JANUARY 2017

Advisor

BALTIMORE - WASHINGTON FINANCIAL ADVISORS

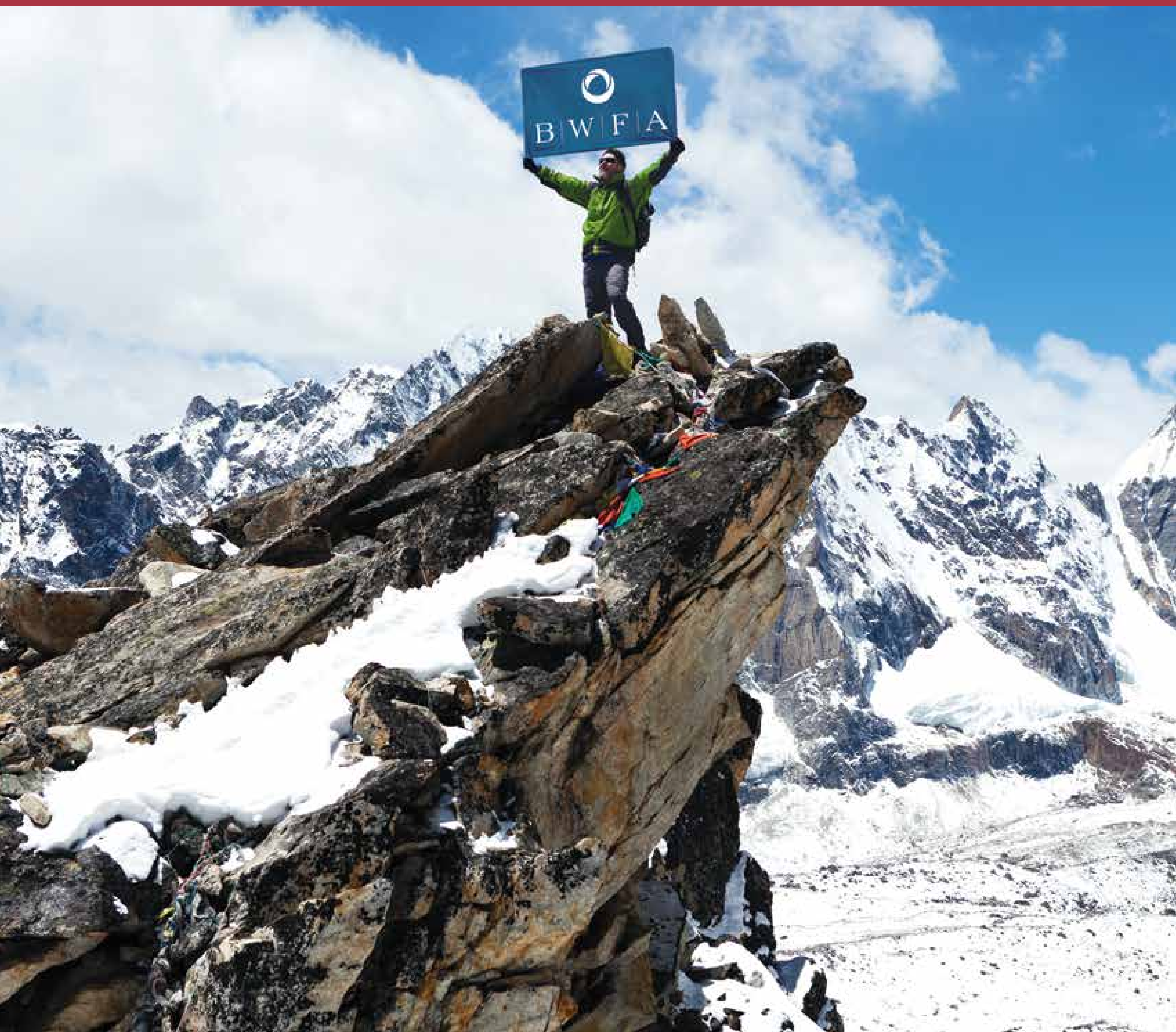

PHOTO: Kayaks at Glacial Lake in the Mountains, Iceland

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President's Address

WILL VS. TRUST: IS ONE BETTER THAN THE OTHER?

ROBERT G. CARPENTER
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WHEN IT COMES TO PLANNING YOUR ESTATE, YOU MIGHT BE WONDERING WHETHER YOU SHOULD USE A WILL OR A TRUST (OR BOTH).

Understanding the similarities and the differences between these two important documents may help you decide which strategy is better for you.

WHAT IS A WILL?

A will is a legal document that lets you direct how your property will be disbursed (among other things) when you die. It becomes effective only after your death. It also allows you to name an estate executor as the legal representative who will carry out your wishes.

In many states, your will is the only legal mechanism you can name a guardian for your minor children. Without a will, your property will be distributed according to the intestacy laws of your state. Keep in mind that wills and trusts are legal documents generally governed by state law, which may differ from one state to the next.

WHAT IS A TRUST?

A trust document establishes a legal relationship in which you, the grantor or trustor, set up a trust, which holds property managed by a trustee for the benefit of another, the beneficiary. A revocable living trust is the type of trust most often used as part of a basic estate plan. "Revocable" means that you can make changes to the trust or even end (revoke) it at any time. For example, you may want to remove certain property from the trust or change the beneficiaries. Or you may decide not to use the trust anymore because it no longer meets your needs.

A living trust is created while you're living and takes effect immediately. You may transfer title or "ownership" of assets, such as a house, boat, automobile, jewelry, or investments, to the trust. You can add assets to the trust and remove assets thereafter.

HOW DO THEY COMPARE?

While both a will and a revocable living trust enable you to direct the distribution of your assets and property to your beneficiaries at your death, there are several differences between these documents. **Here are a few important ones.**

- A will generally requires probate, which is a public process that may be time-consuming and expensive. A trust may avoid the probate process.
- In order to exclude assets from probate, you must transfer them to your revocable trust while you're living, which may be a costly, complicated, and tedious process.
- Unlike a will, a trust may be used to manage your financial affairs if you become incapacitated.
- If you own real estate or hold property in more than one state, your will would have to be filed for probate in each state where you own property or assets. Generally, this is not necessary with a revocable living trust.
- A trust can be used to manage and administer assets you leave to minor children or dependents after your death.
- In a will, you can name a guardian for minor children or dependents, which you cannot do with a trust.

WHICH IS APPROPRIATE FOR YOU?

The decision isn't necessarily an "either/or" situation. Even if you decide to use a living trust, you should also create a will to name an executor, name guardians for minor children, and provide for the distribution of any property that doesn't end up in your trust. There are costs and expenses associated with the creation and ongoing maintenance of these legal instruments.

Whether you incorporate a trust as part of your estate plan depends on a number of factors. Does your state offer an informal probate, which may be an expedited, less expensive process available for smaller estates? Generally, if you want your estate to pass privately, with little delay or oversight from a probate court, including a revocable living trust as part of your estate plan may be the answer. At BWFA we have attorneys who partner with us to help you make the best decisions for you and your family. Throughout our formal Financial Planning process we help you determine which is best for you.

Robert Carpenter

Advisor

PHOTO: Coyote Buttes (The Wave), Arizona

Do you know someone

WHO COULD USE GUIDANCE WITH THEIR INVESTMENTS?

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

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

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

PLEASE CONTACT MEGHAN AT MMANAS@BWFA.COM

COVER PHOTO: Mountaineer at the Top of the World, Himalayas, Mount Everest

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Discover Your Ethnicity

PHOTO: Exploring the Antarctic Waters

ANCESTRY DNA

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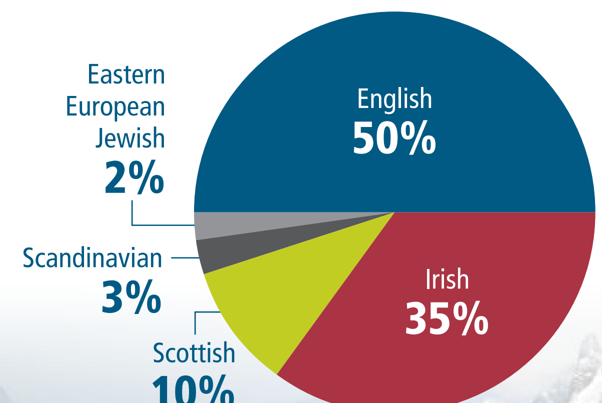
FOR MY 50TH BIRTHDAY, MY WIFE GAVE ME AN ANCESTRY DNA TEST.

I had a general knowledge of the more recent branches of my family tree, but was always curious about discovering more. My parents told me that I was English, Irish with some Native American roots as well.

Excited to learn more, I received a kit with simple instructions for registration and submission of a DNA sample. It took only a few weeks for me to receive my results! As I expected the results indicated a high percentage of English and Irish heritage, along with the unexpected discovery of Scottish, Scandinavian and Eastern European Jewish connections. Alas, there was no mention made of my Native American heritage.



Another exciting part of the test had Ancestry identify potential DNA matches, linking me to any of my second, third and fourth cousins around the world. Not surprisingly these were individuals I had never heard of before. With this new information, I now have the tools to begin filling in some of those empty branches of my family tree.

Ancestry does make a point of disclosing that its DNA results provide genetic ethnicity estimates. So, while the test seems to debunk the story about our family's Native American roots, it corroborated my English and Irish heritage as well offered me an exciting new connection to a Scottish, Scandinavian & Eastern European Jewish background!

I must not be the only one excited and intrigued about more clearly developing a sense of who I am and where I came from. Ancestry.com went public in 2009, then was taken private a few years later valued at $1.6 billion. Earlier this year they received another $1.0 billion investment to fund the continued growth of their enterprise.

While this story was not meant to showcase an investment opportunity, it is interesting to think about how technology can now do what was previously unimaginable, certainly highlighting the rapid increase in our awareness of how interconnected we all are.

Here at BWFA, we deeply appreciate our close relationships with each and every client and like Ancestry, strive to know what makes you, our clients, uniquely you!

Financial Planning

PLANNING FOR RETIREMENT

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If you're a decade or so away from retirement, you've probably spent at least some time thinking about this major life change. How will you manage the transition? Will you travel, take up a new sport or hobby, or spend more time with friends and family? Should you consider relocating? Will you continue to work in some capacity? Will changes in your income sources affect your standard of living?

When you begin to ponder all the issues surrounding the transition, the process can seem downright daunting. However, thinking about a few key points now, while you still have years ahead, can help you focus your efforts and minimize the anxiety that often accompanies the shift.

REASSESS YOUR LIVING EXPENSES

A step you will probably take several times between now and retirement — and maybe several more times thereafter — is thinking about how your living expenses could or should change. For example, while commuting and other work-related costs may decrease, other budget items may rise.

Health-care costs, in particular, may increase as you progress through retirement. Try to estimate what your monthly expense budget will look like in the first few years after you stop working. And then continue to reassess this budget as your vision of retirement becomes reality.

According to a recent survey, 38% of retirees said their expenses were higher than they expected. Keeping a close eye on your spending in the years leading up to retirement can help you more accurately anticipate your budget during retirement.

CONSIDER ALL YOUR INCOME SOURCES

First, figure out how much you stand to receive from Social Security. In early 2016, the average monthly retirement benefit was about $1,300. The amount you receive will depend on your earnings history and other unique factors. You can elect to receive retirement benefits as early as age 62, however, doing so will result in a reduced benefit for life.

If you wait until your full retirement age (66 or 67, depending on your birth date) or later (up to age 70), your benefit will be higher. The longer you wait, the larger it will be.

You can get an estimate of your retirement benefit at the Social Security Administration website, **ssa.gov.** You can also sign up for a *my* Social Security account to view your online Social Security statement, which contains a detailed record of your earnings and estimates for retirement, survivor, and disability benefits. Your retirement benefit estimates include amounts at age 62, full retirement age, and age 70. Check your statement carefully and address any errors as soon as possible.

Next, review the accounts you've earmarked for retirement income, including any employer benefits. Start with your employer-sponsored plan, and then consider any IRAs and traditional investment accounts you may own. Try to estimate how much they could provide on a monthly basis. If you are married, be sure to include your spouse's retirement accounts as well. If your employer provides a traditional pension plan, contact the plan administrator for an estimate of that monthly benefit amount as well.

Do you have rental income? Be sure to include that in your calculations. Might you continue to work? Some retirees find that they are able to consult, turn a hobby into an income source, or work part-time. Such income can provide a valuable cushion that helps retirees postpone tapping their investment accounts, giving the assets more time to potentially grow.

PAY OFF DEBT, POWER UP YOUR SAVINGS

Once you have an idea of what your possible expenses and income look like, it's time to bring your attention back to the here and now. Draw up a plan to pay off debt and power up your retirement savings before you retire.

Why pay off debt? Entering retirement debt-free — including paying off your mortgage — will put you in a position to modify your monthly expenses in retirement if the need arises. On the other hand, entering retirement with a mortgage, loan, and credit-card balances will put you at the mercy of those monthly payments. You'll have less of an opportunity to scale back your spending if necessary.

Why power up your savings? In these final few years before retirement, you're likely to be earning the highest salary of your career. Why not save and invest as much as you can in your employer-sponsored retirement savings plan and/or IRAs? Aim for maximum allowable contributions. And remember, if you're 50 or older, you can take advantage of catch-up contributions, which enable you to contribute an additional $6,000 to your 401(k) plan and an extra $1,000 to your IRA in 2016.

MANAGE TAXES

As you think about when to tap your various resources for retirement income, remember to consider the tax impact of your strategy. For example, you may want to withdraw money from your taxable accounts first to allow your employer-sponsored plans and IRAs more time to potentially benefit from tax-deferred growth. Keep in mind, however, that generally you are required to begin taking minimum distributions from tax-deferred accounts in the year you turn age 70½, whether or not you actually need the money. (Roth IRAs are an exception to this rule.)

If you decide to work in retirement while receiving Social Security, understand that income you earn may result in taxable benefits. IRS Publication 915 offers a worksheet to help you determine whether any portion of your Social Security benefit is taxable.

If leaving a financial legacy is a goal, you'll also want to consider how estate taxes and income taxes for your heirs figure into your overall decisions.

Managing retirement income to result in the best possible tax scenario can be extremely complicated. Qualified tax and financial professionals can provide valuable insight and guidance.

ACCOUNT FOR HEALTH CARE

In 2015, the Employee Benefit Research Institute reported that the average 65-year-old married couple would need $213,000 in savings to have at least a 75% chance of meeting their insurance premiums and out-of-pocket health-care costs in retirement. This figure illustrates why health care should get special attention as you plan the transition to retirement.

As you age, the portion of your budget consumed by health-related costs (including both medical and dental) will likely increase. Although original Medicare will cover a portion of your costs, you'll still have deductibles, copayments, and coinsurance. Unless you're prepared to pay for these costs out of pocket, you may want to purchase a supplemental Medigap insurance policy.

Medigap policies are sold by private health insurers and are standardized and regulated by both state and federal law. These plans cover certain specified services, but offer different combinations of coverage. Some cover all or part of your Medicare deductibles, copayments, or coinsurance costs.

Another option is Medicare Advantage (also known as Medicare Part C), which allows Medicare beneficiaries to receive health care through managed care plans and private fee-for-service plans. To enroll in Medicare Advantage, you must be covered under both Medicare Part A and Medicare Part B. For more information, visit **medicare.gov**.

Also think about what would happen if you or your spouse needed home care, nursing home care, or other forms of long-term assistance, which Medicare and Medigap will not cover. Long-term care costs vary substantially depending on where you live and can be extremely expensive. For this reason, people often consider buying long-term care insurance. Policy premiums may be tax deductible, based on a number of different factors. If you have a family history of debilitating illness such as Alzheimer's, have substantial assets you'd like to protect, or want to leave assets to heirs, a long-term care policy may be worth considering.

EASE THE TRANSITION

These are just some of the factors to consider as you prepare to transition into retirement. Breaking the bigger picture into smaller categories and using the years ahead to plan accordingly may help make the process a little easier. At BWFA, we develop comprehensive Retirement Plans for clients to help them navigate toward and through retirement. Having a Retirement Plan in place prior to retirement can help prepare you for the years ahead.

PHOTO: Cross Country Winter Skiing on Frozen Lake, Voyager National Park, Northern Minnesota

Investment Management

WHY USE A PROFESSIONAL TRUSTEE?

JOSEPH MANFREDI
MBA
CHIEF OPERATING OFFICER / SENIOR PORTFOLIO MANAGER
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YOU USE BWFA FOR PROFESSIONAL FINANCIAL PLANNING, INVESTMENT MANAGEMENT, AND OR TAX SERVICES- WHY NOT INCLUDE PROFESSIONAL TRUST SERVICES TO YOUR IMPORTANT FINANCIAL ADVISORY SERVICES?

When would you consider trust services?

- Has there been a death of a spouse?
- Do you have children?
- Has a key family member become ill or unable to manage their own affairs?
- Do you own a business or are you buying or selling a business?
- Do you have charitable intentions?
- Are there issues with financial irresponsibility of the family member/ beneficiary or the beneficiary's spouse?
- Is there risk of litigation?
- Are there any additional inheritances for the beneficiaries of your estate?

A BWFA client is the "grantor" of the assets to establish a trust, with assets such as traditional investments, real estate, and other unique assets like family business assets, land and art/collectibles all titled in the name of the trust. These are among the popular assets to fund a trust, which can be managed for you and then for your heirs upon your death. These heirs or "beneficiaries" of the trust will have their needs met by a "directed trust advisor" coordinated through your BWFA advisor.

Our custodial relationship with TD Ameritrade Institutional allows us to utilize " Advisors Private Wealth Trust (APWT)" to act as the professional trust administrator, solely or in conjunction with a co-trustee, while BWFA can act as the independent investment advisor and relationship manager, for the trust and its beneficiaries.

Why include professional trustee administration services as part of your professional financial services at BWFA?

A trustee provides a client:

- Longevity and continuity of services for the beneficiaries of the estate or trust
- Engagement with professionals with knowledge of investments and trust administration working in a coordinated way according to your wishes, with your BWFA advisor providing your family or other heirs with personalized advice and service
- A professional, impartial fiduciary allowing family or other personal relationships, as beneficiaries and or individual trustees, to completely avoid the administrative burdens and potential litigation from unhappy beneficiaries
- Trust administrators that can help eliminate the possibility of family disharmony

A trustee will perform the following:

- Safe keep assets
- Prepare and execute future tax returns
- Prepare trust statements
- Distribute trust funds as directed
- Assess beneficiaries' needs and assets to approve distributions according to trust rules
- Maintain administrative documents
- Handle various administrative transactions as required
- Take receipt of contributions
- Follow direction from beneficiaries where appropriate
- Keep accurate and detailed records
- Obtain asset appraisals as needed
- Treat beneficiaries equitably and impartially
- Invest and dispose of assets, pay bills and make distributions in a prudent manner

What are the next steps?

Make an appointment with your advisor at BWFA to explore the possibilities and benefits of a professional trustee relationship either now or in the future when your family needs dictate.

We can assist with answering questions you have to ensure your intentions are attended to, and your wishes are carried out in a consistent and professional manner.

CARING FOR YOUR AGING PARENTS

CHRIS KELLY
CPA, CFP®, M. ACCY
FINANCIAL ADVISOR AND PORTFOLIO MANAGER
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Caring for your aging parents is something you hope you can handle when the time comes, but it's the last thing you want to think about. Whether the time is now or somewhere down the road, there are steps that you can take to make your life (and theirs) a little easier. Some people live their entire lives with little or no assistance from family and friends, but today Americans are living longer than ever before. It's always better to be prepared.

Mom? Dad? We need to talk

The first step you need to take is talking to your parents. Find out what their needs and wishes are. In some cases, however, they may be unwilling or unable to talk about their future. **This can happen for a number of reasons, including:**

- Incapacity
- Fear of becoming dependent
- Resentment toward you for interfering
- Reluctance to burden you with their problems

If such is the case with your parents, you may need to do as much planning as you can without them. If their safety or health is in danger, however, you may need to step in as caregiver. The bottom line is that you need to have a plan. If you're nervous about talking to your parents, make a list of topics that you need to discuss. That way, you'll be less likely to forget anything. **Here are some things that you may need to talk about:**

- Long-term care insurance: Do they have it? If not, should they buy it?
- Living arrangements: Can they still live alone, or is it time to explore other options?
- Medical care decisions: What are their wishes, and who will carry them out?
- Financial planning: How can you protect their assets?
- Estate planning: Do they have all of the necessary documents (e.g., wills, trusts)?
- Expectations: What do you expect from your parents, and what do they expect from you?

Preparing a personal data record

Once you've opened the lines of communication, your next step is to prepare a personal data record. This document lists information that you might need in case your parents become incapacitated or die. **Here's some information that should be included:**

- Financial information: Bank accounts, investment accounts, real estate holdings
- Legal information: Wills, durable power of attorneys, health-care directives
- Funeral and burial plans: Prepayment information, final wishes
- Medical information: Health-care providers, medication, medical history
- Insurance information: Policy numbers, company names
- Advisor information: Names and phone numbers of any professional service providers
- Location of other important records: Keys to safe-deposit boxes, real estate deeds

Be sure to write down the location of documents and any relevant account numbers.

It's a good idea to make copies of all of the documents you've gathered and keep them in a safe place. This is especially important if you live far away, because you'll want the information readily available in the event of an emergency.

Where will your parents live?

If your parents are like many older folks, where they live will depend on how healthy they are. As your parents grow older, their health may deteriorate so much that they can no longer live on their own. At this point, you may need to find them in-home health care or health care within a retirement community or nursing home. Or, you may insist that they come to live with you. If money is an issue, moving in with you may be the best (or only) option, but you'll want to give this decision serious thought. This decision will impact your entire family, so talk about it as a family first. A lot of help is out there, including friends and extended family. Don't be afraid to ask.

Evaluating your parents' abilities

If you're concerned about your parents' mental or physical capabilities, ask their doctor(s) to recommend a facility for a geriatric assessment. These assessments can be done at hospitals or clinics. The evaluation determines your parents' capabilities for day-to-day activities (e.g., cooking, housework, personal hygiene, taking medications, making phone calls). The facility can then refer you and your parents to organizations that provide support.

If you can't be there to care for your parents, or if you just need some guidance to oversee your parents' care, a geriatric care manager (GCM) can also help. Typically, GCMs are nurses or social workers with experience in geriatric care. They can assess your parents' ability to live on their own, coordinate round-the-clock care if necessary, or recommend home health care and other agencies that can help your parents remain independent.

Feel free to contact a BWFA professional if you'd like to discuss further — we are happy to help.

PHOTO: Bryce Canyon National Park in Winter, Utah

Investment Management

EXCHANGE-TRADED FUNDS: DO THEY BELONG IN YOUR PORTFOLIO?

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Exchange-traded funds (ETFs) have become increasingly popular since they were introduced in the United States in the mid-1990s. Their tax efficiency and relatively low cost have attracted investors who like the idea of combining the diversification of mutual funds with the trading flexibility of stocks. BWFA uses a variety of individual securities as well as low cost ETF's and mutual funds to construct portfolios. ETFs can play a unique role in your portfolio, but you need to understand just how they work and the differences between the variety of ETFs now available.

WHAT IS AN ETF?

Like a mutual fund, an exchange-traded fund pools the money of many investors and purchases a group of securities. Like index mutual funds, most ETFs are passively managed. Instead of having a portfolio manager who uses his or her judgment to select specific stocks, bonds, or other securities to buy and sell, both index mutual funds and exchange-traded funds attempt to replicate the performance of a specific index.

However, a mutual fund is priced once a day, when the fund's net asset value is calculated after the market close. If you buy after that, you will receive the next day's closing price. By contrast, an ETF is priced throughout the day and can be bought on margin or sold short — in other words, it's traded just as a stock is.

HOW ETFs INVEST

Since their inception, most ETFs have invested in stocks or bonds, buying the shares represented in a particular index. For example, an ETF might track the Nasdaq 100, the S&P 500, or a bond index. Other ETFs invest in hard assets — for example, gold. ETF's often follow certain sectors of the S&P 500. For instance, health care, biotechnology, or financials, are some examples of ETF's that can serve as satellite positions within a portfolio. With the rapid proliferation of ETFs in recent years, if there's an index, there's a good chance there's an ETF that tracks it.

More and more new indexes are being introduced, many of which cover narrow niches of the market, or use novel rules to choose securities. Many so-called rules-based ETFs are beginning to take on aspects of actively managed funds — for example, by limiting the percentage of the fund that can be devoted to a single security or industry.

PROS AND CONS OF EXCHANGE-TRADED FUNDS

Pros

- ETF can be traded throughout the day as price fluctuates
- ETFs can be bought on margin, sold short, or traded using stop orders and limit orders, just as stocks can
- ETFs do not have to hold cash or buy and sell securities to meet redemption demands by fund investors
- Annual expenses are often lower, which can be especially important for long-term investors
- Because ETFs typically trade securities infrequently, they have lower annual taxable distributions than a mutual fund

Cons

- Making frequent investments over time will require paying repeated commissions and will increase investing costs
- If an ETF is organized as a unit investment trust, delays in reinvesting its dividends may hamper returns
- An ETF doesn't necessarily trade at its net asset value, and bid-ask spreads may be wide for thinly traded issues or in volatile markets

THE NEW WAVE OF ETFs

New and unique indexes are being developed every day. As a result, ETFs that might seem similar--for example, two funds that invest in large-cap stocks — can actually be quite different. Many indexes define which securities are included based on their market capitalization--the number of shares outstanding times the price per share. However, other indexes and the ETFs that mimic them may select or weight securities within the index based on fundamental factors, such as a stock's dividend yield.

Why is weighting important? Because it can affect the impact that individual securities have on the fund's result. For example, an index that is weighted by market cap will be more affected by under-performance at a large-cap company than it would be by an under-performing company with a smaller market cap. That's because the large-cap company would represent a larger share of the index. However, if the index weighted each security equally, each would have an equal impact on the index's performance.

THE COST ADVANTAGES AND TRADE-OFFS OF ETFs

As indicated above, one of the reasons ETFs have gained ground with investors is because of their low annual expenses. Passive index investing means an ETF doesn't require a portfolio manager or a research staff to select securities; that reduces the fund's overhead. Also, investing in an index means that trades are generally made only when the index itself changes. As a result, the trading costs required by frequent buying and selling of securities in the fund are minimized. *(Note, though, that individuals cannot invest directly in any index.)*

However, don't forget that you'll generally pay a commission with each ETF trade (depending on the type of account you have). That means a one-time lump-sum investment in an ETF will be more cost-effective than frequent, regular investments over time.

ETFs AND TAXES

ETFs can be relatively tax efficient. Because it trades so infrequently, an ETF typically distributes few capital gains during the year. There can be times when some investors find themselves paying taxes on capital gains generated by a mutual fund, even though the value of their fund may actually have dropped. Though it's not impossible for an ETF to have capital gains, ETFs generally can minimize the ongoing capital gains taxes you'll pay.

Just how much impact can reducing taxes have over the long term? More than you might think. Even a 1% difference in your return can be significant. For example, if you invest $50,000 and earn an average annual return of 5% (compounded monthly), you would have a pretax amount of $82,350 after 10 years. Even a 1% increase in that return would give you $90,970 at the end of that time. (This hypothetical example is for illustrative purposes only and does not represent the performance of any particular investment. Actual results will vary.)

Make sure you consider how an ETF's returns will be taxed. Depending on how the fund is organized and what it invests in, returns could be taxed as short-term capital gains, ordinary income, or in the case of gold and silver ETFs, as collectibles; all are taxed at higher rates than long-term capital gains.

WHAT ARE SOME OTHER REASONS INVESTORS USE ETFs?

- To get exposure to a particular industry or sector of the market. Because the minimum investment in an ETF is the cost of a single share, ETFs can be a low-cost way to make a diversified investment in alternative investments, a particular investing style, or geographic region.
- To limit losses. Being able to set a stop-loss limit on your ETF shares can help you manage potential losses. A stop-loss order instructs your broker to sell your position if the shares fall to a certain price. If the ETF's price falls, you've minimized your losses. If its price rises over time, you could increase the stop-loss figure accordingly. That lets you pursue potential gains while setting a limit on the amount you can lose.

HOW TO EVALUATE AN ETF

- Look at the index it tracks. Understand what the index consists of and what rules it follows in selecting and weighting the securities in it. Be aware that the performance of an unmanaged index is not indicative of the performance of any specific security. Individuals cannot invest directly in any index.
- Look at how long the fund and/or its underlying index have been in existence, and if possible, how both have performed in good times and bad.
- Look at the fund's expense ratios. The more straightforward its investing strategy, the lower expenses are likely to be. An index using futures contracts is likely to have higher expenses than one that simply replicates the S&P 500.

Your BWFA financial professional can help you decide how ETFs might fit your investing strategy.

Before investing in an ETF or mutual fund, carefully consider its investment objectives, risk, fees, and expenses, which can be found in the prospectus available from the fund. Read the prospectus carefully before investing. All investing involves risk, including the possible loss of principal, and there can be no assurance that any strategy will be successful.

Tax Services

MEET YOUR BWFA TAX TEAM

ZACHARY R. HOLBROOK | CPA | Tax Manager | zholbrook@bwfa.com

Zachary joined BWFA as a Tax Manager in 2016. He is a graduate of Salisbury University where he earned his BA in Accounting. Prior to joining BWFA, Zachary was a tax manager at RSM US, LLP where his experience included working with high net worth individuals, investment partnerships, and trusts. Zachary is a member of the American Institute of Certified Public Accountants and the Maryland Association of Certified Public Accountants.

Zachary current lives in Baltimore, Maryland. He enjoys fishing, sports, and spending time with family.

SUSAN HORNE | MST | Tax Associate | shorne@bwfa.com

Susan earned a Masters in Taxation from the University of Baltimore and has over 25 years of tax experience. She began her career with Alex. Brown & Sons Incorporated and subsequently developed her career at two of Baltimore's well known CPA firms. Her experience includes working with high net worth individuals, small businesses, real estate partnerships, trusts, corporations, and non-profit organizations.

Susan has a passion for giving back to the community and is a legacy member of Baltimore Community Foundation, and a member of York County Women's Giving Circle. She also established a scholarship fund in honor of her husband Irvin that awards scholarships to young men to attend the University of Maryland, College Park, their alma mater. Additionally, Susan enjoys spending time with family and capturing great memories through photography.

TOP PHOTO: Hubbard Glacier, Eastern Alaska
BOTTOM PHOTO: Skiing, Lake Tahoe

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

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

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

JAMES D. BURGESS | CPA | Tax Partner | jburgess@bwfa.com

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

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

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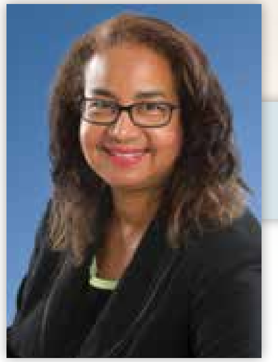
Tax Services

PHOTO: Dog Sledding Along the Mendenhall Glacier, Alaska



TAX PLANNING FOR THE SELF-EMPLOYED

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

Understand self-employment tax and how it's calculated

As a starting point, make sure that you understand (and comply with) your federal tax responsibilities. The federal government uses self-employment tax to fund Social Security and Medicare benefits. You must pay this tax if you have more than a minimal amount of self-employment income. If you file a Schedule C as a sole proprietor, independent contractor, or statutory employee, the net profit listed on your Schedule C (or Schedule C-EZ) is self-employment income and must be included on Schedule SE, which is filed with your federal Form 1040. Schedule SE is used both to calculate self-employment tax and to report the amount of tax owed.

Make your estimated tax payments on time to avoid penalties

Employees generally have income tax, Social Security tax, and Medicare tax withheld from their paychecks. But if you're self-employed, it's likely that no one is withholding federal and state taxes from your income. As a result, you'll need to make quarterly estimated tax payments on your own (using IRS Form 1040-ES) to cover your federal income tax and self-employment tax liability. You may have to make state estimated tax payments, as well. If you don't make estimated tax payments, you may be subject to penalties, interest, and a big tax bill at the end of the year. For more information about estimated tax, see IRS Publication 505.

If you have employees, you'll have additional periodic tax responsibilities. You'll have to pay federal employment taxes and report certain information. Stay on top of your responsibilities and see IRS Publication 15 for details.

Establish an employer-sponsored retirement plan for tax (and nontax) reasons

Because you're self-employed, you'll need to take care of your own retirement needs. You can do this by establishing an employer-sponsored retirement plan, which can provide you with a number of tax and nontax benefits. With such a plan, your business may be allowed an immediate federal income tax deduction for funding the plan, and you can generally contribute pretax dollars into a retirement account. Contributed funds, and any earnings, aren't subject to federal income tax until withdrawn (as a tradeoff, tax-deferred funds withdrawn from these plans prior to age 59½ are generally subject to a 10 percent premature distribution penalty tax — as well as ordinary income tax — unless an exception applies).

You can also choose to establish a 401(k) plan that allows Roth contributions; with Roth contributions, there's no immediate tax benefit (after-tax dollars are contributed), but future qualified distributions will be free from federal income tax. You may want to start by considering the following types of retirement plans:

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

The type of retirement plan that your business should establish depends on your specific circumstances. Explore all of your options and consider the complexity of each plan. And bear in mind that if your business has employees, you may have to provide coverage for them as well. For more information about your retirement plan options, consult a tax professional or see IRS Publication 560.

Take full advantage of all business deductions to lower taxable income

Because deductions lower your taxable income, you should make sure that your business is taking advantage of any business deductions to which it is entitled. You may be able to deduct a variety of business expenses, including rent or home office expenses, and the costs of office equipment, furniture, supplies, and utilities. To be deductible, business expenses must be both ordinary (common and accepted in your trade or business) and necessary (appropriate and helpful for your trade or business). If your expenses are incurred partly for business purposes and partly for personal purposes, you can deduct only the business-related portion.

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

- Deduct the business expenses associated with your motor vehicle, using either the standard mileage allowance or your actual business-related vehicle expenses to calculate your deduction
- Buy supplies for your business late this year that you would normally order early next year
- Purchase depreciable business equipment, furnishings, and vehicles this year
- Deduct the appropriate portion of business meals, travel, and entertainment expenses
- Write off any bad business debts

Self-employed taxpayers who use the cash method of accounting have the most flexibility to maneuver at year-end. See a tax specialist for more information.

Deduct health-care related expenses

If you qualify, you may be able to benefit from the self-employed health insurance deduction, which would enable you to deduct up to 100 percent of the cost of health insurance that you provide for yourself, your spouse, and your dependents. This deduction is taken on the front of your federal Form 1040 (i.e., "above-the-line") when computing your adjusted gross income, so it's available whether you itemize or not.

Contributions you make to a health savings account (HSA) are also deductible "above-the-line." An HSA is a tax-exempt trust or custodial account you can establish in conjunction with a high-deductible health plan to set aside funds for health-care expenses. If you withdraw funds to pay for the qualified medical expenses of you, your spouse, or your dependents, the funds are not included in your adjusted gross income. Distributions from an HSA that are not used to pay for qualified medical expenses are included in your adjusted gross income, and are subject to an additional 20 percent penalty tax unless an exception applies.

Tax Services

TAX PREPARATION CHECKLIST 2016

ZACHARY R. HOLBROOK
CPA
TAX MANAGER
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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

Business Services

BUSINESS SUCCESSION PLANNING

BRIAN MACMILLAN
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MERGERS & ACQUISITIONS
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When developing a succession plan for your business, you must make many decisions. Should you sell your business or give it away? Should you structure your plan to go into effect during your lifetime or at your death? Should you transfer your ownership interest to family members, co-owners, employees, or an outside party? The key is to pick the best plan for your circumstances and objectives, and to seek help from financial and legal advisors to carry out this plan.

Some of the more common business succession planning objectives include: ensuring a smooth, seamless transfer of ownership; transferring your business to the next generation; Ensuring business continuity; Retiring with an income source; and Minimizing gift and estate taxes. It is crucial to meet with a Financial Planner and other advisors to discuss your goals and determine the best path forward for you and your business. Below, you will see how different transfer of ownership options can impact these objectives.

SELLING YOUR BUSINESS

Selling your business outright

You can sell your business outright, choosing the right time to sell — now, at your retirement, at your death, or anytime in between. The sale proceeds can be used to maintain your lifestyle, or to pay estate taxes and other final expenses. As long as the price is at least equal to the full fair market value of the business, the sale will not be subject to gift taxes. But, if the sale occurs before your death, it may result in capital gains tax or ordinary income tax. Selling a privately held business is not easy, so meet with an experienced Mergers and Acquisitions Advisor to fully understand the process and your options.

There are several ways to transfer the ownership of your business that can help save on taxes. A couple of these methods are Private Annuities and Self-cancelling Installment Notes.

While these methodologies can save taxes, there are also risks involved. You should consult your tax professional whenever considering the sale of your business.

Transferring your business with a buy-sell agreement

A buy-sell is a legally binding contract that establishes when, to whom, and at what price you can sell your interest in a business. A typical buy-sell allows the business itself or any co-owners the opportunity to purchase your interest in the business at a predetermined price. This can help avoid future adverse consequences, such as disruption of operations, entity dissolution, or business liquidation that might result in the event of your sudden incapacity or death. While buy-sell agreements can be great for planning, business continuity can be an issue if there is not someone in place to run the business.

GIFTING YOUR BUSINESS

If you're like many business owners, you'd prefer to have your children inherit the result of all your years of hard work and success. Of course, you can bequeath your business in your will, but transferring your business during your lifetime has many additional personal and tax benefits. By gifting the business over time, you can hand over the reins gradually as your offspring become better able to control and manage the business on their own, and you can minimize gift and estate taxes.

Two common ways of gifting your business include the use of trusts and family limited partnerships. You can establish a revocable trust, which will bypass probate and allow you to change your mind and end the trust, or an irrevocable trust, such as a grantor retained annuity trust (GRAT) or a grantor retained unitrust (GRUT) that can provide you with income for a specified period of time and move your business out of your estate at a discount. A family limited partnership (FLP) is a limited partnership formed to manage and control a family business. You (and your spouse) can be the general partners, retaining control of the business itself and receiving income from the business, while your children can be limited partners. By transferring the business to an FLP, you may be able to use valuation discounts and substantially reduce the value of the business for tax purposes by making annual gifts to the limited partners.

There are many ways to transfer the ownership of a privately held business. The key is to pick the best plan for your circumstances and objectives, and to seek help from financial and legal advisors to carry out this plan. BWFA's team of Mergers and Acquisitions Advisors, Financial Planners and Tax Professionals can guide you through the transfer the ownership process.

PHOTO: Bald Eagles Dancing on Frozen Lake, Alaska

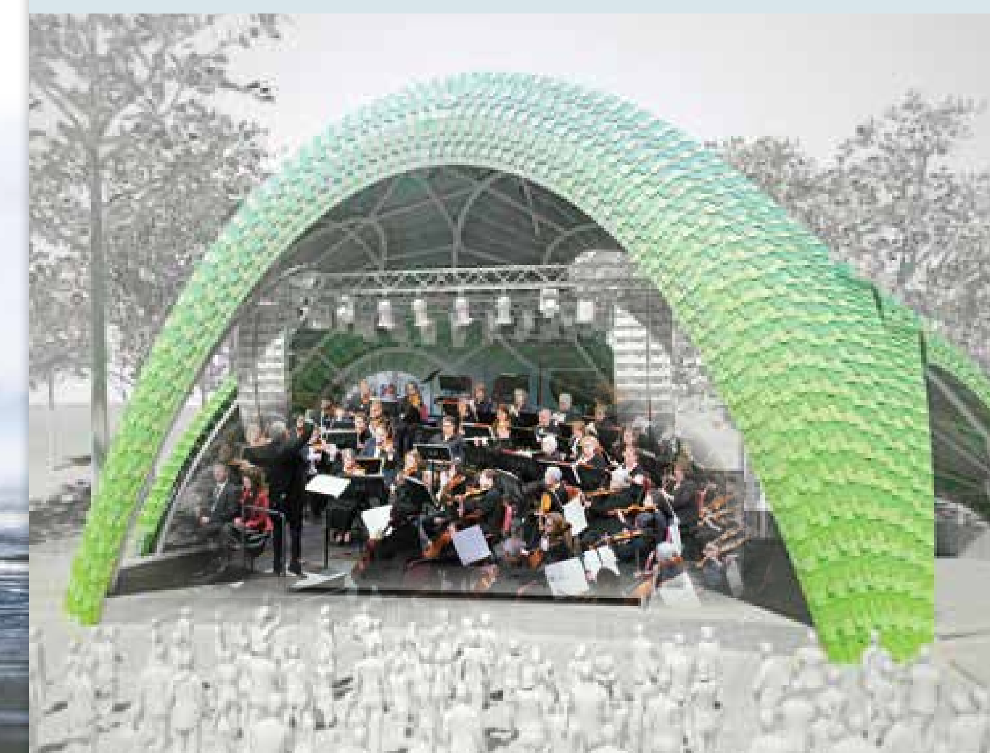
BWFA in the Community

BWFA SPONSORS COLUMBIA'S 50TH BIRTHDAY SUMMER CONCERT

WEDNESDAY, JUNE 21, 2017 | 7:00 p.m. – 9:00 p.m. – Tentative
Downtown Columbia | The New Chrysalis at Merriweather Post Pavilion

June 21, 2017 is Columbia's 50th Birthday, so why not celebrate with the Columbia Orchestra!

Salute to John Williams, highlights from *The Music Man*, hits by the Beatles, a piece written for Columbia by Morton Gould, and the ultimate outdoor classic: the *1812 Overture*! Come sing "Happy Birthday" to a great city with a great orchestra.



Community Spotlight

IT'S THE CHRYSALIS

HAVE YOU NOTICED? THERE'S A METAMORPHOSIS GOING ON IN SYMPHONY WOODS. IT'S THE CHRYSALIS, THE FIRST OF A SERIES OF THE INNER ARBOR TRUST'S* FUNCTIONAL ART ELEMENTS FOR THE PARK.

What has started to take shape is part sculpture and part amphitheater. It's a mixture of form and function that will serve the community as a performance and event venue, while its chrysalis-look pays tribute to the transformative power of nature.

Soon, the 5,000 sq. ft. structure, which is already showing off it's sculptural framing, will share its functional, amphitheater look. The project is quickly growing on the hillside setting near the Merriweather Post Pavilion farmhouse office.

There will be two prosceniums arches to the facility and they will both use the hillside for seating. The main proscenium is designed to stage larger productions and a smaller arch will perfectly frame more intimate productions. Both stages will work off of the same wood deck floor and can be used in combination for festivals.

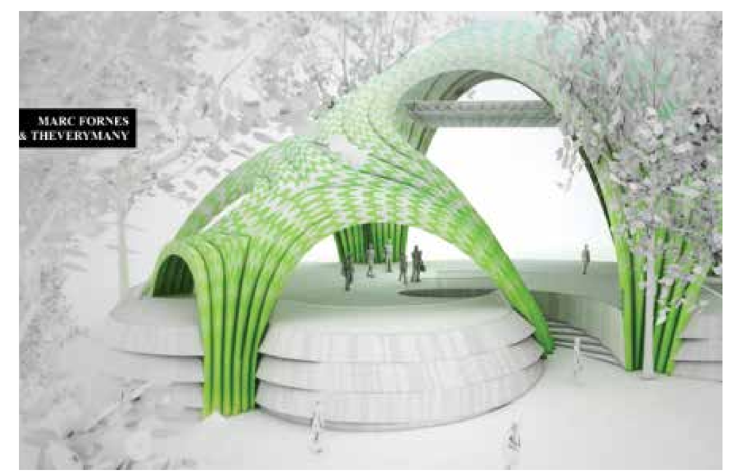
The Chrysalis also acts as a pavilion and will be available public gatherings, such as picnics, and private planned functions from family reunions to weddings. As a pavilion, the Chrysalis can also be a seated venue for 400, perfect for small musical performances, poetry readings and artist "meet & greets." On non-event days, the Chrysalis is a sculpture of urban scale nestled in the tranquil woods setting. The iconic design is 'alive' and seemingly no line stands still. Its look is dynamic and flows in a manner of 'calculated serendipity'.

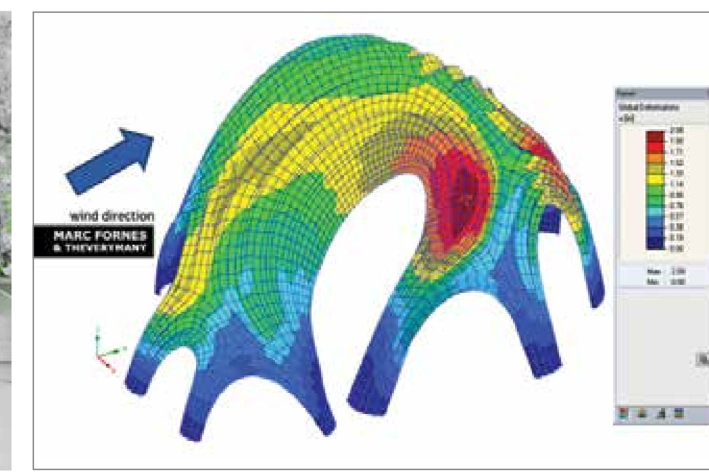
"The Chrysalis is the elegant engineering of concrete, steel & aluminum; and, like the nature of its namesake, it is a beautiful and functional transformative structure that is systemically irregular and seemingly delicate, while being extremely sturdy and well founded."

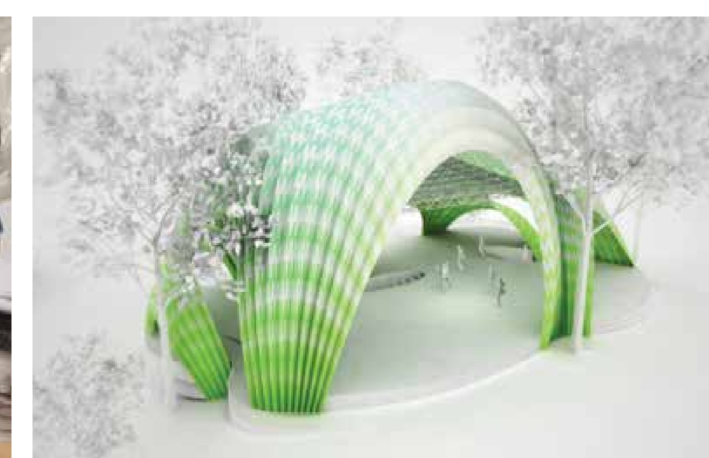
– MICHAEL MCCALL, President & CEO, Inner Arbor Trust

The Inner Arbor Trust, Inc. is the not-for-profit organization created to manage the implementation of the Inner Arbor concept plan in Symphony Woods Park. The Inner Arbor is where nature, art, culture, music, and design come together.

PHOTO: Hiking, Alaska







Chrysalis Amphitheatre at Merriweather Post Pavilion | Columbia, MD | Design: MARC FORNES / THEVERYMANY
Opening in Spring/Summer 2017

Congratulations

BWFA FAMILY NEWS!

BWFA's Senior Financial Planner, Thad Ismart and his wife Sara, welcomed **THOMAS** on November 28, 2016.

CONGRATS TO THE NEW FAMILY.

Upcoming Events

All seminars are from 11:45 A.M. to 1:00 P.M. Please join us and bring a friend.

JANUARY 5, 2017
Roth vs Traditional IRA? Tax-Deferred or Tax-Free Withdrawals? Is a conversion in your future?

JANUARY 10, 2017
Book Review: The 5 Years Before You Retire

JANUARY 19, 2017
Making the Most of Medicare: A Guide for Baby Boomers

JANUARY 24, 2017
What is Your Retirement Number?

JANUARY 26, 2017
Social Security

FEBRUARY 2, 2017
What You Need To Know About Retirement Before You Retire

FEBRUARY 7, 2017
You can't take it with you, but you can protect it from "The Bad Guys"

FEBRUARY 9, 2017
Social Security

FEBRUARY 21, 2017
Selecting Your State of Residence

FEBRUARY 28, 2017
What is Your Retirement Number?

MARCH 2, 2017
Making the Most of Medicare: A Guide for Baby Boomers

MARCH 7, 2017
Asset Protection: Build A Wall Around Your Assets w/ Offit Kurman

MARCH 30, 2017
What You Need To Know About Retirement Before You Retire

TBD
Special Needs Seminar w/ Elville & Associates

TBD
Month Before Taxes: Tying up loose ends

TBD
Identity Theft

TBD
Traditional or Roth IRA: Which is Right for You?

TBD
Family Law w/ Offit Kurman

Check out BWFA.COM for latest list of seminars.

PHOTO: White Winter Landscape in Whitefish, Montana

Happy New Year 2017

WISHING YOU A NEW YEAR FILLED WITH JOY & PROSPERITY.

From your friends and colleagues at

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FINANCIAL ADVISORS

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