JANUARY 2018

Advisor

BALTIMORE - WASHINGTON FINANCIAL ADVISORS

B | W | F | A

President's Address

NEW YEAR'S RESOLUTIONS

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

A NEW YEAR MEANS FRESH BEGINNINGS, TIME FOR REFLECTION AND HOPED-FOR CHANGES. NEW YEAR'S RESOLUTIONS ABOUND! THEY ARE A TIME-HONORED TRADITION FOR MANY OF US, INCLUDING MYSELF.

According to research, about 60% of us acknowledge making New Year's resolutions, but only around 8% of us are successful in actually achieving them. Indeed, according to a national survey, over half of us making resolutions fail before January 31st! Despite these dismal odds, the majority of us still make those New Year's resolutions every year — hoping for a positive outcome.

In general, women make health-focused resolutions while men pledge to find a new job and lay off the booze. Not surprisingly, saving money is also one of the top five New Year's resolutions made (and also one of the top 5 for the most commonly failed). I am confident our clients at BWFA don't share in this problem!

So, what are we all wishing for in 2018? Here are the top ten New Year's resolutions according to a recent survey of 2,000 people:

1. Diet or eat healthier **(71%)**
2. Exercise more **(65%)**
3. Lose weight **(54%)**
4. Save more and spend less – my personal favorite! **(32%)**
5. Learn a new skill or hobby **(26%)**
6. Quit smoking **(21%)**
7. Read more **(17%)**
8. Find another job **(16%)**
9. Drink less alcohol **(15%)**
10. Spend more time with family and friends **(13%)**

What are your resolutions for the coming year? This may be the year that you achieve each and every goal you set for yourself!

Perhaps, rather than treating the New Year as a catalyst for sweeping character changes, it is best to set realistic goals and work toward them each day over time. This way there is a greater chance that you will keep them throughout the whole year and set yourself up for better success. You can incorporate new healthy behavior, better productive habits or more joyful hobbies into your life on a regular basis.

PHOTO: Woman and her horse cantering in fresh snow, rural Baltimore County, MD

Along these lings, the American Psychological Association offers these tips when thinking about a New Year's resolutions:

START SMALL

Make resolutions that you think you can keep. If, for example, your aim is to exercise more frequently, schedule just a few days a week at the gym, instead of seven. If you would like to eat healthier, try replacing dessert with something else you enjoy, like fruit or yogurt, instead of seeing your diet as a form of punishment.

CHANGE ONE BEHAVIOR AT A TIME

Unhealthy behaviors develop overnight. They've been in the works for a while. So, replacing unhealthy behaviors with healthy ones requires time. Don't get overwhelmed and think that you have to reassess everything in your life. Instead, work toward changing one thing at a time.

TALK ABOUT IT

Share your experiences with family and friends. Consider joining a support group to reach your goals, such as a workout class at your gym or a group of coworkers who are quitting smoking. Having someone to share your struggles as well as successes makes your journey to a healthier lifestyle that much easier and less intimidating.

DON'T BEAT YOURSELF UP

Perfection is unattainable. Remember that minor missteps when reaching your goals are completely normal and acceptable.

ASK FOR SUPPORT

Accepting help from those who care about you and will listen strengthens your resilience and ability to manage stress caused by your resolution. If you feel overwhelmed or unable to meet your goals on your own, consider seeking professional help. Psychologists are uniquely trained to understand the connection between the mind and body. They can offer strategies as to how to adjust your goals so that they are attainable, as well as help you change unhealthy behaviors and address emotional issues.

While we at BWFA of course strive to help you reach and obtain your financial goals, our broader aim is to help you achieve a more fulfilling life with your family and friends. Last year we continued, and expanded, our regular series of seminars covering a wide array of topics on financial matters and beyond. We have planned even more for 2018, and will bring in speakers to discuss topics including your physical health, mental wellness and legal awareness. We are hopeful that these topics, combined with sound financial advice, will help you live a longer, more rewarding and productive life. We hope to see more of you throughout the new year!

In closing I'd like to share some of my personal goals. They include taking a cooking class with my wife, traveling somewhere new with my family, spending more time with those I love, improving my tennis game, and continuing to build and grow a community of advisors at BWFA that are dedicated to serving all our clients.

I wish you and your family a very happy, healthy and fruitful 2018! May you reach all the goals you set out to achieve.

Robert Carpenter

PHOTO: Holiday wreaths at Union Station, Washington DC

Advisor

COVER PHOTO: Sledding on the Capitol building lawn

JANUARY 2018 TABLE OF CONTENTS

Series Spotlight: Wellness in 2018

DR. EMILY TELFAIR, N.D.
NATUROPATHIC MEDICINE / CRANIOSACRAL THERAPY

Dr. Emily Telfair earned her Doctorate of Naturopathic Medicine from Bastyr University in Seattle, WA. She received her Bachelor of Science degree from the University of Dayton with a dual major in Biology and Psychology. Her naturopathic medical training included five years of intensive coursework and clinical experience in science-based natural medicine. Dr. Emily brings to her practice knowledge and training in clinical nutrition, lifestyle counseling, homeopathy, botanical medicine, and craniosacral therapy, and she offers her patients a safe and comfortable space to explore their health holistically as a complement to the care they are receiving from their physicians.

To support a balanced and joy-filled life, Dr. Emily enjoys yoga, dancing, roller skating, creative writing and connecting with friends and family.

Learn more about Dr. Telfair at dremilytelfair.com.

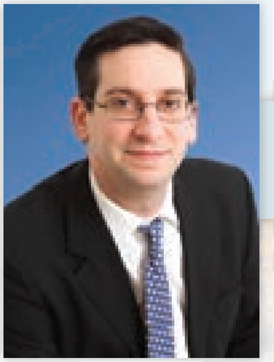
JOIN US FOR A WELLNESS SERIES WITH SPECIAL GUEST DR. EMILY TELFAIR "SELF-CARE STRATEGIES FOR THE AGING BRAIN"

FOR MORE INFORMATION OR TO REGISTER, CONTACT

Eve Kennedy | Client Associate | ekennedy@bwfa.com | 410-461-3900

REGISTER AT BWFA.COM

Financial Planning



SIX POTENTIAL 401(K) ROLLOVER PITFALLS

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

You're about to receive a distribution from your 401(k) plan, and you're considering a rollover to a traditional IRA. While these transactions are normally straightforward and trouble-free, there are some pitfalls you'll want to avoid.

1. Consider the Pros and Cons of a Rollover

The first mistake some people make is failing to consider the pros and cons of a rollover to an IRA in the first place. You can usually leave your money in the 401(k) plan if your balance is over $5,000 (at least until the plan's normal retirement age, typically 65). And if you're changing jobs, you may also be able to roll your distribution over to your new employer's 401(k) plan.

- Though IRAs typically offer significantly more investment opportunities and withdrawal flexibility, your 401(k) plan may offer investments that can't be replicated in an IRA (or can't be replicated at an equivalent cost).
- An IRA may give you more flexibility with distributions. Your distribution options in a 401(k) plan depend on the terms of that particular plan, and your options may be limited. However, with an IRA, the timing and amount of distributions are generally at your discretion (until you reach age 70½ and must start taking required minimum distributions in the case of a traditional IRA).
- 401(k) plans offer virtually unlimited protection from your creditors under federal law (assuming the plan is covered by ERISA; solo 401(k)s are not), whereas federal law protects your IRAs from creditors only if you declare bankruptcy. Any IRA creditor protection outside of bankruptcy depends on your particular state's law.
- Required minimum distributions from traditional IRAs must begin by April 1 following the year you reach age 70½. However, if you work past that age and are still participating in your employer's 401(k) plan, you can delay your first distribution from that plan until April 1 following the year of your retirement (if you own no more than 5% of the company).
- 401(k) plans may allow employee loans (IRAs cannot allow loans).
- Most 401(k) plans don't provide an annuity payout option, while some IRAs do.

PHOTO: A beautiful snow covered Georgetown in Washington DC

2. Not every distribution can be rolled over to an IRA

For example, required minimum distributions can't be rolled over. Neither can hardship withdrawals or certain periodic payments. Do so and you may have an excess contribution to deal with.

3. Use direct rollovers and avoid 60-day rollovers

While it may be tempting to give yourself a free 60-day loan, it's generally a mistake to use 60-day rollovers rather than direct (trustee to trustee) rollovers. If the plan sends the money to you, it's required to withhold 20% of the taxable amount. If you later want to roll the entire amount of the original distribution over to an IRA, you'll need to use other sources to make up the 20% the plan withheld. In addition, there's no need to taunt the rollover gods by risking inadvertent violation of the 60-day limit.

4. Remember the 10% penalty tax

Taxable distributions you receive from a 401(k) plan before age 59½ are normally subject to a 10% early distribution penalty, but a special rule lets you avoid the tax if you receive your distribution as a result of leaving your job during or after the year you turn age 55. But this special rule doesn't carry over to IRAs. If you roll your distribution over to an IRA, you'll need to wait until age 59½ before you can withdraw those dollars from the IRA without the 10% penalty (unless another exception applies). So if you think you may need to use the funds before age 59½, a rollover to an IRA could be a costly mistake.

5. Learn about net unrealized appreciation (NUA)

If your 401(k) plan distribution includes employer stock that's appreciated over the years, rolling that stock over into an IRA could be a serious mistake. Normally, distributions from 401(k) plans are subject to ordinary income taxes. But a special rule applies when you receive a distribution of employer stock from your plan: You pay ordinary income tax only on the cost of the stock at the time it was purchased for you by the plan. Any *appreciation* in the stock generally receives more favorable long-term capital gains treatment, regardless of how long you've owned the stock. (Any additional appreciation after the stock is distributed to you is either long-term or short-term capital gains, depending on your holding period.) These special NUA rules don't apply if you roll the stock over to an IRA.

6. And if you're rolling over Roth 401(k) dollars to a Roth IRA ...

If your Roth 401(k) distribution isn't qualified (tax-free) because you haven't yet satisfied the five-year holding period, be aware that when you roll those dollars into your Roth IRA, they'll now be subject to the Roth IRA's five-year holding period, no matter how long those dollars were in the 401(k) plan. So, for example, if you establish your first Roth IRA to accept your rollover, you'll have to wait five more years until your distribution from the Roth IRA will be qualified and tax-free.

WOMEN: MOVING FORWARD FINANCIALLY AFTER THE LOSS OF A SPOUSE

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

The loss of a spouse can be a devastating, life-changing event. Due to longer life expectancies, women are more likely to face this situation. This has hit close to home for BWFA as very recently some long standing clients have seen themselves in this very situation. After these recent losses for our clients and some additional reflection and reading, the following might be of help to you, or friends or family, facing the loss of a spouse.

Becoming a widow at any age can certainly be one of the most difficult challenges a woman must face. Not only is there the emotional loss of a spouse, but also the task of handling everything — including all the finances — without the help of a spouse. Even if you've always handled your family's finances, the number of financial and legal matters that have to be settled in the weeks and months following your loved one's death can be overwhelming.

Sadly, for many women, becoming a widow is a first step toward economic hardship. That's why it's critical for you to organize your finances after your spouse's death and take ongoing steps to secure your financial future and that of your family.

FIRST, TAKE A DEEP BREATH

Before you start handling the financial end of things, though, make sure to consider your own needs. I am told the period following the death of a spouse can be a blur of emotions, including shock, sadness, despair, anger, denial. It's important to allow oneself the freedom to feel "however" without owing it to anyone to feel or act in a certain way.

Facing loss can ultimately help you as you work to adapt to the new conditions of your life, so that in time you can create something new. This period of adjustment, which I've read can even last for several years, is often a time of profound self-discovery for women, who may find themselves examining issues of identity, life meaning, and aging. During this time, it's important to surround yourself with people you trust — family, friends, support groups, BWFA — who can offer support and advice that's in your best interest.

THE SHORT TERM: STEPS TO TAKE

There are several financial tasks that must be done in the weeks and months after a spouse's death. If some matters are too overwhelming to tackle alone, don't hesitate to ask family or friends for help.

Locate important documents and financial records. In order to settle your spouse's estate, you'll need to locate a number of important documents. These include your spouse's will and other estate planning documents (e.g., trust), insurance policies, retirement accounts, bank and brokerage statements, stock and bond certificates, deeds/titles, Social Security number, birth and marriage certificates, and certified copies of the death certificate.

Set up a communications tracking and filing system. To help keep track of all the details, set up a system to record incoming and outgoing calls and mail. For phone calls, keep a notebook handy where you can write down the caller's name, date, and subject of the call. For mail, keep track of what you receive and whether a response is required by a certain date. Make a list of the names and phone numbers of the people and organizations you're dealing with and post it in a central location. Finally, create a filing system for important documents and correspondence with separate folders for different topics — i.e., insurance, government benefits, tax information, bank records, estate records, and so on.

Seek professional advice to settle the estate and file tax returns. Getting expert help from BWFA and other professionals can be invaluable during this stressful time. Consider bringing a family member or friend with you to meetings so you will have an extra pair of eyes and ears to process information.

An attorney can help you review your spouse's will and other estate planning documents and start estate settlement procedures. If you are named executor in the will (or if you are appointed as the personal representative), you will be responsible for carrying out the terms of the will and settling the estate. Settling the estate means following certain legal and administrative procedures to make sure that all debts of the estate are paid and that all assets are distributed to the rightful persons. An attorney can tell you what procedures to follow. BWFA tax professionals can help you file certain federal and state tax returns that may be due. Your BWFA advisor, and financial planner, can help you by conducting a comprehensive review of your financial situation and identifying any retirement and survivor's benefits that may be available to you.

Apply for benefits. You'll need to contact several institutions for information on how you can file for benefits.

- **Life insurance:** Life insurance benefits are not automatic; you have to file a claim for them. This should be one of the first things you do. Ask your insurance agent to begin filing a claim (if you don't have an agent, contact the company directly). Most claims take only a few days to process.

- **Social Security Administration (SSA):** Contact the SSA to see if you and/or your dependent children are eligible to file a claim for retirement, survivor, or death benefits.
- **Employers:** Contact your spouse's most recent and past employers to find out if you are eligible for any company benefits. If your spouse was a federal, state, or local employee or in the military, you may be eligible for government-sponsored survivor's benefits.

Update account names. You will need to contact the various institutions to change account names and/or update contact information.

Evaluate short-term expenses. You may have immediate expenses to take care of, such as funeral costs or outstanding debts your spouse may have incurred. If you're waiting for insurance proceeds or estate settlement money, you can use credit cards for certain expenses or you can try to negotiate with creditors to allow you to postpone payment for 30 days or more, if necessary. Make sure you have one or more credit cards in your name, and when you can, order a free copy of your credit report and review it for accuracy.

Avoid hasty decisions. For discretionary financial decisions, go at your own pace, not someone else's. For example, don't commit to move from your current home until you can make a decision based on reason instead of emotion. Don't spend money impulsively. Don't cave in to pressure to sell or give away your spouse's possessions. Find out where you stand financially before you make any large purchases, sell property, or loan money to others.

MOVING AHEAD: THE BIG PICTURE

After the initial legal and financial matters related to your spouse's death are taken care of, you'll likely enter a transition phase when you'll be adjusting to your new financial circumstances. As you navigate this terrain, you might find it helpful to work with BWFA to assist you, by:

- Suggesting ways to invest any life insurance proceeds or estate settlement money you receive
- Calculating your net worth by identifying your assets and liabilities, giving you an understanding of how you'll meet your short- and long-term spending needs
- Establishing a budget by looking at your monthly income and routine living expenses, and making adjustments as needed
- Helping you update beneficiary designations on your life insurance, retirement plan, IRA, employee benefits, annuity, and so on
- Reviewing your investment portfolio at least annually
- Updating your estate planning documents (e.g., will, trust, health-care directives, power of attorney) to reflect your circumstances and your wishes for disposition of the marital estate (e.g., gifts to children, grandchildren, charities)
- Updating your insurance coverage to reflect your new circumstances

Generally speaking, women may have a different set of expectations and requirements from BWFA than men. As you work with us we strive to be responsive to what you say you need, not what we think you want. Don't be afraid to ask questions, and make sure you understand all your options before making important decisions.

As you move forward with your life, remember that at times it may be two steps forward and one step back. Take comfort in the fact that you are doing the best you can to make the best decisions — financial and otherwise — for yourself and your family.

PHOTO: The White House decorated for the holidays

Investment Management

WHAT RISING RATES COULD MEAN FOR YOUR MONEY

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

After years of keeping the benchmark federal funds rate at historic lows, the Federal Reserve has been raising it gradually. Near-zero rates were an emergency measure, and gradual increases reflect greater confidence in the U.S. economy. However, rising rates can affect you as a consumer and investor.

WHAT IS THE FEDERAL FUNDS RATE?

The federal funds rate is the interest rate at which banks lend funds to each other overnight to maintain legally required reserves. It applies only to funds that stay on deposit within the Federal Reserve System. The Federal Open Market Committee (FOMC) sets a target range for the funds rate, usually a 0.25% spread, and then sets two specific rates that act as a floor and a ceiling to push the funds rate into that target range. The rate may vary slightly from day to day, but it generally stays within the target range.

Although the federal funds rate is an internal rate within the Federal Reserve System, it serves as a benchmark for many short-term rates set by banks and can influence longer-term rates as well.

WHY DOES THE FED ADJUST THE FEDERAL FUNDS RATE?

The Federal Reserve and the FOMC operate under a dual mandate to conduct monetary policies that foster maximum employment and price stability. Adjusting the federal funds rate is one way the central bank can influence economic growth and inflation.

In December 2008, the heart of the recession, the FOMC dropped the federal funds rate to a 0.00% to 0.25% range in an effort to stimulate the economy and generate job growth. Because the economic recovery was slow and inflation remained low, the rate remained at this historic low until December 2015, when the FOMC raised the target range by 0.25%. The next 0.25% increase came in December 2016, followed by further increases in 2017.

The FOMC raises the federal funds rate in an effort to slow the economy and hold back inflation, which can rise rapidly when an economy grows too quickly. The Fed has set a 2% annual inflation goal as consistent with healthy economic growth.

The FOMC began to raise the funds rate while inflation was still under 2% because it believed that the employment situation was strong enough to begin the transition from emergency measures toward a more "normal" interest rate environment. Since then, inflation has moved closer to the Fed's target, and raising the federal funds rate helps to guard against inflation rising too quickly in the future.

PHOTO: Frozen winter landscape of Central Park in Manhattan, NYC

HOW WILL CONSUMER INTEREST RATES BE AFFECTED?

The prime rate, which commercial banks charge their best customers, is typically tied directly to the federal funds rate. Though actual rates can vary widely, small-business loans, adjustable rate mortgages, home equity lines of credit, auto loans, credit cards, and other forms of consumer credit are often linked to the prime rate, so the rates on these types of loans typically increase with the federal funds rate. Fed rate hikes might also put upward pressure on interest rates for new fixed rate home mortgages, but these rates are not tied directly to the federal funds rate or the prime rate.

Although rising interest rates make it more expensive for consumers and businesses to borrow, retirees and others who seek income could eventually benefit from higher yields on income producing investments.

WHAT ABOUT INVESTORS?

Interest rate changes can have broad effects on investments, but the impact tends to be more pronounced in the short term as markets adjust to the new level.

When interest rates rise, the value of existing bonds typically falls. Put simply, investors would prefer a newer bond paying a higher interest rate than an existing bond paying a lower rate. Longer-term bonds tend to fluctuate more than those with shorter maturities because investors may be reluctant to tie up their money for an extended period if they anticipate higher yields in the future.

Bonds redeemed prior to maturity may be worth more or less than their original value, but when a bond is held to maturity, the bond owner would receive the face value and interest, unless the issuer defaults. Thus, rising interest rates should not affect the return on a bond you hold to maturity, but may affect the price of a bond you want to sell on the secondary market before it reaches maturity.

Bond funds are subject to the same inflation, interest rate, and credit risks associated with their underlying bonds. Thus, falling bond prices due to rising rates can adversely affect a bond fund's performance. However, as underlying bonds mature and are replaced by higher-yielding bonds within a rising interest rate environment, the fund's yield and/or share value could potentially increase over the long term.

Equities may also be affected by rising rates, though not as directly as bonds. Stock prices are closely tied to earnings growth, so many corporations stand to benefit from a more robust economy. On the other hand, companies that rely on heavy borrowing will likely face higher costs going forward, which could affect their bottom lines.

The broader market may react when the Fed announces a decision to raise rates or not to raise rates, but any reaction is typically temporary. Fundamentally, what matters is how the economy performs as interest rates adjust. As always, it's important to maintain a long-term perspective and make sound investment decisions based on your own financial goals, time horizon, and risk tolerance.

Investment Management

HOLDING EQUITIES FOR THE LONG TERM: TIME VS. TIMING

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

Legendary investor Warren Buffett is famous for his long-term perspective. He has said that he likes to make investments he would be comfortable holding even if the market shut down for 10 years.

Investing with an eye to the long term is particularly important with stocks. Historically, equities have typically outperformed bonds, cash, and inflation, though past performance is no guarantee of future results and those returns also have involved higher volatility.

It can be challenging to have Buffett-like patience during periods such as 2000-2002, when the stock market fell for 3 years in a row, or 2008, which was the worst year for the Standard & Poor's 500* since the Depression era. Times like those can frazzle the nerves of any investor, even the pros. With stocks, having an investing strategy is only half the battle; the other half is being able to stick to it.

JUST WHAT IS LONG TERM?

Your own definition of "long term" is most important, and will depend in part on your individual financial goals and when you want to achieve them. A 70-year-old retiree may have a shorter "long term" than a 30 year old who's saving for retirement.

Your strategy should take into account that the market will not go in one direction forever — either up or down. However, it's instructive to look at various holding periods for equities over the years. Historically, the shorter your holding period, the greater the chance of experiencing a loss. It's true that the S&P 500 showed negative returns for the two 10-year periods ending in 2008 and 2009, which encompassed both the tech crash and the credit crisis. However, the last negative-return 10-year period before then ended in 1939, and each of the trailing 10-year periods since 2010 have also been positive.*

THE BENEFITS OF PATIENCE

Trying to second-guess the market can be challenging at best; even professionals often have trouble. According to "Behavioral Patterns and Pitfalls of U.S. Investors," a 2010 Library of Congress report prepared for the Securities and Exchange Commission, excessive trading often causes investors to underperform the market.

THE POWER OF TIME

Though past performance is no guarantee of future results, the odds of achieving a positive return in the stock market have been much higher over a 5- or 10-year period than for a single year.

Another study, "Stock Market Extremes and Portfolio Performance 1926-2004," initially done by the University of Michigan in 1994 and updated in 2005, showed that a handful of months or days account for most market gains and losses. The return dropped dramatically on a portfolio that was out of the stock market entirely on the 90 best trading days in history. Returns also improved just as dramatically by avoiding the market's 90 worst days; the problem, of course, is being able to forecast which days those will be. Even if you're able to avoid losses by being out of the market, will you know when to get back in?

PHOTO: Winter view of Gunpowder Falls in Baltimore County, MD

KEEPING YOURSELF ON TRACK

It's useful to have strategies in place that can help improve your financial and psychological readiness to take a long-term approach to investing in equities. Even if you're not a buy-and-hold investor, a trading discipline can help you stick to a long-term plan.

Have a game plan against panic

Having predetermined guidelines that anticipate turbulent times can help prevent emotion from dictating your decisions. For example, you might determine in advance that you will take profits when the market rises by a certain percentage, and buy when the market has fallen by a set percentage. Or you might take a core-and-satellite approach, using buy-and-hold principles for most of your portfolio and tactical investing based on a shorter-term outlook for the rest.

Remember that everything's relative

Most of the variance in the returns of different portfolios is based on their respective asset allocations. If you've got a well-diversified portfolio, it might be useful to compare its overall performance to the S&P 500. If you discover you've done better than, say, the stock market as a whole, you might feel better about your long-term prospects.

Current performance may not reflect past results

Don't forget to look at how far you've come since you started investing. When you're focused on day-to-day market movements, it's easy to forget the progress you've already made. Keeping track of where you stand relative to not only last year but to 3, 5, and 10 years ago may help you remember that the current situation is unlikely to last forever.

Consider playing defense

Some investors try to prepare for volatile periods by reexamining their allocation to such defensive sectors as consumer staples or utilities (though like all stocks, those sectors involve their own risks). Dividends also can help cushion the impact of price swings.

If you're retired and worried about a market downturn's impact on your income, think before reacting. If you sell stock during a period of falling prices simply because that was your original game plan, you might not get the best price. Moreover, that sale might also reduce your ability to generate income in later years. What might it cost you in future returns by selling stocks at a low point if you don't need to? Perhaps you could adjust your lifestyle temporarily.

Use cash to help manage your mindset

Having some cash holdings can be the financial equivalent of taking deep breaths to relax. It can enhance your ability to act thoughtfully instead of impulsively. An appropriate asset allocation can help you have enough resources on hand to prevent having to sell stocks at an inopportune time to meet ordinary expenses or, if you've used leverage, a margin call.

A cash cushion coupled with a disciplined investing strategy can change your perspective on market downturns. Knowing that you're positioned to take advantage of a market swoon by picking up bargains may increase your ability to be patient.

Know what you own and why you own it

When the market goes off the tracks, knowing why you made a specific investment can help you evaluate whether those reasons still hold. If you don't understand why a security is in your portfolio, find out. A stock may still be a good long-term opportunity even when its price has dropped.

Tell yourself that tomorrow is another day

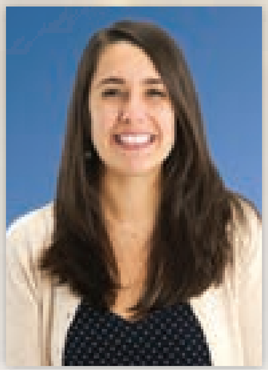
The market is nothing if not cyclical. Even if you wish you had sold at what turned out to be a market peak, or regret having sat out a buying opportunity, you may get another chance. If you're considering changes, a volatile market is probably the worst time to turn your portfolio inside out. Solid asset allocation is still the basis of good investment planning.

Be willing to learn from your mistakes

Anyone can look good during bull markets; smart investors are produced by the inevitable rough patches. Even the best aren't right all the time. If an earlier choice now seems rash, sometimes the best strategy is to take a tax loss, learn from the experience, and apply the lesson to future decisions.

Tax Services

MEET YOUR BWFA TAX TEAM



RACHEL DUNCAN | Tax Advisor | rduncan@bwfa.com

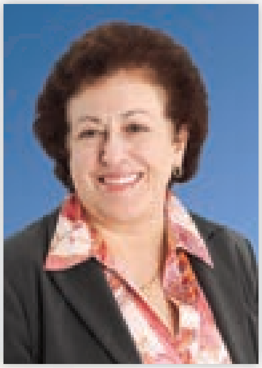
Rachel Duncan graduated from the University of North Carolina at Charlotte with degrees in both Accounting and Finance. She has worked in public tax for over 7 years, including working in Charlotte, NC, and Boston, MA. Rachel is on track to become a Certified Public Accountant.

Rachel lives in Annapolis, Maryland with her husband, two boys and two dogs. She enjoys traveling, rugby and spending time with her family.

ANA WELBORN | CPA | Tax Advisor | awelborn@bwfa.com

Ana joined BWFA as a Tax Advisor in 2017. She is a graduate of the University of Maryland, Baltimore County where she earned her BS in Financial Economics and minored in accounting. Prior to joining BWFA, Ana was a tax manager at DHG, LLP (formerly Stegman & Co.) where her experience included working with various types of business entities, individuals, non-profits organizations, and trusts. Ana is a member of the American Institute of Certified Public Accountants and the Maryland Association of Certified Public Accountants.

Ana currently lives in Baltimore, Maryland. She enjoys traveling and spending time with family and friends.



ANN GARCZYNSKI | Client Associate | agarczynski@bwfa.com

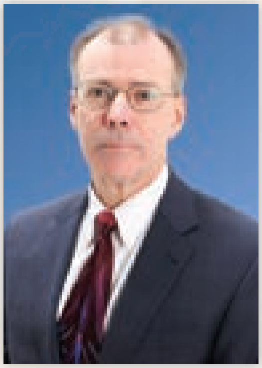
Ann Garczynski is a graduate of the University of Baltimore with a Bachelor's Degree in Business Administration and Accounting. She is a native of New York City and began her career as a legal secretary in Manhattan. After moving to Maryland, she worked at the law firm of Weinberg and Green in Baltimore while completing her degree. Her first job after graduation was in the tax department of Deloitte & Touche LLP in their Baltimore office. Her experience preparing both individual and business tax returns, along with her strong administration background and zealous commitment to getting tax returns completed on a timely basis makes her uniquely qualified to support BWFA as a Client Associate within its tax department.

Ann and her husband reside in Taylorsville, Maryland. Their son currently attends college in New York.

LEX RUYGROK | CPA | Tax Consultant | lruygrok@bwfa.com

Lex started his career in the tax department of Deliotte & Touche where he became a tax manager specializing in employee benefits and retirement plan consulting. He subsequently became a partner in a small local accounting firm where he focused his practice on providing tax services to small businesses and their owners. For 10 years he served as Chief Financial Officer of a large multi-state title agency and subsequently started his own title agency while also practicing law (primarily in the areas of taxation and real estate) for five years before joining a large regional accounting firm where he became the tax director in charge of the firm's personal financial services group.

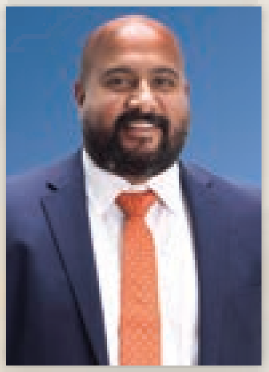
Lex has taught business law and accounting classes at Clemont College and was an adjunct professor at Villa Julie College (now Stevenson University) where he taught tax accounting classes. Currently he teaches graduate and undergraduate classes in individual and business taxation for the Smith Business School at the University of Maryland. He has been very active in the community, serving as the Chairman of the Howard County Pension Oversight Commission and also as the Vice Chairman of the Howard Community College Education Foundation. Lex has a B.A. in Economics from the University of Virginia and is an honors graduate of the University Of Maryland School Of Law.



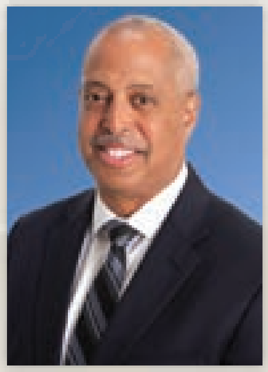
JAMES BURGESS | CPA | Tax Consultant | jburgess@bwfa.com

James is a CPA with 30 years of tax consulting experience. He was previously a tax senior manager with the international accounting firm of Deloitte & Touche, the international consulting firm MAXIMUS, and also served for seven years as President and Chief Financial Officer of a systems integration firm serving the Mid-Atlantic region. His service covers individual and business clients ranging from start-ups to multi-national companies with a strong emphasis assisting entrepreneurs in the technology, retail, manufacturing, construction and real estate industries.

Jim is a graduate of Catawba College. He is a member of the American Institute of Certified Public Accountants and the Maryland Association of Certified Public Accountants. He has also served in various capacities for several civic organizations including the Fairfax County Public Schools Education Foundation, Baltimore Area Council of the Boy Scouts of America, the Girl Scouts of Central Maryland, and past Chairman of the Leonard Cheshire Center USA.



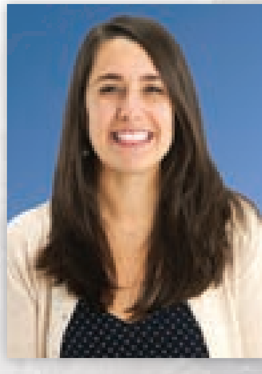
SHAWN MATHEW
Tax Associate
smathew@bwfa.com



GARY TROTTER
Tax Associate
gtrotter@bwfa.com

PHOTO: Brightly shining menorah, celebrating the eight days of Hanukkah

Tax Services



TAX PLANNING FOR THE SELF-EMPLOYED

RACHEL DUNCAN
TAX ADVISOR
rduncan@bwfa.com

Self-employment is the opportunity to be your own boss, to come and go as you please, and oh yes, to establish a lifelong bond with your accountant. If you're self-employed, you'll need to pay your own FICA taxes and take charge of your own retirement plan, among other things. Here are some planning tips.

UNDERSTAND SELF-EMPLOYMENT TAX

As a starting point, make sure that you understand (and comply with) your federal tax responsibilities. The federal government uses self-employment tax to fund Social Security and Medicare benefits. If you file a Schedule C as a sole proprietor, independent contractor, or statutory employee, the net profit is self-employment income and must be included on Schedule SE to calculate self-employment tax.

MAKE YOUR ESTIMATED TAX PAYMENTS ON TIME TO AVOID PENALTIES

Employees generally have income tax, Social Security tax, and Medicare tax withheld from their paychecks. But if you're self-employed, it's likely that federal and state taxes are not being withheld from your income. As a result, you'll need to make quarterly estimated tax payments on your own to cover your federal income tax and self-employment tax liability. Keep in mind that you may have to make state estimated tax payments, as well.

ESTABLISH AN EMPLOYER-SPONSORED RETIREMENT PLAN

Because you're self-employed, you'll need to take care of your own retirement needs. You can do this by establishing an employer-sponsored retirement plan, which can provide you with a number of tax and nontax benefits. Contributed funds, and any earnings, aren't subject to federal income tax until withdrawn. You can also choose to establish a 401(k) plan that allows Roth contributions. You may want to start by considering the following types of retirement plans:

- Keogh plan
- Simplified employee pension (SEP)
- SIMPLE IRA
- SIMPLE 401(k)
- Individual (or "solo") 401(k)

PHOTO: Winter fun at Wollman Rink, Central Park, NYC

The type of retirement plan that your business should establish depends on your specific circumstances. Explore all of your options and consider the complexity of each plan. And bear in mind that if your business has employees, you may have to provide coverage for them as well.

DEDUCT HEALTH-CARE RELATED EXPENSES

If you qualify, you may be able to benefit from the self-employed health insurance deduction, which would enable you to deduct the cost of health insurance that you provide for yourself, your spouse, and your dependents. This deduction is taken on the front of your federal Form 1040 when computing your adjusted gross income, so it's available whether you itemize or not.

TAKE FULL ADVANTAGE OF ALL BUSINESS DEDUCTIONS TO LOWER TAXABLE INCOME

Because deductions lower your taxable income, you should make sure that your business is taking advantage of any business deductions to which it is entitled. To be deductible, business expenses must be both ordinary (common and accepted in your trade or business) and necessary (appropriate and helpful for your trade or business). If your expenses are incurred partly for business purposes and partly for personal purposes, you can deduct only the business-related portion.

If you're concerned about lowering your taxable income this year, consider the following possibilities:

- Deduct the business expenses associated with your motor vehicle
- Buy supplies for your business late this year that you would normally order early next year
- Purchase depreciable business equipment, furnishings, and vehicles this year
- Write off any bad business debts

Self-employed taxpayers who use the cash method of accounting have the most flexibility to maneuver at year-end.

Starting a new business can be a challenging situation, but with the right planning, your venture can become your best investment.

Tax Services

TAX PREPARATION CHECKLIST 2017

NOTE: *The 2018 tax law changes will not affect your 2017 tax return.*

PERSONAL INFORMATION

Personal Data

☐ Social Security Numbers and birthdates for you, your spouse and children

☐ Driver's license information for taxpayer and spouse *(license number, issuing state, expiration date, issue date)*

Your Household

*(include **only** those for whom you provide >50% of their support)*

☐ Name, date of birth, social security number, and gross income of any adult who lived with you all year

☐ Name, date of birth, social security number, and gross income of any parent not living with you

☐ Name, date of birth, social security number of any new additions to the family

INFORMATION ABOUT YOUR INCOME

Employment

☐ Forms W-2 for you and your spouse

Self-Employment

☐ Forms 1099-Misc, if applicable

☐ Your Business Records:

- ☐ Income Statement *(include revenue and expense detail)*
- ☐ Detail of taxes paid
- ☐ Home office expenses
- ☐ Vehicle expenses or mileage log *(records MUST be written)*
- ☐ Listing of current year asset acquisitions and dispositions
- ☐ Medical insurance premiums paid for you, your spouse, and dependents
- ☐ Self-employed retirement contributions *(SEP, SIMPLE IRA, 401(k) plans)*

Pension/Annuities

☐ Forms 1099-R or RRB-1099 for distributions from IRAs or retirement plans

☐ Any nondeductible IRA contributions or distributions thereof

Social Security Income

☐ Forms 1099-SA

Rental Income

☐ Forms 1099-Misc

☐ Income Statement *(include revenue and expense detail and taxes paid)*

☐ Listing of current year asset acquisitions and dispositions

Investment Income

☐ Forms 1099-DIV, 1099-INT: statements of dividends and interest

☐ Forms 1099-B: proceeds from broker transactions *(include cost basis information for all non-covered stock sold)*

☐ Schedules K-1: partnership, trust and S Corporation income

Foreign Bank Account Information

☐ Bank information – location *(foreign country address)*, name of institution

☐ Account Information *(account numbers and maximum account values during the year)*

Miscellaneous Income

☐ Form 1099-G for state/local tax refunds or unemployment income

☐ Form 1099-S for Income on Sale of Property

☐ Settlement sheets for any sale, purchase, or refinance of residence and original basis of house sold

☐ Form 1099-C from Cancellation of Indebtedness Income

☐ Alimony received

☐ Scholarships, fellowships

☐ Other:

- ☐ Medical Savings Account
- ☐ jury duty
- ☐ gambling/lottery winnings
- ☐ prizes/awards, etc.

NOTES

ADJUSTMENTS, DEDUCTIONS, AND CREDITS INFORMATION

Child Care Expenses
☐ Name, address, tax ID or social security number, and amount paid
NOTE: include ***day camp*** *expenses but not the cost of summer school*

Education
☐ Form 1098-E or Form 1098-T for student loan interest or tuition paid
☐ Contributions to 529 plans
☐ Form 1099-Q for payments from a qualified education program

Educators *(Grades K-12)*
☐ Expenses paid for classroom supplies *(receipts, canceled checks)*

Retirement Contributions
☐ Records of contributions made for the current tax year completed by 4/15/2018 *(identify employer and employee contributions)*

Alimony Paid
☐ Amount paid, former spouse's name and social security number

Moving Expenses
☐ Include if move due to change in job locations or starting a new job

Mortgage Interest
☐ Forms 1098

Charitable Donations
(NOTE: include charity's written statement for ***any*** *single donation* ***>$250****)*
☐ Cash amounts, official charity receipts, canceled checks
☐ Value of donated property
☐ Miles driven and out-of-pocket expenses

Casualty/Theft Losses
☐ Provide details of loss or damages incurred and insurance reimbursements

Gifts
☐ Any gifts given during the year *(description of gift and amount)*

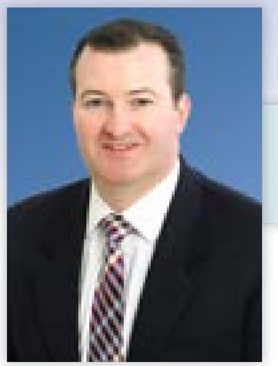
Other Expenses/Deductions
☐ Medical and Dental expense records
☐ Investment Interest Expense
☐ Tax Preparation and Investment Management fees paid
☐ Job Hunting Expenses
☐ Job-related Education Expenses
☐ Health Savings or Medical Savings Account contributions
☐ Adoption Expenses
☐ Unreimbursed Employee Business Expenses
  ☐ travel expenses
  ☐ seminars and continuing education
  ☐ union dues
  ☐ uniforms *(must be required and not suitable for everyday wear)*
  ☐ subscriptions
☐ Early withdrawal penalties on CDs and other time deposits

OTHER IMPORTANT INFORMATION

Taxes You Paid
☐ Federal and state estimated tax payments *(include date & amount of each)*
☐ Real Estate Taxes Paid
☐ Personal Property Taxes Paid

NOTES

Business Services



CHOOSING AN ENTITY FOR YOUR BUSINESS

BRIAN MACMILLAN
MANAGING DIRECTOR
MERGERS & ACQUISITIONS
bmacmillan@bwfa.com

Now that you've decided to start a new business or buy an existing one, you need to consider the form of business entity that's right for you. Basically, three separate categories of entities exist: partnerships, corporations, and limited liability companies. Each category has its own advantages, disadvantages, and special rules. It is also possible to operate your business as a sole proprietorship without organizing as a separate business entity.

SOLE PROPRIETORSHIP

A sole proprietorship is the most straightforward way to structure your business entity. Sole proprietorships are easy to set up--no separate entity must be formed. A sole proprietor's business is simply an extension of the sole proprietor.

Sole proprietors are liable for all business debts and other obligations the business might incur. This means that your personal assets (e.g., your family's home) can be subject to the claims of your business's creditors.

For federal income tax purposes, all business income, gains, deductions, or losses are reported on Schedule C of your Form 1040. A sole proprietorship is not subject to corporate income tax. However, some expenses that might be deductible by a corporate business may not be deductible by a business structured as a sole proprietorship.

PARTNERSHIPS

If two or more people are the owners of a business, then a partnership is a viable option to consider. Partnerships are organized in accordance with state statutes. However, certain arrangements, like joint ventures, may be treated as partnerships for federal income tax purposes, even if they do not comply with state law requirements for a partnership.

In a partnership, two or more people form a business for mutual profit. In a general partnership, all partners have the capacity to act on behalf of one another in furtherance of business objectives.

This also means that each partner is personally liable for any acts of the others, and all partners are personally responsible for the debts and liabilities of the business.

It is not necessary that each partner contribute equally or that all partners share equally. The partnership agreement controls how profits are to be divided. It is not uncommon for one partner to contribute a majority of the capital while another contributes the business acumen or contacts, and the two share the profits equally.

Partnerships are a recognized entity in the sense that the entity can obtain credit, file for bankruptcy, transfer property, and so on. However, the partnership itself is generally not subject to federal income taxes (it does, however, file a federal income tax return). Instead, the income, gains, deductions, and losses of the partnership are generally reported on the partners' individual federal income tax returns.

LIMITED PARTNERSHIPS

A limited partnership differs from a general partnership in that a limited partnership has more than one class of partners. A limited partnership must have at least one general partner (who is usually the managing partner), but it also has one or more limited partner. The limited partner(s) does not participate in the day-to-day running of the business and has no personal liability beyond the amount of his or her agreed cash or other capital investment in the partnership.

LIMITED LIABILITY PARTNERSHIP

Some states have enacted statutes that provide for a limited liability partnership (LLP). An LLP is a general partnership that provides individual partners protection against personal liability for certain partnership obligations. Exactly what is shielded from personal liability depends on state law.

CORPORATIONS

Corporations offer some advantages over sole proprietorships and partnerships, along with several important drawbacks. The two greatest advantages of incorporating are that corporations provide the greatest shield from individual liability and are the easiest type of entity to use to raise capital and to transfer (the majority stockholder can usually sell his or her stock without restrictions).

A corporation can be taxed as either a C corporation or an S corporation. Each has its own advantages and disadvantages.

C CORPORATIONS

A corporation that has not elected to be treated as an S corporation for federal income tax purposes is typically known as a C corporation. C corporations are not subject to the same qualification rules as S corporations and thus typically offer more flexibility in terms of stock ownership and equity structure. Another advantage that a C corporation has over an S corporation is that a C corporation can fully deduct most reasonable employee benefit costs, while an S corporation may not be able to deduct the full cost of certain benefits provided to 2 percent shareholders. Virtually all large corporations are C corporations.

However, C corporations are subject to income tax. So, the distributed earnings of your incorporated business may be subject to corporate income tax as well as individual income tax.

S CORPORATIONS

S corporation treatment is not available to all corporations. Qualifying corporations must satisfy several requirements, including limitations on the number and type of shareholders and on who can own stock in the corporation. Qualification as an S corporation offers a potential tax benefit unavailable to a C corporation. If a qualifying corporation elects to be treated as an S corporation for federal income tax purposes, then the income, gains, deductions, and losses of the corporation are generally passed through to the shareholders. Thus, shareholders report the S corporation’s income, gains, deductions, and losses on their individual federal income tax returns, eliminating the potential for double taxation of corporate earnings in most circumstances.

LIMITED LIABILITY COMPANY

A limited liability company (LLC) is a type of entity that provides limitation of liability for owners, like a corporation. However, state law generally provides much more flexibility in the structuring and governance of an LLC as opposed to a corporation. In addition, most LLCs are treated as partnerships for federal income tax purposes, thus providing LLC members with pass-through tax treatment. Moreover, LLCs are not subject to the same qualification requirements that apply to S corporations.

CHOOSING THE BEST FORM OF OWNERSHIP

There is no single best form of ownership for a business. That’s partly because you can often compensate for the limitations of a particular form of ownership. For instance, a sole proprietor can often buy insurance coverage to reduce liability exposure, rather than form a limited liability entity.

Even after you have established your business as a particular entity, you may need to re-evaluate your choice of entity as the business evolves. Make sure you consult an experienced attorney and tax advisor to help you decide which form of ownership is best for your business.

PHOTO: A snowy horse and carriage ride in Central Park, Manhattan, NYC

Upcoming Events

January

JANUARY 16, 2018
11:45 A.M. – 1:00 P.M.
Social Security

JANUARY 18, 2018
11:45 A.M. – 1:00 P.M.
Wellness Series "Self-care Strategies for the Aging Brain" w/ Dr. Emily Telfair, N.D.

JANUARY 23, 2018
11:45 A.M. – 1:00 P.M.
Making the Most of Medicare

JANUARY 25, 2018
11:45 A.M. – 1:00 P.M.
Selecting Your State of Residence

JANUARY 30, 2018
11:45 A.M. – 1:00 P.M.
What You Need to Know About Retirement Before You Retire

February

FEBRUARY 6, 2018
11:45 A.M. – 1:00 P.M.
Pitfalls of Annuities

FEBRUARY 8, 2018
11:45 A.M. – 1:00 P.M.
Tax Planning w/ Lex Ruygrok

FEBRUARY 13, 2018
11:45 A.M. – 1:00 P.M.
Elder Law w/ Steve Elville

FEBRUARY 15, 2018
6:00 P.M. – 7:30 P.M.
Required Minimum Distributions

March

MARCH 1, 2018
11:45 A.M. – 1:00 P.M.
What is Your Retirement Number?

MARCH 13, 2018
11:45 A.M. – 1:00 P.M.
Assisted Living w/ Steve Elville

MARCH 20, 2018
11:45 A.M. – 1:00 P.M.
Traditional or Roth IRA

Check out BWFA.COM for latest list of seminars.

PHOTO: A family visits the Capitol Christmas Tree, Washington DC

Happy New Year 2018

WISHING YOU A NEW YEAR FILLED WITH JOY & PROSPERITY.

From your friends and colleagues at

B|W|F|A

Baltimore-Washington

FINANCIAL ADVISORS

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