JANUARY 2016

Advisor

BALTIMORE - WASHINGTON FINANCIAL ADVISORS

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President's Address

30TH ANNIVERSARY

THIRTY YEARS IN THE MAKING

ROB CARPENTER
PRESIDENT & CEO
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BWFA STARTED DOING BUSINESS 30 YEARS AGO IN ELLICOTT CITY, WHILE RONALD REAGAN WAS STILL IN THE WHITE HOUSE, THE DOW JONES INDUSTRIAL AVERAGE WAS BELOW 2,000, A POSTAGE STAMP COST $0.22, AND A GALLON OF MILK WAS JUST OVER $2.

From the beginning, Kevin Condon and Saxon Birdsong focused on providing outstanding services to their clients. When Bob Cassel joined the firm, the idea of offering investment management, financial planning, and tax services all under one roof was still very new. Furthermore, doing so under a Fee-Only model was a pioneering concept in Maryland. It continues to be an uncommon approach today, but one to which BWFA is committed. It allows us to provide integrated and coordinated financial advice and helps ensure that we act only in ways that serve our clients' best interests.

Over the years, BWFA has built its reputation one client at a time, growing predominantly through referrals from existing clients and by word of mouth in the community. Along the way, we have built strong relationships with organizations and many in the professional community who appreciate the services we provide as well as the cost-effectiveness of our platform.

Looking ahead to the next 30 years, BWFA will continue to serve our clients with the same philosophy and "bill of rights" that we have used for the last three decades. **Our commitment to our clients is paramount as we singularly focus on delivering objective financial advice that meets the highest standards for honesty and integrity.**

It has always been our goal for BWFA to be of service to our community. In 2016, we will provide a number of workshops to help educate the public. We currently are planning more than 60 discussions that will cover topics such as: "What is Your Retirement Number?" Traditional or Roth IRA? Family Law, State by State Analysis for Retirement, Social Security, Tax Planning, Estate Planning, Special Needs Planning, and Charitable Giving. For many of the workshops we will have a featured guest speaker who is particularly knowledgeable on that event's topic.

In addition to our workshops, we are also planning a few special events to mark BWFA's 30th anniversary and celebrate with our clients and friends. Ideas currently under consideration include: kayaking on the Potomac, golf at Cattail Creek, hiking at Sugarloaf Mountain, and a winery visit, as well as our traditional Fourth of July celebration at the Center Club in Baltimore. 2016 is going to be a special year, and we hope that you will join us for one or more of our events.

I would like to extend a big "thank you" to everyone who has helped make BWFA what it is today—a recognized institution that provides a high level of service to clients in 27 states. My goal, as always, is to help you and your family make wise financial and investment decisions and give you the freedom to relax and enjoy time with the ones you love. It is a pleasure to serve you.

Robert Carpenter

Advisor

Do you know someone WHO COULD USE GUIDANCE WITH THEIR INVESTMENTS?

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

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

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

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Financial Planning

CLOSING THE SOCIAL SECURITY LOOPHOLES

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President Obama recently signed a budget bill into law that changes Medicare and Social Security laws. The new law stream-lines the process of choosing when to begin Social Security benefits by closing a few loopholes, though it might also limit benefits for some.

One of the loopholes closed by the new bill is the "file and suspend" strategy, which allows your benefits to grow after your full retirement age. Currently, you can file for your own Social Security benefits upon reaching your full retirement age and then immediately suspend those benefits while your spouse files for spousal benefits. By doing this, your own benefits would continue to grow by 8 percent per year while your spouse receives a Social Security check. Then, when you turn 70, you would begin to receive your own benefits, which would be 32 percent higher than they would have been at your full retirement age. In addition, when you pass away, your surviving spouse would then switch from the spousal benefits to your retirement benefits—including the 32 percent increase! But this will be phased out in 2016. If you were born on or before May 1, 1950, you have until May 2, 2016, to file and suspend your benefits. Those born after May 1, 1950, cannot utilize the "file and suspend" option.

Another strategy, "restricted application," is also being eliminated. Currently, if you are eligible for both a spousal benefit and a retirement benefit based on your own work record, you can choose to elect only a spousal benefit at your full retirement age. This allows you to delay receiving your own benefit, while receiving an 8-percent increase for each year until you turn 70, when you could switch to your own higher benefit. However, according to the new law, only those born Jan. 1, 1954, or earlier can use this option. If you were born after Jan. 1, 1954, you will automatically get the higher of the two benefits when you apply.

WHILE THE NEW LAW MIGHT LIMIT YOUR SOCIAL SECURITY OPTIONS IF YOU WERE BORN AFTER 1954, IT ALSO SIMPLIFIES THE PROCESS OF CHOOSING WHEN TO BEGIN YOUR SOCIAL SECURITY BENEFITS.

The new law also affects Social Security Disability Insurance. Prior to the new law, the trust responsible for funding Social Security Disability payments was estimated to run out of money in 2016. As a result, millions of people were going to see their disability benefits reduced by 19 percent in the fourth quarter of 2016.

This new law shifts the payroll tax revenue from one Social Security trust fund (the Old-Age and Survivors Insurance Trust fund) to another (the Disability Insurance Trust fund), eliminating the automatic reduction in benefits.

Lastly, there are changes to Medicare premiums. Approximately 30 percent of Medicare beneficiaries were going to see a 52-percent increase in their Medicare Part B medical insurance premiums and deductible in 2016. However, under the new law, those beneficiaries will pay approximately $119 per month, instead of $159.30, for Part B. Seventy percent of Medicare beneficiaries will continue to pay the same premium ($104.90) in 2016 as they did in 2015. Beneficiaries, however, will also have to pay an extra $3 per month to help pay down a loan the government gave to Medicare to offset lost revenue. In addition, all Part B beneficiaries will see their annual deductible increase by 15 percent to about $166 in 2016.

While the new law might limit your Social Security options if you were born after 1954, it also simplifies the process of choosing when to begin your Social Security benefits. Nevertheless, that decision should be made holistically when preparing for retirement. Even though two of the Social Security loopholes have been eliminated, the need for strategic financial planning, incorporating Social Security, is greater than before, simply because there are fewer options. As always, it is important to remember that you are not just planning for your retirement, but your family's future as well.

Investment Management

THE FIDUCIARY STANDARD OR THE SUITABILITY STANDARD: THE DIFFERENCE IS IMPORTANT TO YOU!

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At BWFA, our financial advisors adhere to the fiduciary standard established as part of the Investment Advisers Act of 1940. This act specifies that an advisor must always act in the best interest of the client — i.e., must consistently place the client's interests above his own interests.

An important distinction needs to be drawn between the "fiduciary standard" and the "suitability standard." Unlike the fiduciary standard, the less-stringent suitability standard states that an investment representative must merely "have a reasonable basis to believe that a recommended transaction or investment strategy…is suitable for the customer…" (FINRA Rule 2111) That is different than requiring that the client's interests always come before those of the broker or investment representative's firm. In fact, a representative that is governed by the suitability standard has a duty *first* to the firm (i.e., "broker-dealer"), even before his duty to the client.

Many investment representatives are employed by broker-dealer firms, which include the major brokerage houses such as Merrill Lynch, Morgan Stanley, UBS, as well as insurance/annuity companies. These investment representatives, or brokers, provide investment products based on the suitability standard. So while their recommendations need to be suitable to their clients, they can charge for their advice in such a way that the firm's ability to secure financial benefit may take precedence over doing what is best for the client.

The **suitability standard** is enforced by the Financial Industry Regulatory Authority (FINRA), which states their member firm representatives must:

- **Know the client and the financial situation**
- **Recommend products that are suitable for their situation**

In other words, representatives of FINRA firms (brokerage houses, insurance and annuity providers) comply with a minimal threshold of determining that an investment is suitable for a client.

By contrast, BWFA is regulated by the SEC and governed by the Investment Advisers Act of 1940. Our advisors are required to adhere to the higher, **fiduciary standard** of care. They and other appointed fiduciaries, such as trustees, must:

- **Put the client's best interest first, ahead of their own**
- **Act with prudence, skill, and good judgment as a professional**
- **Not mislead clients, and provide full and fair disclosures**
- **Avoid conflicts of interest**
- **Fully disclose and fairly manage, in the client's favor, unavoidable conflicts**

Your BWFA advisor, bound by the fiduciary standard, operates under a much more stringent threshold of care and professional advice versus the less-rigorous, but more widely used suitability standard.

Here is an example of competing interests that can exist under the suitability standard. Let us say that a FINRA-based broker at a brokerage firm or insurance/annuity company gets paid a higher commission for steering someone to invest in Fund A rather than recommending that a client invest in Fund B. There is an inherent conflict of interest here, since Fund B could be a better investment than Fund A. Fund A may easily meet the suitability standard, and the broker would not have violated any regulation by investing the client in this fund. However, the investor in this scenario might incur unnecessarily high fees simply because the broker was seeking a higher commission from the sale, in addition to the commission normally charged to the client.

BWFA IS REGULATED BY THE SEC AND GOVERNED BY THE INVESTMENT ADVISERS ACT OF 1940. OUR ADVISORS ARE REQUIRED TO ADHERE TO THE HIGHER, FIDUCIARY STANDARD OF CARE.

It all boils down to one question that all investors should ask themselves: "Do I want the highest standard of care regarding the management of my investments or retirement plan?" If so, the investor should seek and utilize the services of an advisor who is bound by the fiduciary standard.

Investment Management

"ROBO-ADVISORS" NOT READY FOR PRIME TIME

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There is a new form of investment advisor that could be as disruptive to the investment advisory business as Uber has been to the car service industry. Known in the financial press as "robo-advisors," these firms offer to replace experienced, human investment professionals with an online financial questionnaire and an algorithm that decides what you should buy and when.

Despite the hype, there are still a lot of unanswered questions. Will this new approach leave clients better off in the long run? What kinds of clients are best suited for this new approach to financial advisement? And what will this industry look like in a few years?

Automation is an inevitable part of the future, but much of its potential remains unproven. We wonder whether investors will be willing to let computers manage their investments any sooner than they will allow computers to drive their cars.

MAKING SACRIFICES FOR EFFICIENCY

There are some things that robo-advisors do particularly well. For example, they clearly have an advantage when it comes to cost. Their fees are less than half those of a full-service advisor, but fees vary according to which additional services they provide, such as end-of-year tax planning or any service requiring a phone call to a real person. However, an alternative to robo-advisors that would be even less expensive is buying a few Vanguard or Fidelity funds.

Robo-advisor services claim that their automated process produces superior investment performance by leaving out human beings, who often make mistakes, struggle with following processes consistently, and tend to let emotions affect their decisions inappropriately. In place of investment professionals, most robo-advisors build computer programs based on what is called the efficient market hypothesis of modern portfolio theory (MPT) and determine your risk profile using a series of questions that appear on their webpage when you open your account.

MPT looks at historical returns and correlations among various types of assets to select those that give the highest return for a given level of risk. All personal investment managers, at least in our firm, know MPT, and we think it is an eloquent theory that explains how the market should work—in a perfect world. But we recognize that it is difficult to apply this theory using real-world data. There are just too many variables of shifting importance over long periods of time to make the results credible.

Of course, since robo-advisors depend upon historical returns to tell them how to invest, robo-advisors (like human advisors) must admit that "historical returns are not a predictor of future results." In this extraordinary period in our economic history, when interest rates have fallen for 30 years, investors need to consider a broader set of criteria than just historical returns. Human advisors are trained to do exactly that.

Another concern about how most robo-advisors work is their extensive use of exchange-traded funds. ETFs support the main advantage that robo-advisors have—they are cheap. However, ETFs can have serious flaws. As we witnessed this August, ETFs traded at more than 40 percent below their fair value when the stock market hit a rough patch. What would happen to their value during more serious market turmoil if they were controlled by untested robots? (See Phil Weiss' article "The Perils of ETFs" on page 8 for more information.)

THE HUMAN TOUCH

As you can probably tell by now, the Achilles' heel for robo-advisors is their lack of human contact. Most investors who are approaching, or in, retirement have complex lives and financial circumstances that require substantial knowledge, experience and creativity to manage. Often advisors must listen carefully, then help clients understand exactly what the issues confronting them really are. Robo-advisors will never "know" their clients at a level necessary to accomplish this task.

Most investors also need emotional support to help them do the right thing and feel comfortable with their investments, especially through difficult times. Computers cannot provide this emotional support and guidance. This was blatantly obvious this August, when the stock market fell into a 12-percent correction and clients of robo-advisors quickly overwhelmed robo-advisors' limited customer support phone services seeking support that was not there.

THE ACHILLES' HEEL FOR ROBO-ADVISORS IS THEIR LACK OF HUMAN CONTACT.

Without an advisor who knows an investor personally, investors can mislead themselves, because humans find it easier to be less honest with a computer than with a real person. For instance, when answering an online questionnaire, investors might misrepresent the number of years before they plan to retire, thus dramatically affecting their risk profiles and thus influencing the nature of the resulting investments.

Human advisors who have a personal relationship with their clients are more likely to keep investors on track.

MAYBE SOMEDAY…

So how successful have robo-advisors been so far? One telling measure is the growth of investment assets that they manage. As of the beginning of this year, they had amassed a mere $20 billion of the $26 *trillion* invested in all retirement funds. That's less than 0.1 percent. This slow growth indicates that the new approach has yet to redefine how most investors manage their accounts.

Going forward, we expect these companies to initially appeal to a small group of well-educated, tech-savvy, millennial professionals. Gradually, they will learn how to serve a broader market by including some personal contact to their service platform. For now, robo-advisors appeal to a small niche in the personal investment management business. Maybe when robots are driving your car, robo-advisors will be more ready to manage your portfolio.

THE PERILS OF ETFs

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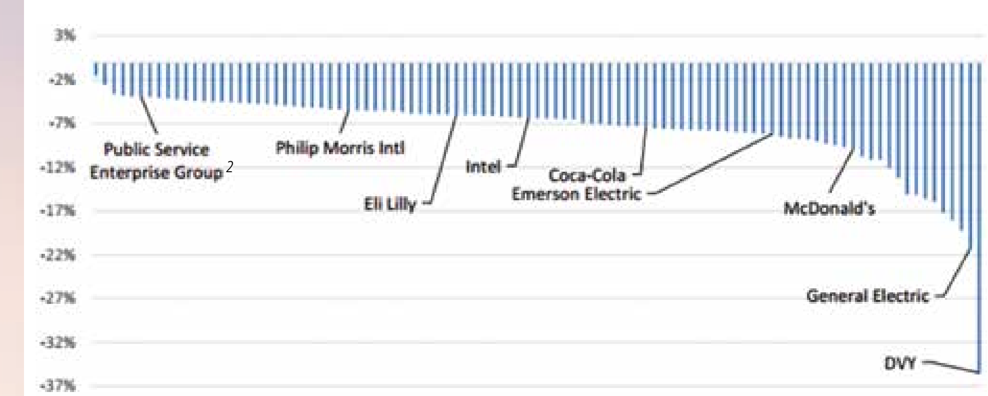

LARGEST INTRA-DAY DROP IN DVY[1] CONSTITUENT PRICES: AUGUST 24, 2015

Source: iShares, Bloomberg, Horizon Kinetics, LLC

Exchange-traded funds (ETFs) have surged in popularity over the last two decades. By the end of 2014, Bloomberg data showed that the ETF industry reached a record $330 billion in new investments. While ETFs are growing in popularity, there are some significant differences associated with owning ETFs rather than mutual funds. Market activity late this summer raised investor awareness about some of the potential pratfalls that can come with owning ETFs. For investors, the greatest flexibility and understanding of what is in their portfolios comes from owning individual securities.

SOME ETF BASICS

ETFs were first created as a tool for sophisticated institutional investors and traders to use to gain short-term exposure to a given market. They were well suited for this purpose since, unlike mutual funds, they could be bought and sold throughout the trading day, just like individual stocks. On the other hand, mutual fund shares may be redeemed at net asset value (NAV) only once a day, after the market closes.

However, more recently ETFs have become popular with smaller, less-experienced investors. Since they cost investors less than the typical mutual fund, ETFs are increasingly becoming the core of these investors' portfolios. This provides cause for concern, because ETFs can hurt investors' portfolios — especially when investors truly do not understand how they work or what securities the ETF actually owns.

It is estimated that about 99% of ETFs are designed to track an index. When used properly, ETFs can be a useful component in a well-diversified portfolio. However, they are not perfect, and relying on them too heavily without understanding their imperfections can be risky.

ETFs ON AUGUST 24, 2015

For many, the market's activity on August 24, 2015, raised concerns about the ability to trade ETFs intraday. In fact, some call that day the "ETF Flash Crash" since the market's heightened volatility triggered a number of extreme situations in which ETFs briefly traded at significant discounts to their NAV. For example, shares of the iShares Select Dividend ETF (DVY[1]) were especially volatile. The shares opened at $62.46 and plunged to $52.69 only 11 minutes later. After another 22 minutes they were trading for $71.97. In other words, within a 33-minute span the shares fell 16% and then rose 37% (see chart)! None of the underlying stocks in this ETF (or other ETFs that behaved similarly) fluctuated nearly as much during that span (the fund's NAV fell by no more than 2.5% and only eight of the fund's 99 holdings dropped by more than 15%). (See chart for examples.) DVY is not a small fund; it has $13 billion of assets under management (AUM). The wide price swings were likely due to a combination of the market's unusual volatility and illiquidity.

These events meant little to buy-and-hold investors and their advisors who did not trade during these wide price swings. However, it highlights that, when ETFs experience significant bouts of illiquidity, they can trade at steep discounts. This can be particularly disconcerting for those who need to trade during such volatile periods.

Mutual fund buyers and sellers were not impacted because their trades are executed at a more representative price. The same applies to individual stocks.

HOW INVESTORS CAN REACT

For most investors, the best way to avoid unfavorable trades when market volatility is heightened is to simply **STOP TRADING**. The price distortions that occurred on August 24th cured themselves relatively quickly, or as soon as the arbitrageurs were able to begin the normal process of helping the ETF price converge on its underlying NAV.

KNOWING WHAT IS IN YOUR INDEX – BONDS

Unlike actively managed funds, passively managed ETFs cannot use discretion when allocating new capital, as it is allocated based on the applicable weightings associated with the ETF's specified benchmark. For example, the iShares Emerging Markets High Yield Bond (EMHY) ETF's largest current holding is Russian government bonds maturing on March 31, 2030.

This is U.S.-dollar-denominated debt, as are all the bonds in this ETF, meaning there is no foreign currency risk. While the coupon or stated interest rate of these bonds is 7.5%, they currently trade at a significant premium to their principal value, resulting in a yield to maturity (YTM) of around 3.3% (the YTM is the anticipated return an investor would earn if she holds the bond until maturity). These Russian bonds are currently rated BB+ by Standard & Poor's (S&P) or just below investment grade. In contrast, in 1998, IBM issued 30-year corporate bonds with a 6.5% coupon maturing in 2028. These bonds have a current YTM of 3.6%, which is slightly higher than the Russian bonds. IBM's bonds are currently rated AA- by S&P, which is well above investment grade. However, the Russian government, which the ratings agencies believe has a greater risk of default than IBM, can currently borrow at a lower cost than IBM.

The question is "How can this happen?" Whenever a robo-advisor or a pension fund's asset allocation committee decides to increase its allocation to emerging market high-yield bonds, regardless of their valuation, computers have to purchase bonds on the open market for EMHY at the current price and in the appropriate proportion. The law of supply and demand helps push the yields on these bonds even lower as increased demand puts downward pressure on an individual bond's price and, correspondingly, its yield.

KNOWING WHAT IS IN YOUR INDEX – COUNTRY ETFs

There are also issues associated with owning a country-specific ETF. For example, the two largest India-focused ETFs are Wisdom Tree India Earnings Fund (EPI), which had $1.7 billion of AUM and iShares MSCI India ETF (INDA) with $3.5 billion of AUM (all figures are as of November 23, 2015).

These ETFs assign member weightings based on market value, helping make them significantly less diversified than one might ordinarily assume. Both EPI and INDA are quite concentrated with 45% and 51%, respectively, of their assets in their top 10 holdings. The average market cap of the top 10 holdings in each ETF is around $33 billion. A company with a $33 billion market cap hardly seems representative of the type of emerging business the fund's investors would likely be seeking. It also means the ETFs do not really provide significant exposure to India's emerging businesses.

The top holdings also provide little exposure to India. Three of the top six holdings in each fund are Infosys Limited, Tata Consultancy Services and Reliance Industries. These three companies represent 23% of the assets in INDA and 22% of the assets in EPI. In the most recent filing period, Infosys generated 98% of its revenues outside of India. Similarly about 93% of Tata Consultancy's revenues and approximately 65% of Reliance Industries' sales were from outside India. As a result, none of these companies attribute a majority of their business to the emerging India economy.

CONCLUSION

Should investors simply avoid ETFs altogether? No. Certain ETFs can have a role in a well-diversified portfolio – but they are not a cure all. It is vitally important that investors know what they are buying when they acquire ETF shares.

[1] Shares of DVY are currently on BWFA's "Buy/Hold" list and may be held in client portfolios.

[2] Shares of Public Service Enterprise Group are currently on BWFA's "Buy/Hold" list and may be held in client portfolios.

Business Services

THE PROCESS OF SELLING A BUSINESS

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Selling a business is never a simple process. It takes time and the same level of planning that is required to run a successful business in the first place. But after investing so much in building a business, it makes sense to plan for a successful sale when the owner is ready to hand over the reins.

Most business owners do not have a family member or manager that is capable of taking over the business. Therefore, owners will need to enlist the help of a merger and acquisition advisor to find a buyer for the business and ensure that the owner receives a fair price in the sale. When all is said and done, selling a business can take anywhere from six to 18 months. In addition, most buyers will want the seller to stay on board for anywhere from six months to several more years to ensure a smooth transition.

Merger and acquisition advisors can help at every step of this process.

Below are the key steps that BWFA follows in order to maximize the net proceeds that a business owner will receive from the sale of her privately held business.

Develop seller marketing material: BWFA develops a one-page business listing outline and a detailed confidential information memorandum that is given to prospective buyers. The business listing outline is written both to maintain confidentiality and to present the business as an attractive opportunity for prospective buyers. The confidential information memorandum is provided to prospective buyers after they have signed a non-disclosure agreement. Our confidential information memorandum is professionally done and answers most of the basic questions that prospective buyers will have about the business.

Contact prospective buyers: BWFA confidentially markets the business using various sources. We have built a database of thousands of prospective purchasers and will reach out to them to determine if they are interested. We will also contact prospective buyers outside of our database.

Respond to prospective buyers and enter into non-disclosure agreements: BWFA fields calls, emails, and letters from interested prospective buyers, and we have each of them execute a non-disclosure agreement prior to releasing the actual name or location of the business.

Provide confidential information memorandum and field initial questions: After the prospective buyers have signed a non-disclosure agreement, BWFA provides them with the confidential information memorandum and then answers any initial questions the prospective buyers have about the business to encourage their interest in the opportunity.

Coordinate conference calls and meetings: Prospective buyers will want to have a conference call and/or meeting with the owner to learn additional details and to get the owner's direct feedback about the business. BWFA facilitates all conference calls and meetings between the prospective buyers and the seller. We also participate in all conference calls and attend all meetings with prospective buyers.

Facilitate the submission of letters of intent: BWFA works with prospective buyers to submit letters of intent to purchase the business. We advise the seller regarding the letters of intent and recommend terms to be included in them.

Assist with the selection of the buyer: BWFA reviews all of the letters of intent with the seller and helps her select the best buyer for the business. The letter of intent is then signed by the seller and the selected buyer, and the parties begin moving toward closing.

Assist prospective buyer with identifying transaction professionals: If necessary, BWFA can provide a list of transaction professionals with whom we are comfortable and familiar. The prospective buyer can use the list to select professionals to interview and utilize.

Facilitate due diligence: BWFA coordinates due diligence between the seller and the prospective buyer.

Provide advice on business terms in the purchase agreement and related ancillary documents: BWFA reviews the purchase agreement and ancillary documents to advise the seller on the business terms.

Negotiate terms and develop solutions in the purchase agreement and ancillary documents: BWFA assists in negotiating terms and developing solutions in the purchase agreement and ancillary documents in coordination with the seller and her attorney.

Facilitate financing: If necessary, BWFA can facilitate the financing of the transaction.

Coordinate closing: BWFA coordinates all parties related to the transaction in order to schedule a closing date and to help facilitate activities that need to take place prior to closing.

A significant amount of work goes into successfully selling a privately held business. Business owners need to understand the timing of the process while also focusing on continuing to run their business properly in order to maximize the amount they receive from the sale. Contact us for more information about how a merger and acquisition advisor can help complete a successful business sale.

Tax Services

TIPS FOR FILING YOUR 2015 TAX RETURN

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This time of year, many people are beginning to turn their attentions to tax season. Tax professionals at BWFA help many of our clients with their annual returns, but we know that some prefer to handle their returns themselves. Whether you prepare your taxes yourself or have a professional assist you, it is never too early to begin to get organized.

HERE ARE SOME TIPS TO HELP YOU PREPARE FOR THE 2016 TAX-FILING SEASON.

ORGANIZE YOUR RECORDS FOR TAX TIME

For many, the biggest hassle at tax time is getting all of the required documentation together. While it might not reduce the taxes you owe, good organization could save time and give you greater peace of mind.

First, make sure that you have last year's tax return. Then, as tax documents begin to arrive in January, devise a way to keep track of them and keep them together in one place. Incoming documents will include things such as W-2s, 1099s, and mortgage interest statements. Keep in mind that some might arrive by regular mail, while others will be sent via email, and still others might be available as downloads. Finally, gather together receipts and information on deductible expenses that have piled up during the year.

Preparing ahead of time for questions that may arise will also save time. For example, make sure you know the price you paid for any stocks or funds that you sold. If you do not know the prices, call your financial advisor or broker before you start to prepare your tax return. (Note: BWFA already has all needed pricing information for tax clients for whom we manage investments.) In addition, you will want to know the details on income you received from rental properties. Having this type of information at your fingertips will save you another trip through your files.

CONTRIBUTE TO RETIREMENT ACCOUNTS

If you have not already funded your retirement account for 2015, do so by April 18, 2016. That is the deadline for contributions to a Roth IRA or a traditional IRA, deductible or not. However, if you have a Keogh or SEP and you get a filing extension to Oct. 17, 2016, you can wait until then to put 2015 contributions into those accounts. To start tax-free compounding as early as possible, however, do not delay in making contributions.

The rules governing IRA deductions and contributions are complex and depend upon factors such as gross income and whether or not those who are filing are married. In general, however, contributing to a Roth IRA instead of a traditional IRA will not cut your 2015 tax bill (because Roth contributions are not deductible).

It could, however, be the better choice, because all withdrawals from a Roth can be tax-free in retirement, whereas withdrawals from a traditional IRA are fully taxable in retirement. Speak with your financial planning professional to determine which type of IRA contribution best suits your situation.

MAKE A LAST-MINUTE ESTIMATED TAX PAYMENT

If you did not pay enough to the IRS during the current year, you could have a big tax bill staring you in the face in April. You might also owe significant interest and penalties. You could find yourself in that situation if, for example, the withholding on your paycheck was not enough or if you received a big gain from selling stock.

According to IRS rules, if you do not pay/withhold at least the equivalent of 100 percent of last year's tax liability or 90 percent of this year's tax due, you will owe an underpayment penalty. If your adjusted gross income for 2014 was more than $150,000, you have to pay more than 110 percent of your 2014 tax liability to be protected from a 2015 underpayment penalty. If your tax payments/withholding were a bit light this year, you may be stuck with a penalty.

If you make an estimated payment by Jan. 15, though, you can erase any penalty for the fourth quarter, though you will still owe a penalty for earlier quarters for which you did not send in an estimated payment. Another option is to file Form 2210, "Underpayment of Estimated Tax by Individuals, Estates, and Trusts," which annualizes your estimated tax liability and might reduce any extra charges.

ITEMIZE YOUR TAX DEDUCTIONS

It is always easier to take the standard deduction, but you could save money if you itemize, especially if you own a home or live in a high-tax area. It is worth the bother to itemize when your qualified expenses add up to more than the 2015 standard deduction of $6,300 for singles and $12,600 for married couples filing jointly.

Many deductions are well known, such as those for mortgage interest and charitable donations. However, taxpayers sometimes overlook miscellaneous expenses, which are deductible if the combined amount adds up to more than 2 percent of their adjusted gross income. These deductions include tax preparation fees, investment fees, job-hunting expenses, business car expenses, and professional dues.

You can also deduct the portion of medical expenses that exceeds 10 percent of your adjusted gross income. However, if you or your spouse is 65 years or older, you are allowed to deduct unreimbursed medical care expenses that exceed 7.5 percent of your adjusted gross income. That holds true until Jan. 1, 2017, when all taxpayers will be permitted to deduct only the amount of the total unreimbursed allowable medical care expenses for the year that exceeds 10 percent of adjusted gross income.

FILE AND PAY ON TIME

If you cannot finish your return on time, file Form 4868 by April 18, 2016, to extend the filing deadline until Oct. 17, 2016. When filing the form, you need to make a reasonable estimate of your tax liability for 2015 and pay any balance due.

Requesting an extension in a timely manner is especially important if you end up owing tax to the IRS. If you file and pay late, the IRS can slap you with a monthly late-filing penalty of 4.5 percent of the tax owed and a late-payment penalty of 0.5 percent of the tax owed. The maximum late-filing penalty is 22.5 percent, and the late-payment penalty tops out at 25 percent. By filing Form 4868, you stop the clock running on the costly late-filing penalty.

Some people choose not to file their taxes at all, or they wait and file several years of returns all at once. However, when you get a W-2, a 1099, or another other tax form, the IRS also gets a copy, and its computer systems analyze them to see who has failed to file. If you owe the government money, you will eventually have to pay it, plus interest and penalties. If you owe money and do not file, the IRS charges a penalty of up to 25 percent of what you owe, and it can charge an additional 25 percent for failing to pay your bill on time. There is also interest to be paid, currently compounding at 3 percent per year.

On the other hand, if you are owed a refund, the IRS does not particularly care if you do not file. After three years, though, you no longer have a right to your refund. If you have failed to file a return from a previous year, we can help you get back on track.

Finally, there have been a number of updates to standard tax provisions that could affect your 2015 return. Standard deductions have risen slightly, and the limit for itemized deductions kicks in for some with high incomes. Personal exemptions and the Earned Income Tax Credit have also risen a bit, and both phase out based on filing status and number of children. For more information about these and other changes that could affect you, give our office a call and we will be happy to assist you.

Tax Services

TAX PREPARATION CHECKLIST 2015

BRENDA GRUBER
CPA
TAX MANAGER
bgruber@bwfa.com

NOTES

PERSONAL INFORMATION

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

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

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)*

Pension/Annuities
- ☐ Forms 1099-R or RRB-1099 for distributions from IRAs or retirement plans
- ☐ Forms 8606 for 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)*

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

Miscellaneous Income
- ☐ Form 1099-G for state/local tax refunds or unemployment income
- ☐ Form 1099-S for Income on Sale of Property
- ☐ Form 1099-C from Cancellation of Indebtedness Income
- ☐ Alimony received
- ☐ Scholarships, fellowships
- ☐ Other:
  - ☐ Medical Savings Account
  - ☐ jury duty
  - ☐ gambling/lottery winnings
  - ☐ prizes/awards, etc.

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

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

Retirement Contributions
- ☐ Records of contributions made for current year by 4/15 *(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
- ☐ Settlement sheets for any sale, purchase, or refinance of residence

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

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 INFORMATION

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

Foreign Bank Account Information
- ☐ Bank information – location *(foreign country address)*, name of institution
- ☐ Account Information *(account numbers and peak values during the year)*

NOTES

Community Spotlight

THE COLUMBIA ORCHESTRA

In the fall of 1977, a handful of local string players in Howard County got together and formed the Columbia Chamber Orchestra. Over the next eleven years this group grew to include winds and percussion as it evolved into a full orchestra. Since then, the Columbia Orchestra (CO) has been providing the community with high-quality musical performances, offering local youth and educators a classical music resource, and giving local musicians an opportunity to explore and perform great orchestral literature and chamber music.

In its 38th season the CO is led by conductor and cellist Jason Love, who is in his seventeenth year as musical director. In 2013, he was the winner of the American Prize for Orchestral Programming. He is also a past winner of the "Howie" award, recognizing achievement in the arts in Howard County, Maryland. Mr. Love sets the tone for the performances by engaging the audience with humor, passion, and an encyclopedic knowledge of the music. The stories of the histories behind the works are almost as engaging as the actual performances.

BWFA IS PROUD TO CONTINUE ITS SUPPORT OF THE COLUMBIA ORCHESTRA THIS SEASON.

THIS SEASON

The orchestra performs a diverse mix of classical masterpieces and contemporary music. This season the CO is playing a repertoire that ranges from pieces by Beethoven and Rossini to Symphonic Pops. The latter is a family-friendly concert bringing together blockbuster hits from Broadway, the silver screen, popular song, and light classics. It will also showcase local Irish dancers. No season with the CO would be complete without its Young Peoples Concert. This winter they will perform a "High Seas Adventure" with musical tales of sea-faring pirates and Sinbad the Sailor! This performance of *Scheherezade, Pirates of the Caribbean*, and more will be accompanied by dance from local artists. In addition, children will have a hands-on opportunity to play instruments at the free Musical Instrument Petting Zoo (sponsored by Music Arts).

LOCAL COMPETITIONS

The CO also sponsors two competitions for artists: the American Composer Competition and the Young Artist Competition. The American Composer Competition helps to promote new American works both locally and across the country. The winning artist receives recognition and a cash prize. In addition, his or her work will be performed publicly, providing the potential to build an audience for the new work. The Young Artist Competition is open to Howard County students through the twelfth grade who play string, wind, and percussion instruments. Winners have an opportunity to win a cash prize and to play with the CO. This year's winners will perform on May 21st.

BWFA is proud to continue its support of the CO this season. We invite you, too, to support this Howard County organization by attending one of their performances. The CO is offering BWFA clients $5 OFF per ticket to any concert in its 2015-16 season. To purchase tickets online, please use the discount code BWFA5 on the website, **http://columbiaorchestra.org/tickets/** or call **410-465-8777**.

The Columbia Orchestra

What's Happening at BWFA

CLIENT SERVICES AT BWFA

SUPERIOR CLIENT SERVICE HAS BEEN A HALLMARK OF BWFA SINCE THE COMPANY WAS FOUNDED THIRTY YEARS AGO. IN EVERY CLIENT INTERACTION WE AIM TO PROVIDE ACCURATE INFORMATION IN A PROMPT, CLEAR, AND FRIENDLY MANNER.

BELOW ARE SOME OF THE POINTS IN BWFA'S CREDO THAT REVEAL OUR VALUES AND DEFINE BWFA'S CULTURE:

- Treat others the way you want to be treated.
- Be friendly, clear, concise, and complete.
- Be transparent; no surprises.
- Respond promptly to others, so they know you care. If you don't know what to do, DON'T do nothing.
- Be authentic and keep your promises.

In order to continue to improve BWFA's service to its clients, Meghan Manas has assumed the new role of Director of Client Services. With more than five years of experience assisting BWFA clients, Meghan is well equipped to assume her added responsibilities, including managing the client services team. Meghan will serve as your primary point of contact for all your daily needs regarding BWFA services and operations. She is backed up by a team of knowledgeable individuals dedicated to providing outstanding service and support to all clients. The entire BWFA team is committed to meeting your needs and surpassing your expectations. We look forward to hearing from you whenever you have a need.

MEGHAN MANAS
DIRECTOR, CLIENT SERVICES
mmanas@bwfa.com

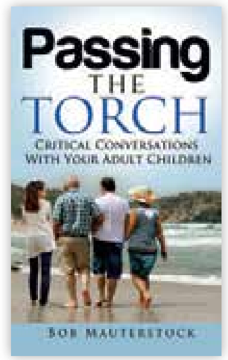
BWFA *Yearly Recap*

WINGS OF HOPE (wingsofhopemd.com)

Sue Kelley took part in the Wings of Hope benefit concert in Douglassville, PA. Each artist dedicated his or her performance in memory or in honor of someone whose life has been impacted by cancer. The event was a huge success; it raised over $20,000 for charities, including the V Foundation, The American Cancer Society, Make-A-Wish Foundation, and For Pete's Sake Cancer Respite Service.

TAKE YOUR CHILD TO WORK DAY AT BWFA!

We were pleased to welcome future BWFA Advisor Stone Kelly — son of Portfolio Manager Chris Kelly — on April 23, 2015. Stone went right to work helping out on multiple projects around the office. We look forward to having him back next year!



PASSING THE TORCH SEMINAR

On Thursday, April 23, BWFA hosted *Bob Mauterstock, author of Passing the Torch: Critical Conversations with Your Adult Children*, for an insightful discussion. According to feedback from our guests, this was one of BWFA's best seminars yet!

JUNE TEAM BUILDING TRIP

The staff spent a day bonding while hiking Sugarloaf Mountain in Dickerson, MD, enjoying lunch at The Comus Inn and wine tasting at Sugarloaf Winery.

FIREWORKS • FUN • PHOTO BOOTH

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

2 MILES FOR 2 HEARTS MEMORIAL RACE

This year BWFA was again proud to be a sponsor for the 2 Miles for 2 Hearts Memorial Run held on August 29th in Ellicott City.

DECEMBER STAFF HOLIDAY OUTING

The staff had a great day during our recent visit to DC's Newseum with lunch at The Source by Wolfgang Puck. We also stopped by the Lincoln Memorial.

Happy New Year

2016

WISHING YOU A NEW YEAR FILLED WITH JOY & PROSPERITY.

From your friends and colleagues at

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