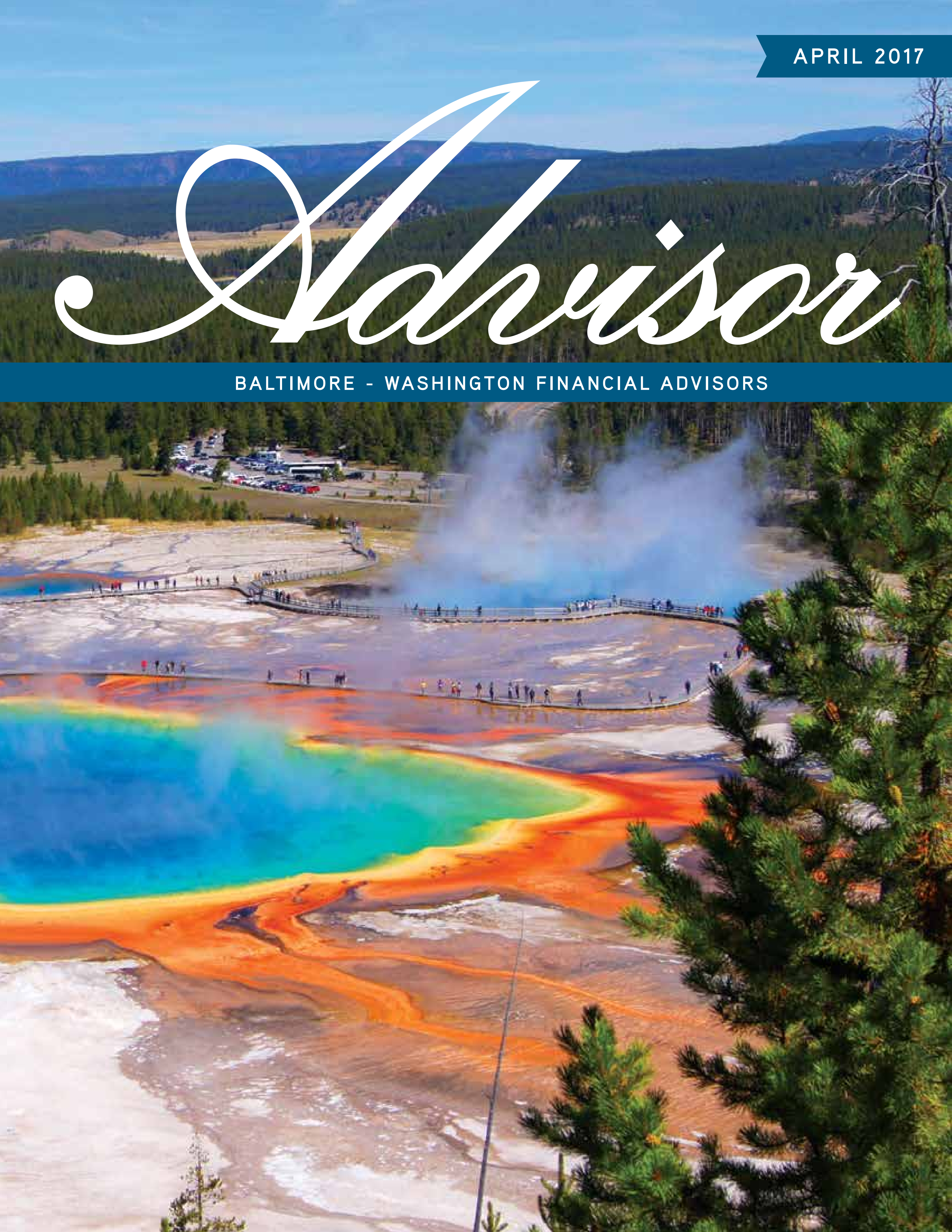
APRIL 2017

Advisor

BALTIMORE - WASHINGTON FINANCIAL ADVISORS



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President's Address

CONSIDERING AN OFFER TO RETIRE EARLY: SHOULD YOU TAKE IT?

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WHAT IS IT?

In today's corporate environment, where cost cutting, restructuring, and downsizing are the norm, many employers are offering their employees early retirement packages. As you near retirement age, you may find yourself confronted with an offer from your employer for early retirement. Your employer may refer to the offer as a golden handshake or a golden parachute. While many early retirement offers seem attractive at first, it is important for you to review an offer carefully before accepting it to ensure that it is indeed a "golden" opportunity.

Typical elements of an early retirement offer in general

An early retirement offer usually consists of severance payments and post-retirement medical coverage coupled with already existing retirement benefits. Severance payments are usually based on your salary and the number of years you have worked for the company. Severance payments can be distributed in either a lump sum or over a number of years and we can help you compare them and figure out which one is better for you.

Post-retirement medical coverage

Because of the high cost of medical care, you might find it hard to turn down an early retirement package that includes post-retirement medical coverage. These packages usually provide medical coverage until you reach age 65 and become eligible to receive Medicare. However, some packages continue to provide full or reduced medical coverage past the age of 65.

EVALUATING AN EARLY RETIREMENT OFFER

In general

The decision of whether to accept an early retirement offer is not an easy one to make. Your company's personnel department may provide either individual or group counseling to guide you during this important decision-making process. If counseling is not available, you should speak to the person in charge of employee benefits at your company. Find out what amount you can expect to receive each year after you retire. Then, figure out the difference between what you would collect if you retire early and the amount you would earn if you continue working.

PHOTO: Mount Huber and Opabin Plateau Yoho National Park, British Columbia, Canada

Tax/retirement plan implications

If you accept an early retirement offer, you should be aware of any possible tax implications. Defined benefit plans often contain provisions that reduce your monthly benefit when you begin distributions before a certain age. As a result, early retirement can result in lower monthly retirement benefits. Taxable distributions from employer-sponsored retirement plans (such as 401(k)s) and IRAs are generally subject to a 10 percent premature distribution tax if made before age 59½. However, there are a number of exceptions to this rule. One important exception is for distributions made from 401(k)s and other qualified plans as a result of separation from service in the year you reach age 55 or later (age 50 for qualified public safety employees participating in certain state or federal governmental plans). Another important exception from the 10 percent premature distribution tax is for substantially equal periodic payments (sometimes called SEPPs). Substantially equal periodic payments are amounts you receive from your IRA or qualified retirement plan not less frequently than annually for your life (or life expectancy) or the joint lives (or joint life expectancy) of you and your beneficiary. There is no minimum age requirement for this exception, but distributions from qualified retirement plans are eligible for the exception only after you separate from service.

Provided that you're over age 59½ or meet one of the exceptions, you can make penalty-free withdrawals from your account/plan or roll it over into an IRA which can give you more options.

CONSEQUENCES OF SAYING NO TO AN OFFER

If you're thinking about turning down your employer's offer to retire early, be aware of the consequences. If you're holding out for a better offer, keep in mind that the first offer is oftentimes the most generous. Also, if you think there is a good chance you might be let go anyway further on down the road, you may want to accept a sure thing right away rather than face the uncertainty of your company's future plans.

CONSEQUENCES OF SAYING YES TO AN OFFER

In general

After careful consideration, you may find that early retirement is the way to go. However, before you jump right into retirement, you'll want to be aware of the consequences of saying yes.

Less time to save for retirement

If you accept an offer to retire early, say at around age 55, you could be giving up 10 years or more of saving for retirement. Less time to save means you will have fewer savings available during retirement.

Retirement savings will have to last for a longer period of time

A lower retirement age, coupled with generally increasing life expectancies, can result in your retirement years making up one-third of your total life span. In other words, you could spend as many years in retirement as you did in the workforce. Your retirement savings will have to last for a longer period of time than if you had retired at the normal retirement age. In addition, you should consider the effect of inflation, which could eat away at the purchasing power of your retirement savings.

(CONT. ON PAGE 4)

Your pension may be smaller

If you participate in a traditional defined benefit plan, also known as a pension plan, accepting early retirement could result in a smaller pension. You should determine whether it is more valuable to have a smaller benefit over a longer period of time rather than a larger benefit over a shorter period of time.

Psychological impact

In addition to determining whether or not you have the financial resources to retire, you should also consider the psychological impact of retiring early. One of the first questions that you need to ask yourself is: Am I really ready to retire? Early retirement thrusts you into a lifestyle change that you may not have expected to encounter for another 10 to 15 years. You may find it difficult to adjust from a working environment to a relaxed, laid-back lifestyle. While many people will find it easy to adjust to a lifestyle that includes vacations and golfing, others may have a hard time dealing with all the free time.

CAREER COUNSELING

What if you can't afford to retire? Finding a new job

You may find yourself having to accept an early retirement offer, even though you can't afford to retire. One way to make up for the difference between what you receive from your early retirement package and your old paycheck is to find a new job, but that doesn't mean that you have to abandon your former line of work for a new career. You can start by finding out if your former employer would hire you as a consultant. Or, you may find that you would like to turn what was once just a hobby into a second career.

RETIREMENT PLANNING ISSUES

Medicare–age 65

Even though you can receive early Social Security retirement benefits, you are not eligible for Medicare benefits until age 65. If your early retirement package does not include post-retirement medical coverage, you may have to look into alternative methods of obtaining health benefits, such as through COBRA (Consolidated Omnibus Reconciliation Act of 1985) or private health insurance, until you are eligible to begin receiving Medicare benefits.

Social Security–age 62

If you accept an early retirement offer, you'll want to consider applying for early Social Security retirement benefits. The Social Security Administration allows any individual who is eligible to receive Social Security benefits at the normal retirement age the option of receiving benefits beginning at age 62. However, if you decide to receive Social Security benefits before the normal retirement age, the benefits you receive will be reduced. Tip: If you accept an early retirement offer from your employer, you are not required to begin receiving early Social Security retirement benefits before normal retirement age.

FINANCIAL CONCERNS

Loss of health insurance

If your early retirement package does not include company-paid health benefits, you still may be eligible for health insurance through COBRA.

You are entitled to COBRA coverage if you work for a company that provides employees with a group health plan and has 20 or more covered employees. COBRA allows you to pay for your health insurance at the same rate your company pays, plus a small administrative fee. COBRA coverage generally lasts up to 18 months from the date of retirement, and does not require you to qualify for coverage or worry about pre-existing conditions. Once your COBRA coverage runs out, you will have to purchase private insurance if you want to continue health insurance coverage until you are of age to receive Medicare.

Can you afford to retire early?

At BWFA we work with you to determine what is right for you and your family. We would suggest that you start with a financial plan with our Certified Financial Planner so every detail is planned out in advance which will give you the best possible outcome in retirement. Whether or not you have the financial resources to retire early depends on how much you have in retirement income and how much you plan to spend when you retire. Your early retirement income includes your early retirement package (severance payments and retirement benefits), Social Security (if you receive benefits before the normal retirement age), personal savings and investments, and wages (if you work after early retirement). To determine how much you will spend, you must estimate your annual living expenses for early retirement and we can run illustrations that can help you determine the right amount. This is one of the biggest decisions of your life and we are here to help every step of the way.

PHOTO: Spring in Yosemite National Park, California

PHOTO: Maroon Bells White River National Forest, Colorado

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: Grand Prismatic Spring
Yellowstone National Park, Wyoming

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Financial Planning

ESTIMATING YOUR RETIREMENT INCOME NEEDS

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You know how important it is to plan for your retirement, but where do you begin? One of your first steps should be to estimate how much income you'll need to fund your retirement. That's not as easy as it sounds, because retirement planning is not an exact science. Your specific needs depend on your goals and many other factors.

USE YOUR CURRENT INCOME AS A STARTING POINT

It's common to discuss desired annual retirement income as a percentage of your current income. Depending on who you're talking to, that percentage could be anywhere from 60 to 90 percent, or even more. The appeal of this approach lies in its simplicity, and the fact that there's a fairly common-sense analysis underlying it: Your current income sustains your present lifestyle, so taking that income and reducing it by a specific percentage to reflect the fact that there will be certain expenses you'll no longer be liable for (e.g., payroll taxes) will, theoretically, allow you to sustain your current lifestyle.

The problem with this approach is that it doesn't account for your specific situation. If you intend to travel extensively in retirement, for example, you might easily need 100 percent (or more) of your current income to get by. It's fine to use a percentage of your current income as a benchmark, but it's worth going through all of your current expenses in detail, and really thinking about how those expenses will change over time as you transition into retirement.

PROJECT YOUR RETIREMENT EXPENSES

Your annual income during retirement should be enough (or more than enough) to meet your retirement expenses. That's why estimating those expenses is a big piece of the "retirement planning" puzzle. But you may have a hard time identifying all of your expenses and projecting how much you'll be spending in each area, especially if retirement is still far off.

To help you get started, here are some common retirement expenses:

- Food and clothing
- Housing: Rent or mortgage payments, property taxes, homeowners insurance, property upkeep and repairs
- Utilities: Gas, electric, water, telephone, cable TV
- Transportation: Car payments, auto insurance, gas, maintenance and repairs, public transportation
- Insurance: Medical, dental, life, disability, long-term care
- Health-care costs not covered by insurance: Deductibles, co-payments, prescription drugs
- Taxes: Federal and state income tax, capital gains tax
- Debts: Personal loans, business loans, credit card payments
- Education: Children's or grandchildren's college expenses
- Gifts: Charitable and personal
- Savings and investments: Contributions to IRAs, annuities, and other investment accounts
- Recreation: Travel, dining out, hobbies, leisure activities
- Care for yourself, your parents, or others: Costs for a nursing home, home health aide, or other type of assisted living
- Miscellaneous: Personal grooming, pets, club memberships

Don't forget that the cost of living will go up over time. The average annual rate of inflation over the past 20 years has been approximately 2.2 percent. *(Source: Consumer price index (CPI-U) data published by the U.S. Department of Labor, January 2016.)* And keep in mind that your retirement expenses may change from year to year. For example, you may pay off your home mortgage or your children's education early in retirement. Other expenses, such as health care and insurance, may increase as you age. To protect against these variables, build a comfortable cushion into your estimates (it's always best to be conservative). Finally, have a financial professional help you with your estimates to make sure they're as accurate and realistic as possible.

DECIDE WHEN YOU'LL RETIRE

To determine your total retirement needs, you can't just estimate how much annual income you need. You also have to estimate how long you'll be retired. Why? The longer your retirement, the more years of income you'll need to fund it. The length of your retirement will depend partly on when you plan to retire. This important decision typically revolves around your personal goals and financial situation. For example, you may see yourself retiring at 50 to get the most out of your retirement. Maybe a booming stock market or a generous early retirement package will make that possible. Although it's great to have the flexibility to choose when you'll retire, it's important to remember that retiring at 50 will end up costing you a lot more than retiring at 65.

PHOTO ON RIGHT: Joshua Trees in Mojave Desert, California

ESTIMATE YOUR LIFE EXPECTANCY

The age at which you retire isn't the only factor that determines how long you'll be retired. The other important factor is your lifespan. We all hope to live to an old age, but a longer life means that you'll have even more years of retirement to fund. You may even run the risk of outliving your savings and other income sources. To guard against that risk, you'll need to estimate your life expectancy. You can use government statistics, life insurance tables, or a life expectancy calculator to get a reasonable estimate of how long you'll live. Experts base these estimates on your age, gender, race, health, lifestyle, occupation, and family history. But remember, these are just estimates. There's no way to predict how long you'll actually live, but with life expectancies on the rise, it's probably best to assume you'll live longer than you expect.

IDENTIFY YOUR SOURCES OF RETIREMENT INCOME

Once you have an idea of your retirement income needs, your next step is to assess how prepared you are to meet those needs. In other words, what sources of retirement income will be available to you? Your employer may offer a traditional pension that will pay you monthly benefits. In addition, you can likely count on Social Security to provide a portion of your retirement income. To get an estimate of your Social Security benefits, visit the Social Security Administration website **(ssa.gov)**. Additional sources of retirement income may include a 401(k) or other retirement plan, IRAs, annuities, and other investments. The amount of income you receive from those sources will depend on the amount you invest, the rate of investment return, and other factors. Finally, if you plan to work during retirement, your job earnings will be another source of income.

MAKE UP ANY INCOME SHORTFALL

If you're lucky, your expected income sources will be more than enough to fund even a lengthy retirement. But what if it looks like you'll come up short? Don't panic — there are probably steps that you can take to bridge the gap.

A financial professional can help you figure out the best ways to do that, but here are a few suggestions:

- Try to cut current expenses so you'll have more money to save for retirement
- Shift your assets to investments that have the potential to substantially outpace inflation (but keep in mind that investments that offer higher potential returns may involve greater risk of loss)
- Lower your expectations for retirement so you won't need as much money (no beach house on the Riviera, for example)
- Work part-time during retirement for extra income
- Consider delaying your retirement for a few years (or longer)

At BWFA, our financial planners specialize in creating compressive retirement plans, evaluating retirement income needs, and analyzing cash flow and expenses. If you would like to have peace of mind knowing that your "retirement paycheck" is secure, contact BWFA for a free consultation.

Financial Planning

REACHING RETIREMENT: NOW WHAT?

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You've worked hard your whole life anticipating the day you could finally retire. Well, that day has arrived! But with it comes the realization that you'll need to carefully manage your assets so that your retirement savings will last.

REVIEW YOUR PORTFOLIO REGULARLY

Traditional wisdom holds that retirees should value the safety of their principal above all else. For this reason, some people shift their investment portfolio to fixed-income investments, such as bonds and money market accounts, as they approach retirement. The problem with this approach is that you'll effectively lose purchasing power if the return on your investments doesn't keep up with inflation.

While generally it makes sense for your portfolio to become progressively more conservative as you grow older, it may be wise to consider maintaining a healthy portion of your portfolio in growth investments.

SPEND WISELY

Don't assume that you'll be able to live on the earnings generated by your investment portfolio and retirement accounts for the rest of your life. At some point, you'll probably have to start drawing on the principal. But you'll want to be careful not to spend too much too soon. This can be a great temptation, particularly early in retirement.

A good guideline is to make sure your annual withdrawal rate isn't greater than 4% to 6% of your portfolio. (The appropriate percentage for you will depend on a number of factors, including the length of your payout period and your portfolio's asset allocation.) Remember that if you whittle away your principal too quickly, you may not be able to earn enough on the remaining principal to carry you through the later years.

UNDERSTAND YOUR RETIREMENT PLAN DISTRIBUTION OPTIONS

Most pension plans pay benefits in the form of an annuity. If you're married you generally must choose between a higher retirement benefit paid over your lifetime, or a smaller benefit that continues to your spouse after your death. A BWFA financial professional can help you with this difficult, but important, decision. Other employer retirement plans like 401(k)s typically don't pay benefits as annuities; the distribution (and investment) options available to you may be limited. This is important because if you're trying to stretch your savings, you'll want to withdraw money from your retirement accounts as slowly as possible. Doing so will conserve the principal balance, and will also give those funds the chance to continue growing tax deferred during your retirement years.

Consider rolling over your employer retirement account into a traditional IRA, which typically has very flexible withdrawal options, as well as many more options in which to invest.

PLAN FOR REQUIRED DISTRIBUTIONS

Keep in mind that you must generally begin taking minimum distributions from employer retirement plans and traditional IRAs when you reach age 70½, whether you need them or not. Plan to spend these dollars first in retirement.

If you own a Roth IRA, you aren't required to take any distributions during your lifetime. Your funds can continue to grow tax deferred, and qualified distributions will be tax free. Because of these unique tax benefits, it generally makes sense to withdraw funds from a Roth IRA last.

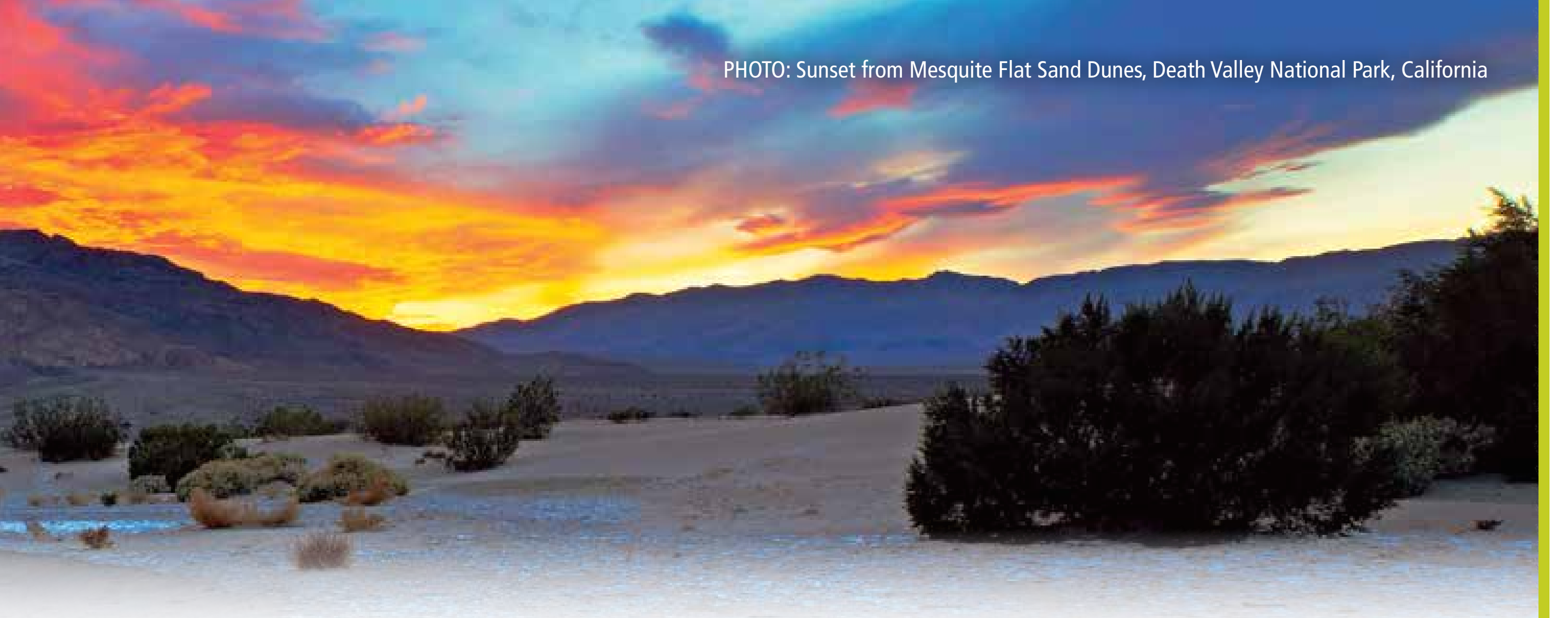

PHOTO: Sunset from Mesquite Flat Sand Dunes, Death Valley National Park, California

KNOW YOUR SOCIAL SECURITY OPTIONS

You'll need to decide when to start receiving your Social Security retirement benefits. At normal retirement age (which varies from 66 to 67, depending on the year you were born), you can 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 retirement benefit.

CONSIDER PHASING

For many workers, the sudden change from employee to retiree can be a difficult one. Some employers, especially those in the public sector, have begun offering "phased retirement" plans to address this problem. Phased retirement generally allows you to continue working on a part-time basis — you benefit by having a smoother transition from full-time employment to retirement, and your employer benefits by retaining the services of a talented employee. Some phased retirement plans even allow you to access all or part of your pension benefit while you work part time.

Of course, to the extent you are able to support yourself with a salary, the less you'll need to dip into your retirement savings.

Another advantage of delaying full retirement is that you can continue to build tax-deferred 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 substantial penalties.

If you do continue to work, make sure you understand the consequences. Some pension plans base your retirement benefit on your final average pay. If you work part time, your pension benefit may be reduced because your pay has gone down. 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. But once you reach normal retirement age, you can earn as much as you want without affecting your Social Security retirement benefit.

FACING A SHORTFALL

What if you're nearing retirement and you determine that your retirement income may not be adequate to meet your retirement expenses? 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.

And by making permanent changes to your spending habits, 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 obtained your loan, or reduce your housing expenses by moving to a less expensive home or apartment.
- 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.

By planning carefully, investing wisely, and spending thoughtfully, you can increase the likelihood that your retirement will be a financially comfortable one.

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

Financial Planning

THE MEGA BACKDOOR ROTH IRA

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Have you heard of a "*Mega* Backdoor Roth IRA?" If not, you are about to. The *Mega* Backdoor Roth IRA takes advantage of the fact that after-tax contributions to a 401k, 403(b), or other retirement plans are treated just like a Traditional IRA in a "Backdoor Roth IRA" (where you make non-deductible contributions to an IRA, then convert those funds to a Roth IRA). However, it requires that your current employer plan allows you to make after-tax contributions to your plan (not Roth contributions).

The IRS limit on total 401(k) and 403(b) contributions is $54,000 ($60,000 if you are age 50 or older) in 2017.

This means that you can contribute up to $18,000 annually ($24,000 if you are age 50 or older), and your employer can contribute to your plan on your behalf, but the total contributions cannot be more than the IRS limit. However, it is unlikely that your contributions plus your employer's contributions will reach the IRS annual limit. Some retirement plans then allow employees to contribute the remaining amount in after-tax contributions.

For example, let's say your employer contributes $6,000 to your 401(k).

If you contribute $18,000 as pre-tax contributions, and if your employer puts in $6,000, then you could potentially contribute an additional $30,000 to your plan, as after-tax contributions.

In order to do a Mega Backdoor Roth IRA, your retirement plan needs to offer:

- After-Tax Contributions Above and Beyond the $18,000 ($24,000 if over age 50) Pre-Tax Contribution Limits
- In Service Distributions Or Non-Hardship Withdrawals

If your retirement plan does not offer non-hardship, in-service withdrawals, you might still be able to accomplish the Mega Backdoor Roth IRA if you're leaving your employer soon.

Note – even if you are not leaving your employer soon, when you do leave, or retire, you could convert the after-tax contributions at that time to a Roth IRA.

You can then max out your 401k with after-tax contributions up to the contribution limit each year. Then, you can convert those funds to a Roth IRA.

PHOTO: Beautiful Sunset at Arches National Park, Utah

For example, assuming your retirement plan through your employer allows after-tax contributions, you are maximizing your pre-tax contributions ($18,000) and your employer is contributing $10,000 to your employer plan, you would be able to contribute an additional $26,000 to your retirement plan on an after-tax basis, annually!

What happens if your employer has two retirement plans: one for employee contributions and one for your employer contributions? **Let us review the charts below:**

PLAN A	
Employer pre-tax	$19,000
Employee after-tax	$35,000
Total	**$54,000**

PLAN B	
Employee pre-tax	$18,000
Employee after-tax	$36,000
Total	**$54,000**

Many of our clients have employers who offer generous employer retirement plan contributions. As a result, they have separate retirement plans to hold the employee contributions and the employer contributions. In this real-life example, this person (under the age of 50) is contributing $18,000 annually to their employer retirement plan, and their employer is contributing $19,000 to their retirement plan. The employer contributions and employee contributions are deposited into separate retirement plans, both for the employee.

The previously mentioned annual contribution limit of $54,000 ($60,000 if you are age 50 or older), however, is per plan. So, in this example, the employee can contribute, on an after-tax basis up to the limit of $54,000, for each plan, or $71,000 annually.

Also assuming this person can complete in-service withdrawals from the retirement plans, they could convert the $71,000 to a Roth IRA, each year, and pay no tax (remember, the contributions were *after-tax* contributions)!

The Mega Roth IRA strategy is not for everyone, and requires a number of conditions to be met in order to facilitate. In addition, you must have the ability to increase your retirement savings significantly.

At BWFA, we specialize in maximizing our clients' retirement savings, helping them ensure their financial security. If you would like to discuss further, please contact us to set up a free consultation.

Investment Management

INDEX FUNDS 101

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WHAT IS INDEXING?

Indexing is a way of representing the change in value or the performance of a particular market or market niche over time. Indexes have been developed to represent virtually any market or market segment imaginable. Some of the most prominent stock indexes include the Standard & Poor's 500 Composite Index (S&P 500), the Dow Jones Industrial Average (DJIA), the Russell 2000, the Nasdaq 100, and the Wilshire 5000. Popular bond indexes include the Dow Jones Composite Corporate Bond Index and the Barclays Capital (formerly Lehman Bros.) Aggregate Bond Index.

Indexing is an investment strategy that attempts to closely track the investment returns of a specified stock or bond market benchmark. Some of the most popular vehicles for indexing are index mutual funds, exchange-traded funds (ETFs), and unit investment trusts (UITs). In each case, the investment is designed to closely track that of a given index.

An exchange-traded fund may be structured as a unit investment trust. However, not all ETFs are UITs, and not all UITs are ETFs..

BWFA gives clients exposure to various markets and specific industries that make up the broader indexes through exchange traded funds (ETFs) that closely mirror many of these indexes, and other indexes. We are able to invest across our model categories to suit our clients' objectives and goals.

WHAT IS AN INDEX MUTUAL FUND?

An index mutual fund typically holds most or all of the securities represented in a specific index. Index funds typically buy assets and then hold them as long as they are part of the index. An index fund tries to capture the same rate of return as the market the index measures. In contrast, non-index (actively managed) funds try to beat a benchmark (typically an index) by actively selecting securities, regardless of whether they appear in the benchmark index.

PHOTO: View Above Kathleen Lake, Kings Throne Summit, Saint Elias, Kluane National Park, Yukon Canada

Index funds can be structured in many different ways, even those that follow the same market. For instance, some indexes (and therefore the funds that mimic them) may use size to determine which securities and how much of each one to include; they are said to be weighted by market capitalization (market cap). Others may hold an equal amount of each security in the index; these are equal-weighted. As a result, different funds that invest in similar indexes—for example, large-cap stocks—may have different results. Before investing in a mutual fund, carefully consider its investment objective, risks, charges, and expenses, which can be found in the prospectus available from the fund. Read it carefully before investing.

STRENGTHS

Well diversified

Because index funds generally hold most or all of the securities in their target indexes, they are considered well diversified (assuming the index itself is well diversified). Although the diversification provided by an index fund doesn't guarantee a profit and can't protect an investor against market declines, it can help reduce the risk posed by a dramatic drop in any one security or economic sector. (However, bear in mind that some indexes may be dominated by certain industries, such as technology).

Cost efficient

Since index funds are in the form of exchange traded funds, WFA can access investment choices like these that have low expense ratios and low trading costs since they typically trade less frequently than mutual funds, hence the low relative costs for these index funds.

In addition, although many index funds still require hefty up-front minimum investment amounts, some mutual fund companies now offer investors the chance to get into an index fund with a relatively small or no initial lump-sum investment.

Tax efficient

Since index funds normally only buy and sell stocks to adjust for changes to their underlying benchmarks, they experience substantially lower capital gains distributions and tax liabilities. That can be particularly important for a fund that is held in a taxable account.

We here at BWFA offer each and every one of our clients an investment strategy that can take into consideration their specific needs and goals, including financial planning and tax issues. However, we also keep an eye on these benchmarks too!

WHEN'S THE RIGHT TIME TO INVEST?

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Often when our BWFA advisors are sitting down with clients to review their financial and investment management plans, we discuss what to do with accumulated cash. Invariably, clients have more in cash reserves than what is prescribed in their financial plans. Given the current surge in stock market indices since the November elections, clients are even more uncertain about investing their excess cash now, due to concerns that we are "at a high".

So, when is the right time to invest?

For first time investors, that initial stock purchase is a crucial one. A focus on finding the right point to invest for them can be a daunting task. If they experience an early loss of their principal, they may lose the necessary long term perspective and change the proper course. Specifically, they may become averse to using the long time periods in the market to meet longer range goals—retirement, children's education and buying a first home—or they may cease investing altogether.

This same psychology of "when" to invest cash can still creep into the decision-making process of even the most experienced investors, who've been with BWFA for some time. Again, this can result in these same veteran investors failing to make prudent decisions with cash reserves.

So, rather than guessing as to the "right" time, focus on your plan and what you want, or need, to accomplish with your investments. Like the first time investor most, if not all, of our experienced clients have a longer term time horizon, regardless of age. By remaining in the stock market long term (more than 3-5 years), any "mistakes" as to timing the transfer of excess cash to stocks can, and will, be made up over that time. The longer we keep money invested, the less we need to worry about volatility risk or timing the market perfectly—the latter being a near impossible feat!! As a matter of fact, investing in stocks continually from 1995 to 2014 would have earned you an average annual return of approximately 9.8%. If you missed just the 10 best trading days over that long period of time, your return would have dropped to 6% for that same period of time—still a reasonable return, but you can see the corrosive effect of staying out of the market, even for a short period of time, or missing just a few strong trading days!

As a rule, only keep in cash an amount that you will definitely need to access within 0-2 years—as you can always access additional funds from your well diversified, managed stock investments and work with your advisor at BWFA to manage the potential risk from doing so.

Our clients know their advisors focus on our firm's long term investment process, coupled with their formal plans formulated by BWFA. By doing so, we can ignore the prattle from the talking heads in the media who like to obsess on the short term ups and downs of the stock market, as well as commodities, interest rates, and bond prices among other areas. All of those things simply distract from achieving our ultimate goal of long term, optimal success by remaining fully invested over that long term. Even with short term volatility, there is little arguing that continually investing in stocks over the long term will build our clients' wealth much faster and more effectively than cash over the same period.

OUR CLIENTS KNOW THEIR ADVISORS FOCUS ON OUR FIRM'S LONG TERM INVESTMENT PROCESS, COUPLED WITH THEIR FORMAL PLANS FORMULATED BY BWFA.

Talk with us about making your decision about investing cash reserves. The time to add to your long term investments is now!!

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.

PHOTO: View at Beautiful Emerald Lakes in Tongariro National Park, New Zealand

Business Services

MERGERS AND ACQUISITIONS: THE BWFA ADVANTAGE

BRIAN MACMILLAN
MANAGING DIRECTOR
MERGERS & ACQUISITIONS
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It has been four years since Baltimore Washington Financial Advisors added Business Services to its core competencies of Investment Management, Financial Planning and Tax Services. The results have been outstanding as BWFA has worked with numerous business owners to help them understand their choices related to selling their business and how those choices impact their personal financial outlook.

Selling a business is not done in a vacuum. Developing a full financial plan that includes the sale of the business, but also other contingencies, is crucial. That's why working with both BWFA's Business Services team and its Financial Planning team helps business-owner clients come to good decisions. Together, our business advisors and financial advisors will create a comprehensive retirement and estate plan that looks at both the business owner's current savings and investments, and the expected proceeds from the sale of the business.

BWFA will help the business owner define her goals related to the sale of the business and explain the impact of the options available to her. Some of the numerus questions a business owner will need to address are: When does she want to retire? What amount of money does the business owner need from the sale of the business in order to fund her desired lifestyle? Does she want to remain involved in the business? What tax implications will the owner face when selling her business? Which transfer of ownership method is best for her? How will she find a suitable buyer? How will the company's employees be impacted by the sale? What should she do with the proceeds from the sale of the business?

Understanding the value of the business is crucial to the success of the owner's financial plan as most of a business owner's wealth is tied up in his business. BWFA's Business Services team will guide the business owner through the valuation process, providing a picture of where the owner stands in relation to his goals.

Depending on the time horizon for the sale, having an early valuation performed on the business may enable the owner to make changes to the business to increase its market value. Alternatively, a valuation may indicate that the owner can retire earlier than expected. The valuation will be used by our financial planning team as a crucial first look at whether the expected proceeds from the sale would enable the business owner to reach his financial goals.

BWFA'S BUSINESS SERVICES TEAM WILL GUIDE THE BUSINESS OWNER THROUGH THE VALUATION PROCESS, PROVIDING A PICTURE OF WHERE THE OWNER STANDS IN RELATION TO HIS GOALS.

Next, BWFA's mergers and acquisitions professionals will help the owner determine the best methodology to use when selling her business. Identifying the business owner's goals will allow her to determine which exit options may be suitable for her situation. Who will buy the business is always a major question. Many business owners want to transition the ownership of the business to heirs, but it is estimated that this is only an option for about one-third of businesses. Many children of small-business owners have seen how hard their parents have worked, and they have gone in other directions with their careers.

Other options include selling to a current manager or co-owner, selling the stock to an employee stock ownership plan (ESOP), selling to another company, and selling to an investment group or private equity company. Of course, each option has pros and cons that need to be weighed by the owner and her advisors. Tax implications can vary dramatically between options. BWFA's team of CPAs can work with the business owner to fully understand how each sale option will be treated regarding taxes. Some options may allow the business owner to sell the company and still continue to work and contribute to the company that she has built.

Once the most appropriate type of sale is determined, our Business Services team will take the business owner through the process of selling his business from start to finish. Through the entire process, BWFA's guidance can help the owner through the many complicated decisions that arise when contemplating the sale of his business. Business owners work hard, building a business into a successful enterprise. The owner deserves the same level of effort from the team working to sell his business and manage his investments.

Regardless of where the business owner is in the life-cycle of her business, meeting with BWFA's Business Services and Financial Planning teams to develop a path toward a successful sale can be insightful and rewarding. Remember that only 20% to 35% of all small businesses are actually sold. The earlier the business owner understands her options and creates a plan, the more likely a successful sale will take place.

PHOTO: Historic Lighthouse Acadia National Park, Maine

Upcoming Events

All Seminars are from 11:45 A.M. to 1:00 P.M., U.N.O. Please join us and bring a friend.

April

APRIL 4, 2017
6:00 P.M. – 7:30 P.M.
What Happens When a Parent, or Loved One Passes Away?

APRIL 5, 2017
5:30 P.M. – 7:30 P.M.
Fretz Event

APRIL 6, 2017
Social Security

APRIL 11, 2017
What is Your Retirement Number?

APRIL 13, 2017
Book Review: The 5 Years Before You Retire

APRIL 18, 2017
What You Need to Know About Retirement Before You Retire

APRIL 25, 2017
Selecting an Assisted Living Facility/Community w/ Elville

APRIL 27, 2017
6:00 P.M. – 7:30 P.M.
Selecting Your State of Residence

May

MAY 2, 2017
Traditional or Roth IRA: Which is Right for You?

MAY 4, 2017
6:00 P.M. – 7:30 P.M.
Estate Planning: Pitfalls for a Second Marriage

MAY 9, 2017
Making the Most of Medicare: A Guide for Baby Boomers

MAY 11, 2017
What You Need to Know About Retirement Before You Retire

MAY 16, 2017
Social Security

MAY 18, 2017
Traditional or Roth IRA: Which is Right for You?

MAY 23, 2017
Identity Theft

MAY 25, 2017
Charitable Giving and Philanthropy

June

JUNE 6, 2017
6:00 P.M. – 7:30 P.M.
Selecting Your State of Residence

JUNE 13, 2017
What is Your Retirement Number?

JUNE 15, 2017
6:00 P.M. – 7:30 P.M.
You can't take it with you, but you can protect it from "The Bad Guys"

JUNE 20, 2017
Making the Most of Medicare: A Guide for Baby Boomers

JUNE 27, 2017
Book Review: The 5 Years Before You Retire

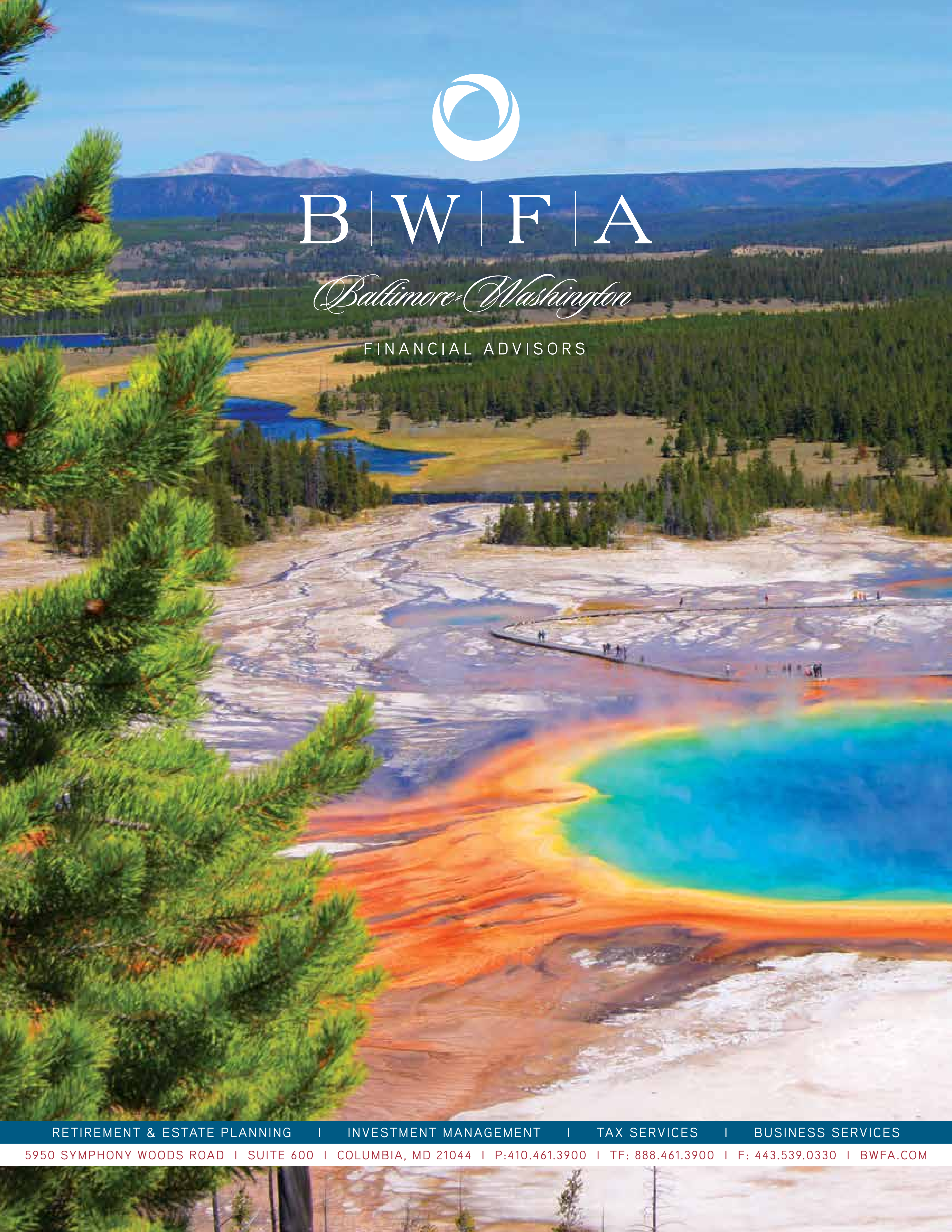
July

JULY 6, 2017
What is Your Retirement Number?

JULY 13, 2017
Social Security

Check out BWFA.COM for latest list of seminars.

PHOTO: Canoes by Lake McDonald, Glacier National Park, Montana



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