of the investment.

Limitations on capital loss

Total capital losses for a tax year are generally deductible only to the extent of total capital gains for the same year. The capital gain loss rules are discussed below.

Limitations on passive losses

Losses from a passive activity are subject to special rules. A passive activity is generally a business activity in which you participate 500 hours or less a year. Rental activity is generally considered passive activity. Passive activity losses may only be used to reduce passive income. Thus, pass-through losses from a partnership or S corporation, which may be either ordinary or capital in nature, may be disallowed unless you have an equal amount of passive income from other sources.

Any disallowed losses from passive activities may be carried forward and used as a deduction against income from passive activities in future years. Unused passive activity loss carryforwards are allowed to be used in full when you dispose of your entire interest in the activity generating the passive losses in a fully taxable transaction.

Portfolio income is not passive income. Thus, your income and gain from your investments in stock and bonds cannot be used to offset passive losses.

Limitations on incidental investment expenses

Prior to 2018, general investment expense such as subscriptions to investment periodicals, investment counseling charges or legal and accounting fees were deductible as itemized miscellaneous deductions to the extent they exceeded 2 percent of your adjusted gross income. Under the Tax Cuts and Jobs Act, previously deductible miscellaneous expenses subject to the 2% floor are no longer deductible for 2018 to 2025.

Limitations on wash sales

Losses are disallowed on wash sales. What is a wash sale? A wash sale occurs when you sell a security at a loss and then you reacquire the same or similar security shortly before or after the loss transaction. The loss isn't foregone; you add it back to the basis of the stock. *So, when you sell the repurchased stock in the future, your basis is the cost of the stock plus the loss. In other words, your basis, subject to market fluctuations, equals the basis prior to the loss sale.*

CAPITAL LOSSES

In general

Generally, capital losses can only be used to reduce or offset capital gains. There is one exception, which we will discuss below. To understand the application of capital losses to reduce or offset capital gains and a limited amount of ordinary losses, you should be able to work through the following steps:

- Net short-term capital gains and losses
- Net long-term capital gains and losses
- Apply net losses to gains

Net short-term capital gains and losses

Netting short-term capital gains and losses means determining a net gain or loss for your transactions involving investments held for one year or less. This produces a net short-term capital gain or loss. A net short-term gain is taxed at ordinary income rates. Short-term gains can only be reduced by short-term losses. Let's look at an example.

Net long-term capital gains and losses

Netting long-term capital gains and losses means determining a net gain or loss for your transaction involving investments held for more than a year. This produces a net long-term capital gain or loss.

Apply net losses to gains

Now that you know your net gains and losses, let's see how losses are applied to gains. Here are the basic rules:

- Net short-term capital gains are taxed at ordinary income tax rates
- Net short-term losses reduce net long-term gain
- Net losses (whether short- or long-term) may be used to offset up to \$3,000 worth of ordinary income in a given year
- Net losses exceeding \$3,000 in a given year may be carried forward to reduce gains and income in future years

Note that married filing jointly taxpayers may offset up to \$3,000 worth of ordinary income; married filing separately taxpayer

are allowed to offset only \$1,500 per year of ordinary income with capital losses.

ORDINARY LOSSES

Ordinary losses reduce ordinary income. Aside from a few exceptions, your investments will usually not generate ordinary losses. Pass-through losses from S corporations and partnerships, however, will often be classified as ordinary.

Keep in mind that substantial losses and deductions may subject you to the alternative minimum tax (AMT).

It is important that you do not confuse ordinary losses with net capital losses. Remember, net capital losses may offset only a limited amount of ordinary income each year. Excess capital losses may then be carried forward for use in subsequent years.

LOSS STRATEGIES

Understanding the rules relating to deductions and losses enables you to enhance the after-tax return on your investments by timing the recognition of losses so they match up against income or gains. Similarly, you can time the recognition of income or gains to utilize unused losses. Gains and losses on investments are not recognized until realized--you don't have gain or loss until you sell the investment. Thus, you control the recognition of, and thus the creation of, tax items such as gain or loss. You also control your deductions. You choose whether to make a deductible expense this year or the next. *This strategy can be even more powerful if the deduction or loss generated removes you from a higher tax bracket.*





PHOTOS: Jocelyn Wagner bottling the first commercial vintage of Boordy wine in 1946. (Right) The Boordy family today: Phineas, Julie & Rob Deford, Sally & Bayly Buck

THROUGHOUT THIS ISSUE WE ARE THRILLED TO SHOWCASE BOORDY VINEYARDS, MARYLAND'S FIRST COMMERCIAL WINERY.

Boordy Vineyards is Maryland's first commercial winery. Founded in 1945 by wine pioneers Philip & Jocelyn Wagner, Boordy's early success at producing classically-styled wines in Maryland motivated many aspiring vintners around the country to grow grapes, and was a seminal force in the renaissance of American regional wines.

Owned and operated since 1980 by the R.B. Deford family, the winery is located on their historic farm in the Long Green Valley of northeastern Baltimore County. Boordy's philosophy is to let experience be the teacher in how to grow and produce wines of superior quality in our unique geography. Estate vineyards have been replanted multiple times in a quest to achieve the optimal combination of clone, rootstock, and vine density for each vineyard microclimate. A state-of-the-art winery was constructed in 2013 to ensure that the care taken in the vineyards was equaled by uncompromising craftsmanship in winemaking.

Boordy currently produces 90,000 gallons of wine and farms 47 acres of grapes in the Long Green Valley and the Blue Ridge Mountains of western Maryland, with an emphasis upon sustainable practices to promote healthy soils and balanced grapevines. Throughout its history, Boordy's wines have received numerous local and national awards, including a recent double gold medal for its 2014 Cabernet Franc Reserve at the 2017 San Francisco International Wine Competition.

The Deford family welcomes over 80,000 visitors to their landmark winery each year, with daily wine tastings and tours, and a full calendar of events featuring wine, food and music.

For more information please visit our website www.boordy.com.



We look forward to raising a glass with you!
The R.B. Deford Family, props.



BWFA *in the Community*



VOLUNTEERING WITH HABITAT FOR HUMANITY

TYLER KLUGE
SENIOR CLIENT ASSOCIATE
tkluge@bwfa.com



Habitat for Humanity is a nonprofit organization that helps people around the world build and improve their homes and communities. My local organization, the Chesapeake Habitat for Humanity, was founded in 1982, with the mission of rehabilitating homes in Baltimore City and Baltimore County neighborhoods. Others, like the Arundel Habitat for Humanity, also formed and have been doing tremendous work to improve and construct local homes to provide habitable, affordable housing to low-income families in Maryland.

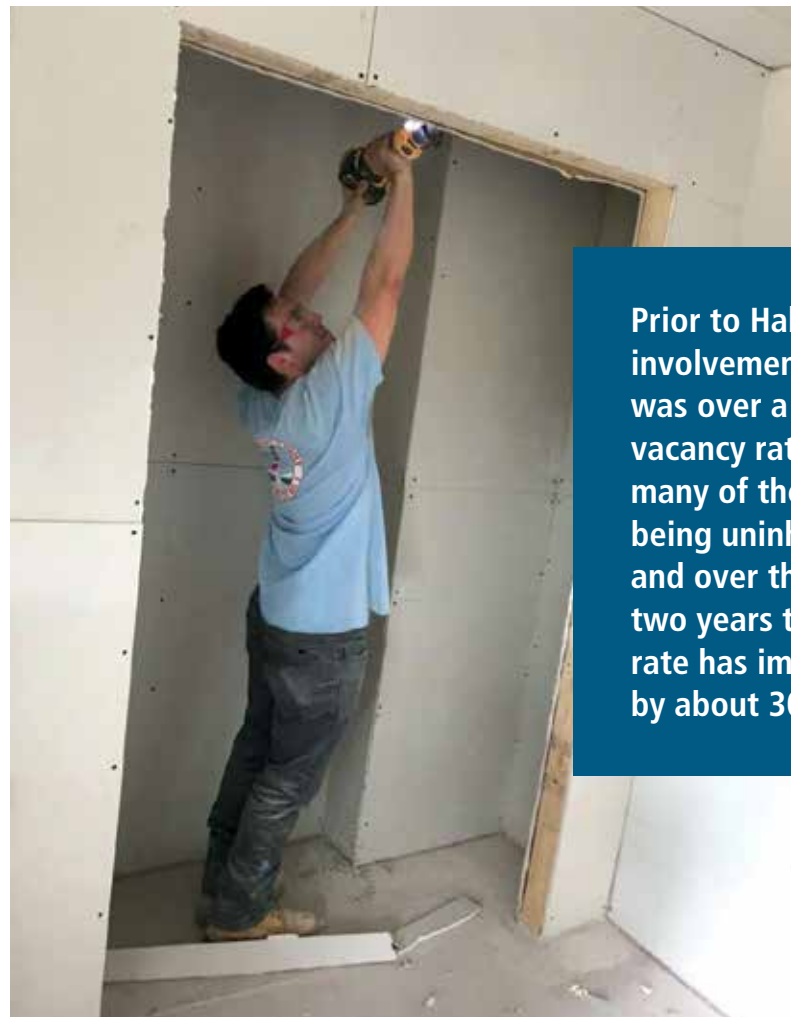
As the future Habitat homeowners are typically in a state of financial hardship, Habitat helps give them the opportunity to improve their living situations and invest in homes through "sweat equity" program. Any future homeowner and/or their families need to invest in their home, not with money but with hard work. The sweat equity program typically requires homeowners to work alongside of the volunteers to complete a minimum of 300-500 hours of labor, but other things like their children achieving good grades, can help count towards their overall "sweat equity." In addition, the future homeowners are given the opportunity to take classes to improve their knowledge of homeownership to help them once they are in the home.

In August, my fiancé and I volunteered with Habitat in the McCabe neighborhood in Northwest Baltimore alongside about twenty other people from various organizations and backgrounds.

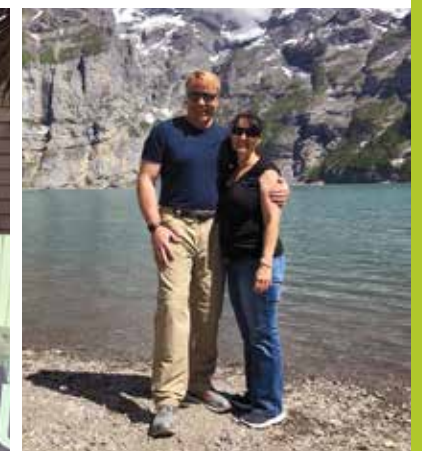
As I have a background in construction and was looking for a way to give back to the community I was excited to find Habitat and apply some of my knowledge to help people in need. Giving our time to this organization was a very rewarding experience, especially after hearing the impact Habitat has had.

In the past few years, Habitat has built or renovated many homes in the McCabe area, helping the neighborhood grow and

become a safer place to live for its residents. Prior to Habitat's involvement, there was over a 90% vacancy rate, with many of the homes being uninhabitable, and over the past two years the vacancy rate has improved by about 30%. Habitat has done a great job helping less fortunate families build homes and work to make their communities safer and more habitable. I am very proud to say that we volunteer with Habitat and are looking forward to volunteering again the near future! 🌱



Prior to Habitat's involvement, there was over a 90% vacancy rate, with many of the homes being uninhabitable, and over the past two years the vacancy rate has improved by about 30%.



BWFA *Summer Adventures!*



What's Happening at BWFA

OUR SUMMER INTERNS

Thank You


to Danielle, Samantha, Matt, and Joel for spending the summer and sharing your talents with us!

THIS SUMMER WE HAD A TEAM OF FOUR INTERNS WHO HELPED US WORK ON A VARIETY OF DIFFERENT PROJECTS SUPPORTING THE FINANCIAL PLANNING, INVESTMENT MANAGEMENT, AND TAX TEAMS.

In addition, they assisted us plan for a few Client Appreciation Events, which included the second Columbia Orchestra Concert at the Merriweather Park Chrysalis Amphitheater! We want to thank our interns for their assistance with the planning process; we really enjoyed the event and if you attended, hope you did too!

While the interns were involved in several projects over the summer, they did not participate in client meetings due to privacy issues. However, they did have the opportunity to prepare materials for the portfolio managers and financial planners. They performed some market research and electronic filings for the firm. They also had the chance to interact with many of our clients by taking your calls, answering your questions and greeting you as you visited the office.

The goal of our summer intern program is to provide the students with mentorship and guidance as well as meaningful work opportunities that provide a glimpse into the everyday operations of a financial services company that strives to provide the best possible service to its clients. We work hard to meet this goal and hope the students have grown from their experience.

It was a pleasure to get to know each of the interns better and I wanted to take this opportunity to thank and highlight each of them. They are a wonderful group of young professionals, and I am confident that a bright future awaits each one of them. Thank you to Danielle, Samantha, Matt, and Joel for spending the summer and sharing your talents with us! 



DANIELLE WILSON

I attend the University of Maryland and I am pursuing a Bachelor's degree in Operations Management and Business Analytics from the Robert H. Smith School of Business. I will be graduating in the winter of 2019. Through my internship with BWFA, I have developed a strong interest in financial planning and I could see myself taking a career path towards becoming a financial advisor. I also have an interest in data analytics, which I believe to be very a valuable skill set that could help in any position at any company. In 5 years, I see myself living in D.C. or Baltimore and working toward my goal of becoming a financial planner, or learning more about what I am passionate about. A fun fact about me is that I have a twin brother who attends Washington College, and I am the only one in my family that did not go to Washington College!



SAMANTHA CARPENTER

My name is Samantha Carpenter and I am currently a rising Junior studying Graphic Design at The George Washington University. I am studying Graphic Design because it is a field in which I can combine my creativity with my love for art. During my freshman year I worked part-time at The National Gallery of Art in Washington, D.C. where I learned about many different career paths in the art/museum field. I hope that five years from today I will be working as a graphic designer at a museum or a company where I can help bring people together through communication and design. A fun fact about me is that I host my own radio show at school where I play a wide range of music and talk about current events.



MATT AULT

My name is Matt Ault, and I will be graduating from the University of Maryland in Spring 2020. I am majoring in Finance and Data Analytics. I see myself following a career path of Consulting and Advisory for a large accounting firm. In 5 years, I see myself working for one of the Big 4 accounting firms in Baltimore or Washington D.C. One fun fact about myself is that one of my life goals is to travel to all 30 MLB stadiums!



JOEL BACCI

I'm a Penn State University student majoring in applied statistics with a minor in chemistry. I plan on graduating in 2020. The career path I'm taking is data/risk analysis since I've always been interested in taking a deeper look at data and seeing if there's any useful information in it. In five years, I see myself working a full-time job with a strong expertise in data analysis. A fun fact about me is that I was a first chair trombonist in my high school's county band.





Art Show at BWFA!

FEATURING: Award Winning Oil Painter Rae Mark Hamilton
WITH GUEST ARTIST: Bim Jones • Nov. 28, 2018 from 4:00 to 7:00 PM



To register for any BWFA event:

Email Eve Kennedy at ekennedy@bwfa.com

TESLA TEST DRIVE EVENT AT BWFA LIMITED AVAILABILITY EVENT!



Nov. 8, 2018 from 10:00 AM to 2:00 PM
Test drive a Model S or Model X.

There is no cost for the test drive and no obligation to buy! Enjoy lunch courtesy of BWFA. Presentations with Q&A on the evolution of renewable energy and energy products will be offered.

Upcoming Events

Please join us and bring a friend!

October

OCTOBER 4, 2018

11:45 AM - 1:00 PM

Book Review "Gettysburg and Leadership" w/ Author Jim Osterhaus

OCTOBER 6, 2018

7:30 PM - 9:30 PM

An Evening with the Columbia Orchestra – Beethoven's Eroica featuring Robert Cantrell

OCTOBER 9, 2018

11:45 AM - 1:00 PM

The Difference Between Alzheimer's and Dementia w/ Elville and Jill Rosner, R.N.

OCTOBER 16, 2018

11:45 AM - 1:00 PM

Top 10 Mistakes Retirees Make

OCTOBER 18, 2018

11:45 AM - 1:00 PM

Estate Planning for Second Marriages w/ Gary Greenwald, Esq.

OCTOBER 25, 2018

11:45 AM - 1:00 PM

Wellness Series:
 Natural Therapies to Boost Immune Health this Cold & Flu Season w/ Dr. Emily Telfair, N.D.

OCTOBER 30, 2018

11:45 AM - 1:00 PM

Retirement 101: Strategies for Success

November

NOVEMBER 8, 2018

10:00 AM - 2:00 PM

TESLA Showcase/Test Drive

NOVEMBER 13, 2018

11:45 AM - 1:00 PM

Selecting a Continuing Care Retirement Community (CCRC) w/ Elville and Associates

NOVEMBER 14, 2018

11:45 AM - 1:00 PM

How will the Tax Cuts and Jobs Act of 2018 Impact Your Taxes? w/ Lex Ruygrok, CPA

NOVEMBER 28, 2018

4:00 PM - 7:00 PM

Art Show featuring Award Winning Painter Rae Mark Hamilton and Guest Artist Bim Jones

Check out BWFA.COM for latest list of seminars.



BWFA IS A PINK CARPET SPONSOR FOR THE 2ND ANNUAL GIRLS ON THE RUN OF CENTRAL MD SNEAKER SOIRÉE: RUN AROUND THE OUTBACK!

Enjoy wine and food from Iron Bridge Wine Company and take home an exclusive souvenir wine glass. Event will benefit Girls on the Run of Central Maryland!

For more information and to purchase tickets visit gotrcentralmd.org • <http://bit.ly/gotrsoiree18>

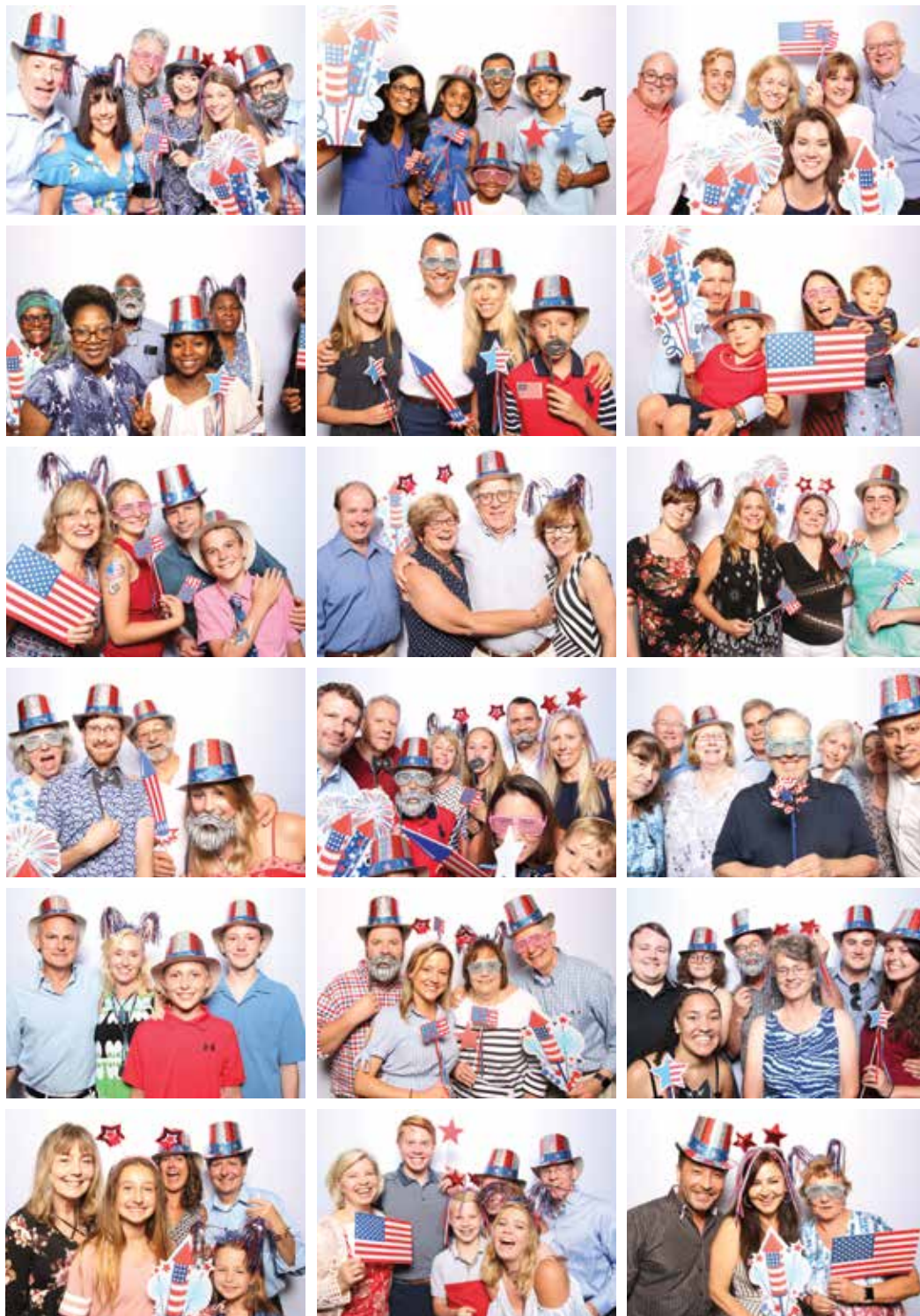
Oct. 25, 2018 from 6:00 to 9:00 PM
Location: Howard County Conservancy
 10520 Old Frederick Rd, Woodstock, MD 21163

BWFA Fourth of July 2018



FIREWORKS • FUN • PHOTO BOOTH

A great time was had, and captured, by all at the BWFA Fourth of July Celebration!





B | W | F | A

Baltimore-Washington

FINANCIAL ADVISORS

RETIREMENT & ESTATE PLANNING | INVESTMENT MANAGEMENT | TAX SERVICES | BUSINESS SERVICES

5950 SYMPHONY WOODS ROAD | SUITE 600 | COLUMBIA, MD 21044 | P: 410.461.3900 | TF: 888.461.3900 | F: 443.539.0330 | BWFA.COM