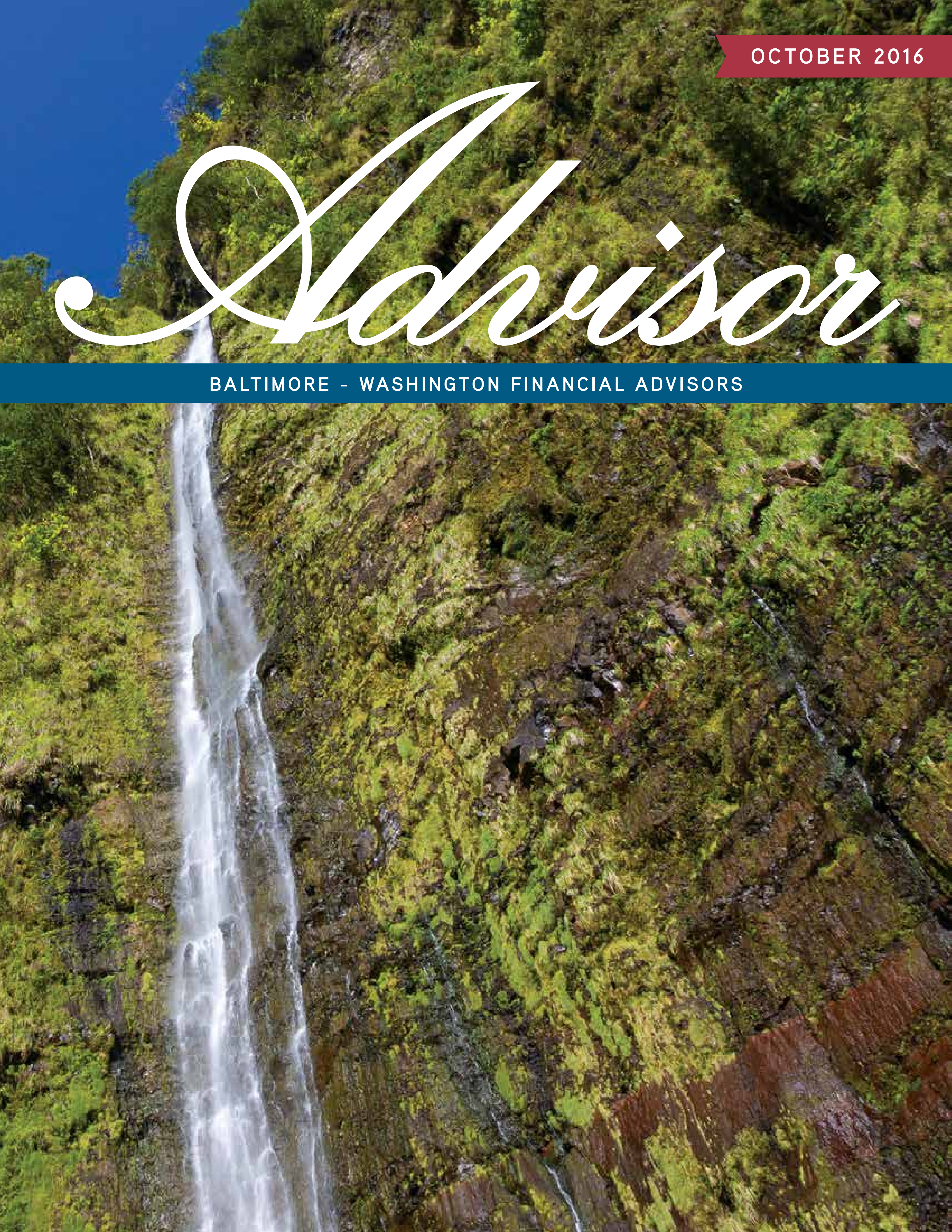
OCTOBER 2016

Advisor

BALTIMORE - WASHINGTON FINANCIAL ADVISORS



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President's Address

HOW MUCH ANNUAL INCOME CAN YOUR RETIREMENT PORTFOLIO PROVIDE?

ROBERT G. CARPENTER
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YOUR RETIREMENT LIFESTYLE WILL DEPEND NOT ONLY ON YOUR ASSETS AND INVESTMENT CHOICES, BUT ALSO ON HOW QUICKLY YOU DRAW DOWN YOUR RETIREMENT PORTFOLIO.

The annual percentage that you take out of your portfolio, whether from returns or the principal itself, is known as your withdrawal rate. Figuring out an appropriate initial withdrawal rate is a key issue in retirement planning and presents many challenges.

WHY IS YOUR WITHDRAWAL RATE IMPORTANT?

Take out too much too soon, and you might run out of money in your later years. Take out too little, and you might not enjoy your retirement years as much as you could. Your withdrawal rate is especially important in the early years of your retirement; how your portfolio is structured then and how much you take out can have a significant impact on how long your savings will last.

Gains in life expectancy have been dramatic. According to the National Center for Health Statistics, people today can expect to live more than 30 years longer than they did a century ago. Individuals who reached age 65 in 1950 could anticipate living an average of 14 years more, to age 79; now a 65-year-old might expect to live for roughly an additional 19 years.

Assuming rising inflation, your projected annual income in retirement will need to factor in those cost-of-living increases. That means you'll need to think carefully about how to structure your portfolio to provide an appropriate withdrawal rate, especially in the early years of retirement.

CURRENT LIFE EXPECTANCY ESTIMATES

	Men	Women
At birth	**76.4**	**81.2**
At age 65	**83.0**	**85.5**

Source: NCHS Data Brief, Number 229, December 2015

CONVENTIONAL WISDOM

So what withdrawal rate should you expect from your retirement savings? The answer: it all depends. The seminal study on withdrawal rates for tax-deferred retirement accounts (William P. Bengen, "Determining Withdrawal Rates Using Historical Data," *Journal of Financial Planning,* October 1994) looked at the annual performance of hypothetical portfolios that are continually rebalanced to achieve a 50-50 mix of large-cap (S&P 500 Index) common stocks and intermediate-term Treasury notes.

The study took into account the potential impact of major financial events such as the early Depression years, the stock decline of 1937-1941, and the 1973-1974 recession. It found that a withdrawal rate of slightly more than 4% would have provided inflation-adjusted income for at least 30 years.

Other later studies have shown that broader portfolio diversification, rebalancing strategies, variable inflation rate assumptions, and being willing to accept greater uncertainty about your annual income and how long your retirement nest egg will be able to provide an income also can have a significant impact on initial withdrawal rates. For example, if you're unwilling to accept a 25% chance that your chosen strategy will be successful, your sustainable initial withdrawal rate may need to be lower than you'd prefer to increase your odds of getting the results you desire. Conversely, a higher withdrawal rate might mean greater uncertainty about whether you risk running out of money. However, don't forget that studies of withdrawal rates are based on historical data about the performance of various types of investments in the past.

Given market performance in recent years, many experts are suggesting being more conservative in estimating future returns.

***Note:** Past results don't guarantee future performance. All investing involves risk, including the potential loss of principal, and there can be no guarantee that any investing strategy will be successful.*

INFLATION IS A MAJOR CONSIDERATION

To better understand why suggested initial withdrawal rates aren't higher, it's essential to think about how inflation can affect your retirement income. Here's a hypothetical illustration; to keep it simple, it does not account for the impact of any taxes. If a $1 million portfolio is invested in an account that yields 5%, it provides $50,000 of annual income. But if annual inflation pushes prices up by 3%, more income — $51,500 — would be needed next year to preserve purchasing power. Since the account provides only $50,000 income, an additional $1,500 must be withdrawn from the principal to meet expenses. That principal reduction, in turn, reduces the portfolio's ability to produce income the following year. In a straight linear model, principal reductions accelerate, ultimately resulting in a zero portfolio balance after 25 to 27 years, depending on the timing of the withdrawals.

VOLATILITY AND PORTFOLIO LONGEVITY

When setting an initial withdrawal rate, it's important to take a portfolio's ups and downs into account--and the need for a relatively predictable income stream in retirement isn't the only reason. According to several studies done in the late 1990s and updated in 2011 by Philip L. Cooley, Carl M. Hubbard, and Daniel T. Walz, the more dramatic a portfolio's fluctuations, the greater the odds that the portfolio might not last as long as needed. If it becomes necessary during market downturns to sell some securities in order to continue to meet a fixed withdrawal rate, selling at an inopportune time could affect a portfolio's ability to generate future income.

Making your portfolio either more aggressive or more conservative will affect its lifespan. A more aggressive portfolio may produce higher returns but might also be subject to a higher degree of loss. A more conservative portfolio might produce steadier returns at a lower rate, but could lose purchasing power to inflation.

CALCULATING AN APPROPRIATE WITHDRAWAL RATE

Your withdrawal rate needs to take into account many factors, including (but not limited to) your asset allocation, projected inflation rate, expected rate of return, annual income targets, investment horizon, and comfort with uncertainty. The higher your withdrawal rate, the more you'll have to consider whether it is sustainable over the long term.

Ultimately, however, there is no standard rule of thumb; every individual has unique retirement goals, means, and circumstances that come into play. BWFA is here to guide you through this process and help you make the best decisions to enjoy your retirement.

Robert Carpenter

PHOTO: Lava on Maui

Advisor

COVER PHOTO: Waimuku Falls, at the end of the Pipiwai Trail in Haleakala National Park, Maui

OCTOBER 2016
TABLE OF CONTENTS

Do you know someone

WHO COULD USE GUIDANCE WITH THEIR INVESTMENTS?

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

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

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

PLEASE CONTACT MEGHAN AT MMANAS@BWFA.COM

PHOTO: View of Big Island at Background from Summit of Haleakala Volcano, Maui

Summer Adventures

ALLTRAILS APP

ROBERT G. CARPENTER
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My wife and I reached two wonderful milestones this year — we each turned 50 years old and also celebrated our 25th wedding anniversary. We marked the occasions by traveling to Maui this summer, and while there discovered a great hiking app called AllTrails. With AllTrails you can search hiking trails all over the world, reading reviews and viewing photos from fellow adventurers. Each new hike was of course fun, but now also interactive, complete with a "tour guide" to track every step. I have always loved the outdoors, from my days as a young cub scout all the way through to the final Eagle Scout ceremony, and that love of adventure continues to inspire me today.

Hiking involves planning to reach a goal, then (literally) step by step, moving slowly, but surely, to reach your chosen destination. The comparisons to proper financial planning and investing are easy to see. At BWFA our goal is to travel with you, helping you reach all of your financial goals. We strive to build a core bond with each and every one of our clients, providing premier customer service and communication to not only reach your goals, but to also savor the journey.

WITH ALLTRAILS YOU CAN SEARCH HIKING TRAILS ALL OVER THE WORLD, READING REVIEWS AND VIEWING PHOTOS FROM FELLOW ADVENTURERS.

At BWFA we'd love to see and hear about what inspires you. Send us photos of your adventures and we may feature them in our next newsletter!

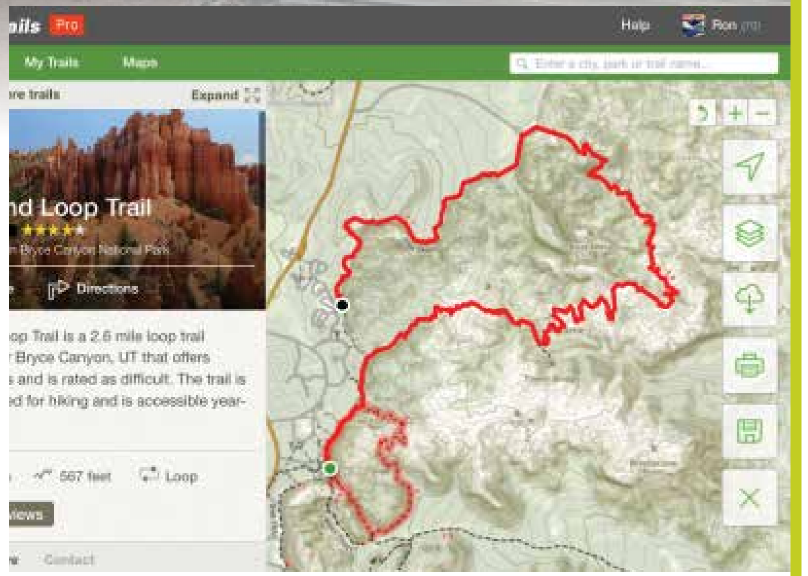

PHOTO: Caldera of the Haleakala Volcano, Maui

Financial Planning

CLOSING A RETIREMENT INCOME GAP

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When you determine how much income you'll need in retirement, you may base your projection on the type of lifestyle you plan to have and when you want to retire. However, as you grow closer to retirement, you may discover that your income won't be enough to meet your needs. If you find yourself in this situation, you'll need to adopt a plan to bridge this projected income gap.

DELAY RETIREMENT: 65 IS JUST A NUMBER

One way of dealing with a projected income shortfall is to stay in the workforce longer than you had planned. This will allow you to continue supporting yourself with a salary rather than dipping into your retirement savings. Depending on your income, this could also increase your Social Security retirement benefit. You'll also be able to delay taking your Social Security benefit or distributions from retirement accounts.

At normal retirement age (which varies, depending on the year you were born), you will receive your full Social Security retirement benefit. You can elect to receive your Social Security retirement benefit as early as age 62, but if you begin receiving your benefit before your normal retirement age, your benefit will be reduced. Conversely, if you delay retirement, you can increase your Social Security benefit.

Remember, too, that income from a job may affect the amount of Social Security retirement benefit you receive if you are under normal retirement age. Your benefit will be reduced by $1 for every $2 you earn over a certain earnings limit ($15,720 in 2016, unchanged from 2015). But once you reach normal retirement age, you can earn as much as you want without reducing your Social Security retirement benefit.

Another advantage of delaying retirement is that you can continue to build tax-deferred (or in the case of Roth accounts, tax-free) funds in your IRA or employer-sponsored retirement plan. Keep in mind, though, that you may be required to start taking minimum distributions from your qualified retirement plan or traditional IRA once you reach age 70½, if you want to avoid harsh penalties. However, In some cases, you do not have to take required minimum distributions from your employer retirement plan until you stop working, even if you are age 70.5 or older.

And if you're covered by a pension plan at work, you could also consider retiring and then seeking employment elsewhere. This way you can receive a salary and your pension benefit at the same time. Some employers, to avoid losing talented employees this way, are beginning to offer "phased retirement" programs that allow you to receive all or part of your pension benefit while you're still working. Make sure you understand your pension plan options.

SPEND LESS, SAVE MORE

You may be able to deal with an income shortfall by adjusting your spending habits. If you're still years away from retirement, you may be able to get by with a few minor changes. However, if retirement is just around the corner, you may need to drastically change your spending and saving habits. Saving even a little money can really add up if you do it consistently and earn a reasonable rate of return. Make permanent changes to your spending habits and you'll find that your savings will last even longer. Start by preparing a budget to see where your money is going.

Here are some suggested ways to stretch your retirement dollars:

- Refinance your home mortgage if interest rates have dropped since you took the loan.
- Reduce your housing expenses by moving to a less expensive home or apartment.
- Sell one of your cars if you have two. When your remaining car needs to be replaced, consider buying a used one.
- Access the equity in your home. Use the proceeds from a second mortgage or home equity line of credit to pay off higher-interest-rate debts.
- Transfer credit card balances from higher-interest cards to a low- or no-interest card, and then cancel the old accounts.
- Ask about insurance discounts and review your insurance needs (e.g., your need for life insurance may have lessened).
- Reduce discretionary expenses such as lunches and dinners out.

REALLOCATE YOUR ASSETS: CONSIDER INVESTING MORE AGGRESSIVELY

Some people make the mistake of investing too conservatively to achieve their retirement goals. That's not surprising, because as you take on more risk, your potential for loss grows as well. But greater risk also generally entails potentially greater reward. And with life expectancies rising and people retiring earlier, retirement funds need to last a long time.

That's why if you are facing a projected income shortfall, you should consider shifting some of your assets to investments that have the potential to substantially outpace inflation.

The amount of investment dollars you should keep in growth-oriented investments depends on your time horizon (how long you have to save) and your tolerance for risk. In general, the longer you have until retirement, the more aggressive you can afford to be. Still, if you are at or near retirement, you may want to keep some of your funds in growth-oriented investments, even if you decide to keep the bulk of your funds in more conservative, fixed-income investments. Get advice from me or your BWFA Portfolio Manager if you need help deciding how your assets should be allocated.

And remember, no matter how you decide to allocate your money, rebalance your portfolio now and again. Your needs will change over time, and so should your investment strategy.

Note: *Rebalancing may carry tax consequences. Asset allocation and diversification cannot guarantee a profit or insure against a loss. There is no guarantee that any investment strategy will be successful; all investing involves risk, including the possible loss of principal.*

ACCEPT REALITY: LOWER YOUR STANDARD OF LIVING

If your projected income shortfall is severe enough or if you're already close to retirement, you may realize that no matter what measures you take, you will not be able to afford the retirement lifestyle you've dreamed of. In other words, you will have to lower your expectations and accept a lower standard of living.

Fortunately, this may be easier to do than when you were younger. Although some expenses, like health care, generally increase in retirement, other expenses, like housing costs and automobile expenses tend to decrease. And it's likely that your days of paying college bills and growing-family expenses are over.

Once you are within a few years of retirement, you can prepare a realistic budget that will help you manage your money in retirement. Think long term: Retirees frequently get into budget trouble in the early years of retirement, when they are adjusting to their new lifestyles. Remember that when you are retired, every day is Saturday, so it's easy to start overspending.

PHOTO: Lava on Maui

Investment Management

HOUSING OPTIONS FOR OLDER INDIVIDUALS

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As clients at BWFA enter retirement years, they begin to contemplate how their housing needs may change. Maybe you'll get tired of doing yardwork. You might want to retire in sunny Florida or live close to your grandchildren in Ohio. Perhaps you'll need to live in a nursing home or an assisted-living facility. Or, after considering your options, you may even decide to stay where you are. When the time comes to evaluate your housing situation, you'll have numerous options available to you.

Recently, I moved into a "low maintenance" (no yard work!) townhouse walkable to many things like public transportation, grocery store, church, restaurants and other shopping. As empty nesters, Susanna and I no longer had to consider school districts or a yard for the children to play in. Everyone needs to assess changes in their life circumstances and make informed decisions accordingly!

THERE'S NO PLACE LIKE HOME

Are you able to take care of your home by yourself? If your answer is no, that doesn't necessarily mean it's time to move. Maybe a family member can help you with chores and shopping. Or perhaps you can hire someone to clean your house, mow your lawn, and help you with personal care. You may want to stay in your home because you have memories of raising your family there. On the other hand, change may be just what you need to get a new perspective on life.

To evaluate whether you can continue living in your home or if it's time for you to move, consider the following questions:

- How willing are you to let someone else help you?
- Can you afford to hire help, or will you need to rely on friends, relatives, or volunteers?
- How far do you live from family and/or friends?
- How close do you live to public transportation?
- How easily can you renovate your home to address your physical needs?
- How easily do you adjust to change?
- How easily do you make friends?
- How does your family feel about you moving or about you staying in your own home?
- How does your spouse feel about moving?

HEY KIDS, MOM AND DAD ARE MOVING IN!

If you are moving in with your child, will you have adequate privacy? Will you be able to move around in your child's home easily? If not, you might ask him or her to install devices that will make your life easier, such as tub or shower grab bars and easy-to-open handles on doors.

You'll also want to consider the emotional consequences of moving in with your child. If you move closer to your child, will you expect him or her to take you shopping or to include you in every social event? Will you feel in the way? Will your child expect you to help with cooking, cleaning, and baby-sitting? Or, will he or she expect you to do little or nothing? How will other members of the family feel? Get these questions out in the open before you consider moving in.

Talk about important financial issues with your child before you agree to move in. This may help avoid conflicts or hurt feelings later.

Here are some suggestions to get the conversation flowing:

- Will he or she expect you to contribute money toward household expenses?
- Will you feel guilty if you don't contribute money toward household expenses?
- Will you feel the need to critique his or her spending habits, or are you afraid that he or she will critique yours?
- Can your child afford to remodel his or her home to fit your needs?
- Do you have enough money to support yourself during retirement?
- How do you feel about your child supporting you financially?

ASSISTED-LIVING OPTIONS

Assisted-living facilities typically offer rental rooms or apartments, housekeeping services, meals, social activities, and transportation. The primary focus of an assisted-living facility is social, not medical, but some facilities do provide limited medical care. Assisted-living facilities can be state-licensed or unlicensed, and they primarily serve senior citizens who need more help than those who live in independent living communities.

Before entering an assisted-living facility, you should carefully read the contract and tour the facility. Some facilities are large, caring for over a thousand people. Others are small, caring for fewer than five people.

Consider whether the facility meets your needs:

- Do you have enough privacy?
- How much personal care is provided?
- What happens if you get sick?
- Can you be asked to leave the facility if your physical or mental health deteriorates?
- Is the facility licensed or unlicensed?
- Who is in charge of health and safety?

Reading the fine print on the contract may save you a lot of time and money later if any conflict over services or care arises. If you find the terms of the contract confusing, ask a family member for help or consult an attorney. Check the financial strength of the company, especially if you're making a long-term commitment.

As for the cost, a wide range of care is available at a wide range of prices. For example, continuing care retirement communities are significantly more expensive than other assisted-living options and usually require an entrance fee above $50,000, in addition to a monthly rental fee. Keep in mind that Medicare probably will not cover your expenses at these facilities, unless those expenses are health-care related and the facility is licensed to provide medical care.

NURSING HOMES

Nursing homes are licensed facilities that offer 24-hour access to medical care. They provide care at three levels: skilled nursing care, intermediate care, and custodial care. Individuals in nursing homes generally cannot live by themselves or without a great deal of assistance.

It is important to note that privacy in a nursing home may be very limited. Although private rooms may be available, rooms more commonly are shared. Depending on the facility selected, a nursing home may be similar to a hospital environment or may have a more residential feel.

Some on-site services may include:

- Physical therapy
- Occupational therapy
- Orthopedic rehabilitation
- Speech therapy
- Dialysis treatment
- Respiratory therapy

When you choose a nursing home, pay close attention to the quality of the facility. Visit several facilities in your area, and talk to your family about your needs and wishes regarding nursing home care. In addition, remember that most people don't remain in a nursing home indefinitely. If your physical or mental condition improves, you may be able to return home or move to a different type of facility. Contact your state department of elder services for guidelines on how to evaluate nursing homes.

Nursing homes are expensive. If you need nursing home care in the future, do you know how you will pay for it? Will you use private savings, or will you rely on Medicaid to pay for your care? If you have time to plan, consider purchasing long-term care insurance to pay for your nursing home care.

BWFA CAN ASSIST

Many of our clients or prospective clients have attended our workshops where we discuss some of these planning issues. You can plan to attend one of our upcoming BWFA workshops listed in the quarterly newsletter, or contact us to talk one on one with our team, more about your specific planning needs. We look forward to seeing you and discussing these important issues with you!

Investment Management

PHOTO: Piilani Highway, Maui

SHOULD YOU PAY OFF YOUR MORTGAGE OR INVEST?

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Owning a home outright is a dream that many Americans share. Having a mortgage can be a huge burden, and paying it off may be the first item on your financial to-do list. But competing with the desire to own your home free and clear is your need to invest for retirement, your child's college education, or some other goal. Putting extra cash toward one of these goals may mean sacrificing another. So how do you choose?

EVALUATING THE OPPORTUNITY COST

Deciding between prepaying your mortgage and investing your extra cash isn't easy, because each option has advantages and disadvantages. But you can start by weighing what you'll gain financially by choosing one option against what you'll give up. In economic terms, this is known as evaluating the opportunity cost.

Here's an example. Let's assume that you have a $300,000 balance and 20 years remaining on your 30-year mortgage, and you're paying 6.25% interest. If you were to put an extra $400 toward your mortgage each month, you would save approximately $62,000 in interest, and pay off your loan almost 6 years early.

By making extra payments and saving all of that interest, you'll clearly be gaining a lot of financial ground. But before you opt to prepay your mortgage, you still have to consider what you might be giving up by doing so--the opportunity to potentially profit even more from investing.

To determine if you would come out ahead if you invested your extra cash, start by looking at the after-tax rate of return you can expect from prepaying your mortgage. This is generally less than the interest rate you're paying on your mortgage, once you take into account any tax deduction you receive for mortgage interest. Once you've calculated that figure, compare it to the after-tax return you could receive by investing your extra cash.

For example, the after-tax cost of a 6.25% mortgage would be approximately 4.5% if you were in the 28% tax bracket and were able to deduct mortgage interest on your federal income tax return (the after-tax cost might be even lower if you were also able to deduct mortgage interest on your state income tax return). Could you receive a higher after-tax rate of return if you invested your money instead of prepaying your mortgage?

Keep in mind that the rate of return you'll receive is directly related to the investments you choose. All investing involves risk, including the possible loss of principal, and there can be no assurance that any investment strategy will be successful. Investments with the potential for higher returns may expose you to more risk, so take this into account when making your decision.

OTHER POINTS TO CONSIDER

While evaluating the opportunity cost is important, you'll also need to weigh many other factors.

The following list of questions may help you decide which option is best for you.

- **What's your mortgage interest rate?** The lower the rate on your mortgage, the greater the potential to receive a better return through investing.
- **Does your mortgage have a prepayment penalty?** Most mortgages don't, but check before making extra payments.
- **How long do you plan to stay in your home?** The main benefit of prepaying your mortgage is the amount of interest you save over the long term; if you plan to move soon, there's less value in putting more money toward your mortgage.
- **Will you have the discipline to invest your extra cash rather than spend it?** If not, you might be better off making extra mortgage payments.
- **Do you have an emergency account to cover unexpected expenses?** It doesn't make sense to make extra mortgage payments now if you'll be forced to borrow money at a higher interest rate later. And keep in mind that if your financial circumstances change—if you lose your job or suffer a disability, for example—you may have more trouble borrowing against your home equity.
- **How comfortable are you with debt?** If you worry endlessly about it, give the emotional benefits of paying off your mortgage extra consideration.
- **Are you saddled with high balances on credit cards or personal loans?** If so, it's often better to pay off those debts first. The interest rate on consumer debt isn't tax deductible, and is often far higher than either your mortgage interest rate or the rate of return you're likely to receive on your investments.
- **Are you currently paying mortgage insurance?** If you are, putting extra toward your mortgage until you've gained at least 20% equity in your home may make sense.
- **How will prepaying your mortgage affect your overall tax situation?** For example, prepaying your mortgage (thus reducing your mortgage interest) could affect your ability to itemize deductions (this is especially true in the early years of your mortgage, when you're likely to be paying more in interest).
- **Have you saved enough for retirement?** If you haven't, consider contributing the maximum allowable each year to tax-advantaged retirement accounts before prepaying your mortgage. This is especially important if you are receiving a generous employer match. For example, if you save 6% of your income, an employer match of 50% of what you contribute (i.e., 3% of your income) could potentially add thousands of extra dollars to your retirement account each year. Prepaying your mortgage may not be the savviest financial move if it means forgoing that match or shortchanging your retirement fund.
- **How much time do you have before you reach retirement or until your children go off to college?** The longer your timeframe, the more time you have to potentially grow your money by investing. Alternatively, if paying off your mortgage before reaching a financial goal will make you feel much more secure, factor that into your decision.

THE MIDDLE GROUND

If you need to invest for an important goal, but you also want the satisfaction of paying down your mortgage, there's no reason you can't do both. It's as simple as allocating part of your available cash toward one goal, and putting the rest toward the other. Even small adjustments can make a difference. For example, you could potentially shave years off your mortgage by consistently making biweekly, instead of monthly, mortgage payments, or by putting any year-end bonuses or tax refunds toward your mortgage principal.

And remember, no matter what you decide now, you can always reprioritize your goals later to keep up with changes to your circumstances, market conditions, and interest rates.

Tax Services

PHOTO: Beautiful Kuloa Point Kipahulu, Southeast Haleakala National Park, Maui

Am I Having Enough Withheld?

SUSAN HORNE
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FORM W-4 HELPS YOU DETERMINE THE PROPER WITHHOLDING AMOUNT

Two factors determine the amount of income tax that your employer withholds from your regular pay: the amount you earn and the information you provide on Form W-4.

This form asks you for three pieces of information:

- **The number of withholding allowances you want to claim:** You can claim up to the maximum number you're entitled to, claim less than you're entitled to, or claim zero.
- **Whether you want taxes to be withheld at the single or married rate:** The married status, which is associated with a lower withholding rate, should generally be selected only by those taxpayers who are married and file a joint return. Other people (including those who are married and file separately) should generally have taxes withheld at the higher, single rate.
- **The additional amount (if any) you want withheld from your paycheck:** This is optional; you can specify any additional amount of money you want withheld.

When both spouses work and have taxes withheld at the married rate, they sometimes end up with insufficient taxes withheld. If this happens to you, remember that you can always choose to withhold at the single rate. In addition, you can determine the proper withholding amount by completing Form W-4's two-earner/two-job worksheet.

COMPLETE THE WORKSHEETS TO CLAIM THE CORRECT NUMBER OF ALLOWANCES

To understand Form W-4, you must understand allowances. Think of allowances as cash in your pocket at the time that you receive your paycheck. The more allowances you claim, the less taxes are taken from your paycheck (and the more cash ends up in your pocket on payday). For example, you can maximize the amount withheld from your paycheck to ensure that you have enough tax withheld to cover your tax liability by claiming zero allowances. This will reduce the amount of cash you take home in your paycheck.

The following factors determine your number of allowances:

- The number of personal and dependency exemptions that you claim on your federal income tax return
- The number of jobs that you work
- The deductions, adjustments to income, and credits that you expect to take during the year
- Your filing status
- Whether your spouse works

To claim the correct number of allowances, you should complete Form W-4's worksheets. These include a personal allowances worksheet, a deductions and adjustments worksheet, and a two-earner/two-job worksheet. IRS Publication 505 (Tax Withholding and Estimated Tax) explains these worksheets.

CHECK YOUR WITHHOLDING

To avoid surprises at tax time, it's a good idea to periodically check your withholding. If you accurately complete all Form W-4 worksheets and don't have significant nonwage income (e.g., interest and dividends), it's likely that your employer will withhold an amount close to the tax you'll owe on your return. But in the following cases, accurate completion of the Form W-4 worksheets alone won't guarantee that you'll have the correct amount of tax withheld:

- When you're married and both spouses work, or if either of you start or stop working
- When you or your spouse are working more than one job
- When you have significant nonwage income, such as interest, dividends, alimony, unemployment compensation, or self-employment income, or the amount of your nonwage income changes
- When you'll owe other taxes on your return, such as self-employment tax or household employment tax
- When you have a lifestyle change (e.g., marriage, divorce, birth or adoption of a child, new home, retirement) that affects the tax deductions or credits you may claim
- When there are tax law changes that affect the amount of tax you'll owe

TO AVOID SURPRISES AT TAX TIME, IT'S A GOOD IDEA TO PERIODICALLY CHECK YOUR WITHHOLDING.

In these cases, IRS Publication 505 can help you compare the total tax that you'll withhold for the year with the tax that you expect to owe on your return. It can also help you determine any additional amount you may need to withhold from each paycheck to avoid owing taxes when you file your return. Alternatively, it may help you identify if you're having too much tax withheld. If you find that you need to make changes to your withholding, you can do so at any time simply by submitting a new Form W-4 to your employer. If you need assistance in completing these worksheets or advice in determining the best amount to withhold, contact the tax experts at BWFA, we are happy to help!

PHOTO: Haleakala Volcano at Sunrise, Maui

Business Services

STARTING OR BUYING A BUSINESS

BRIAN MACMILLAN
MANAGING DIRECTOR
MERGERS & ACQUISITIONS
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START-UPS

If you are planning on building your business from the ground up, you are taking a bigger risk than if you were buying an existing business or a franchise. Existing businesses and franchises have some operating history that you can use to gauge the likelihood of the success of the business. By comparison, with a start-up business, you naturally think that you will succeed, but there are fewer guarantees.

Most successful start-ups don't actually begin with a new, innovative product. Instead, they begin with a proven product or service (start-up owners often open competing businesses in areas in which they are familiar) and become innovative after the new venture has generated some level of profit and success.

Because your start-up has no previous track record (even if you have had success in your field), you will first need to raise enough financing to make a go of it. Banks or investors will want to see a plan of attack before they will approve a loan for your start-up. Therefore, your first step should be to create a strong business plan.

THE BUSINESS PLAN

A well-developed business plan serves several useful purposes. It helps to organize thoughts and ideas about how the business should be developed. It also creates a plan of attack that will help you stay focused. And, it will assist you in getting financing.

There are several important elements to a well-prepared plan:

- **Strong introduction:** The cover page, executive summary (essentially an overview of the plan), and table of contents will be the first elements that potential financiers or investors will see. If these aren't strong, potential financiers may not take you seriously enough to get to the heart of your plan.
- **Business description:** Whether you are using the business plan to get financing or create a focus of how your business should be run, you need to present a clear vision of what your business will be. The description should include how you want your business to be positioned in your industry, what will make your business unique, the products or services that you will provide, and how you plan on pricing within the industry. Do you want to be the low-cost provider, or the high-end specialist?
- **Market positioning:** If you want to attract investors to your business, you need to convince them that a need in the marketplace exists for what you are proposing. This section needs to include details on the size of the potential market for your business, how your business can benefit through sales inside the market, and how you plan on succeeding against your competitors.
- **Financial objectives:** This is perhaps the most important part of your business plan. Here, you need to convince your potential backers or lenders that your business will make a sound investment. You'll want to show that you have evaluated the attendant risks and rewards of your proposed business. You'll also need to project cash needs and expected income, and present a cash flow statement.
- **Other areas:** A good business plan will also cover in some detail your marketing plan, a discussion of how you plan on developing products to bring to market (if the business is a manufacturing concern), and so on.

BUYING AN EXISTING BUSINESS

The obvious advantage to buying an existing business is that it has a proven track record of success. But that doesn't mean that there are no possible pitfalls that you should avoid.

Perhaps the greatest problem in buying an existing business is that you might not acquire the expertise and services of the existing owners, who have often accumulated goodwill with their customers or clients. However, when a business is bought, it is not unusual for the previous owners to stay on for a period of time to assist with the transition and to make introductions to clients in an attempt to transfer some of that goodwill.

Consult qualified professionals to properly evaluate the information that the owners of the existing business may provide you. Also, make sure that the reasons why the business is on the market are true. Is the owner really planning on retiring to Florida, or is he or she just trying to escape the crushing debt that the business has accumulated over the last few years?

Also, keep in mind that you may be taking on a heavy load of debt in acquiring the business. A business that is marginally profitable may not be able to both pay off the debt service on the loan and pay you a living wage.

FRANCHISES

When you buy a franchise, you also buy marketing support, business strategy, name recognition, and assistance with site location (if it's a retail operation), among other things.

However, you also give up some things. You will never have the final say in all decisions, because franchisors typically retain rights to ensure that your business is run their way. Also, you won't be entitled to all of the profits of your business, because franchisors typically take a percentage as part of their fees. Finally, you may be limited in your decision-making processes (e.g., some franchisors require you to buy materials from their suppliers).

If you are thinking of purchasing a franchise, it is very important to thoroughly investigate the company.

Remember, you are doing more than just purchasing a name--the franchisor is going to be your business partner. Make sure that he or she doesn't want only your money and then move on to the next potential buyer.

Franchisors are required to disclose lots of information to potential franchisees. Do your homework. Talk not only to successful franchisees but also to ones who have failed. If several former franchisees tell you that the company didn't fulfill the promises of the franchise agreement, beware.

Make sure every representation is made to you in writing before you purchase. Take notes of everything said to you, and have the franchisor sign off on them. That way, you will have a record of what was represented to you if things go wrong.

Owning a business, whether you buy a going concern, buy a franchise or start your own, can be a rewarding experience. You need to understand the risks involved in each scenario in order to make the best decision. BWFA has the background and expertise to guide you through this process. Contact me with any questions you may have.

What's Happening at BWFA

2 MILES FOR 2 HEARTS MEMORIAL RACE

MEGHAN MANAS
DIRECTOR, CLIENT SERVICES
mmanas@bwfa.com

This year BWFA was again honored to be a proud sponsor of the final 2 Miles for 2 Hearts Memorial Run held on August 27th in Columbia. In 2012, Elizabeth "Liz" Nass and Rose Mayr lost their lives when a train derailed in historic Ellicott City. 2 Miles for 2 Hearts is a memorial race that benefits two scholarships funds while celebrating the lives of Liz and Rose. The event brings families and the community at large together to remember these young women by sharing in some of those things they loved most — music, exercise and food. This year's final race committee also decided to share a portion of the funds raised to help with the flood restoration efforts of Historic Ellicott City.

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

2MILESFOR2HEARTS.COM AND CLICK ON "DONATE."

ENJOY THE PICTURES OF THE EVENT!

ELECTRONIC CHECK DEPOSIT NOW AVAILABLE WITH TD AMERITRADE!

The Client Services Team is excited by the launch of Electronic Check Deposits from TD Ameritrade. This new service enables us to securely submit check deposits for our clients. Checks will be posted on the same day "In Good Order." Here is CST member, Joe DePatie depositing our first check!

BWFA'S 30TH ANNIVERSARY

We celebrated our 30th birthday at our July 4th celebration. The entire staff at BWFA would like to thank everyone who has helped make BWFA what it is today.

GIVE THE GIFT OF A FINANCIAL BLUEPRINT

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

PHOTO: Haleakala Volcano, Maui

Upcoming Events

OCTOBER 4, 2016
11:45 A.M. – 1:00 P.M.
Identity Theft – Guest Speaker Ananta Hejeebu from Howard Tech Advisors

OCTOBER 13, 2016
6:00 P.M. – 7:30 P.M.
Book Review: *The 5 Years Before Your Retire*

OCTOBER 20, 2016
6:00 P.M. – 7:30 P.M.
Traditional or Roth IRA – Which is Right For You?

OCTOBER 25, 2016
11:45 A.M. – 1:00 P.M.
Three Tax Saving Strategies

NOVEMBER 2, 2016
11:45 A.M. – 1:00 P.M.
Asset Protection: Build a Wall Around Your Assets
Guest Speaker Maurice Offit from Offit Kurman

NOVEMBER 8, 2016
11:45 A.M. – 1:00 P.M.
Making The Most of Medicare: A Guide for Baby Boomers

NOVEMBER 10, 2016
11:45 A.M. – 1:00 P.M.
What You Need to Know About Retirement Before You Retire

NOVEMBER 15, 2016
11:45 A.M. – 1:00 P.M.
What's Your Retirement Number?

NOVEMBER 29, 2016
11:45 A.M. – 1:00 P.M.
Social Security Timing and Selections

DECEMBER 1, 2016
11:45 A.M. – 1:00 P.M.
Traditional or Roth IRA: Which One is Right For You?

DECEMBER 15, 2016
11:45 A.M. – 1:00 P.M.
Selecting Your State of Residence in Retirement

BWFA Fourth OF JULY 2016

30TH ANNIVERSARY

FIREWORKS • FUN • PHOTO BOOTH

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

B | W | F | A

Baltimore-Washington

FINANCIAL ADVISORS

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

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