B|W|F|A

Advisor

BALTIMORE - WASHINGTON FINANCIAL ADVISORS • OCTOBER 2020

ALL NEW!

Wellness Series

with Dr. Heidi Schreiber-Pan
Clinical Director, Chesapeake Mental Health Collaborative

Tips for Relieving Stress & Anxiety During Difficult Times
OCTOBER 13, 2020
11:45 AM – 1:00 PM

"Taming the Anxious Mind" Book Review & Discussion
NOVEMBER 11, 2020
11:45 AM – 1:00 PM

To register, email Cortney Caronna at ccaronna@bwfa.com

Virtual Cooking Classes

with Amy von Lange
Chef/Owner of Schola

Thanksgiving
NOVEMBER 9, 2020
4:30 PM – 6:00 PM

Holiday Entertaining: Easy Appetizers
DECEMBER 14, 2020
4:30 PM – 6:00 PM

B | W | F | A
LIFESTYLE

October 2020

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

President's Address

BWFA INSTITUTE & INTERNSHIP

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

The goal of BWFA's summer program is to provide guidance, educational opportunities and real life experience to our interns.

While we aim to make the experience as meaningful as possible for them, we too gain so much from our time together. It has been such a pleasure working with our summer interns over the years, including this summer's impressive line-up.

While the summer program looked different this year courtesy of COVID-19, I was very proud of all the projects that our interns completed on an entirely virtual basis! We worked with each intern to identify and highlight their individual strengths whether that be in the area of technology, data analysis or design. Each brought their own unique strengths to the table in the variety of projects they worked on. Here's an overview of some of their accomplishments.

- **They helped design our ESG (Environmental, Social, and Governance) Investing page on our website. This can be found under the Services tab at BWFA.com. Please check it out.**
- **They created stock portfolios while observing the impact of COVID-19 on their selected investments.**
- **They worked with different BWFA mentors to tackle the complex issue of revising the existing Social Security system and proposed changes to address many of its current flaws. The interns dedicated a significant amount of time collaborating, diving deep into researching complex economic topics, and crafting a well-reasoned and meaningful analysis of this topic. You can access their co-authored white paper "Social Security 2.0: The Great Compromise" on the BWFA Institute & Internship page of our website located under the About Us tab.**
- **They attended weekly meetings via Zoom where they could ask me questions and explore any aspect of the financial services industry. I enjoyed this time tremendously!**
- **Last, but not least, they assisted with the company's internal operations by preparing various materials for the firm. This was a big help to our managers.**

Thank you to Andrew, Jennifer, Annie, Cameron, Jake and Steven for spending your summer with us and sharing your many talents! We hope you gained valuable experience, learned about the financial services industry and enjoyed yourselves. BWFA wishes you all the best! Good luck to you all!!

Sincerely,

Robert Carpenter

While the summer program looked different this year courtesy of COVID-19, I was very proud of all the projects that our interns completed on an entirely virtual basis! Thank you to Andrew, Jennifer, Annie, Cameron, Jake and Steven for spending your summer with us and sharing your many talents!

Learn more about the BWFA INSTITUTE & INTERNSHIP program at BWFA.com/bwfa-institute-internship

BWFA INSTITUTE – CLASS OF 2020

BWFA INSTITUTE

This summer, we had six interns helping us work on a variety of different projects supporting the financial planning, investment management, and tax teams. One of their largest projects and achievements is a white paper on Social Security reform, titled **“Social Security 2.0: The Great Compromise”**.

ANDREW CADE

My name is Andrew Cade and I am currently attending the University of Maryland, hoping to attend the Robert H. Smith School of Business to pursue a degree in Marketing, and then majoring in another field of business as well. I plan on graduating in 2022 and possibly attending another year for a Plus 1 Master’s degree. My internship at BWFA has provided a lot of insight into the different aspects of business and has been a great learning experience, applicable to more than just the financial services field. In 10 years, I plan to be working for a marketing company or possibly in consulting in one of the big firms. A fun fact about me is that I love to try all different kinds of unique foods from all cultures and enjoy traveling to new places.

JENNIFER HORNOR

My name is Jennifer Hornor and I am a rising Junior studying Marketing and Finance at the University of Pittsburgh. Interning at BWFA this past summer has been an extremely valuable experience for me, as it has allowed me to develop both my professional skills and my confidence for future success. After I graduate from college, I plan to pursue a career in digital marketing, which will allow me to combine my interests in digital media and data analytics. In five years, I hope to live in the Baltimore-D.C. area and work at a company with an equally encouraging and rewarding environment as BWFA has been for me. A fun fact about me is that when I’m not working at BWFA, I am coaching swim team and training for my first marathon!

ANNIE SHI

My name is Annie Shi, and I am a rising sophomore in the Kilachand Honors College at Boston University, majoring in Economics and Mathematics. I am interested in financial services and investment management, and interning at BWFA this summer has allowed me to pursue that interest while gaining a greater knowledge about the industry. Outside of school, I enjoy playing soccer, running, and discovering new music. I’m very grateful for the opportunity to have interned at BWFA this summer, and I hope to apply what I have learned to other professional experiences in the future.

CAMERON MARINO

My name is Cameron Marino, and I am a rising Junior at The Pennsylvania State University attending the Smeal College of Business where I am studying Supply Chain and Information Systems. At my internship at BWFA, I have gained important knowledge and interests in finance that I didn’t have before. This internship has been a great experience for me from a professional stance as well as a personal stance. My interests outside of school include watching sports, listening to music and traveling. I am thankful for this opportunity and hope to use the skills I’ve learned to help me succeed in the workplace in the future.

JAKE CANFIELD

My name is Jake Canfield, and I am a rising Sophomore in the Alfred Lerner College of Business and Economics at the University of Delaware. I am currently studying marketing, but plan on tacking on a finance major by the end of my sophomore year. During my internship at BWFA, I really have begun to understand the different components that go into finance. This opportunity I believe has really begun to prepare me for my professional career along with life aside. Outside of school and BWFA, I really enjoy sports, music, and working out. I am very appreciative of the opportunity I was granted with BWFA along with the skills they have helped me develop.

STEVEN STANISLAV

My name is Steven Stanislav and I am a rising senior at Virginia Tech University majoring in Corporate Finance. I plan to pursue a career in financial advising/planning following my graduation in May of 2021. Outside of school, I like to workout, fish, and I am an avid golfer. I am the biggest Washington Nationals fan you will ever meet and I am currently the Vice President of the Virginia Tech Club Baseball team. My internship with BWFA has been an amazing learning experience. The team at BWFA still managed to provide an incredible online intern experience for all of us during this pandemic. I have gained a lot of knowledge and actually felt that I was useful to BWFA this summer. I am sure that I wish to pursue a career in financial advising/planning after this summer.

Financial Planning

BYPASSING PROBE

LAWRENCE M. POST | CPA, MST, CFP®, CIMA®
Senior Tax & Planning Advisor
lpost@bwfa.com

You may have heard about the horrors of probate, but in truth, probate has gotten an undeservedly bad reputation, especially in recent years.

If you bypass probate, your estate will go to your beneficiaries without any court proceeding, and you may save a certain amount of time and expenses. However, there is usually little reason for most people to avoid probate today. States continue to revise their probate laws, making them more consumer friendly, particularly for small estates. For most modestly sized estates, the probate process now costs little. In fact, there are some good reasons to distribute your property by will. Decisions are binding and have legal finality once your will is probated. Creditors who fail to file claims against your estate within a specific amount of time — usually six months after receiving notice — are out of luck.

However, some major drawbacks to probate do exist, including the time it can take. The process averages six to nine months to complete but may take up to two years or more for some complex estates, tying up the assets that your family may need immediately. Also, for a larger estate, the cost may be as high as 5 percent of the estate's value.

If you feel that the size and complexity of your estate warrant exploring alternatives to probate, you may want to consider one or more of the following:

TRANSFER YOUR ASSETS TO A REVOCABLE LIVING TRUST

A trust is like a basket that holds your assets. A revocable living trust (also known as an inter vivos trust) is flexible enough to include almost any asset that you own. While you are living, you can act as the trustee and can add or remove property as you see fit. You can also terminate or amend the trust at any time. When you die, your successor trustee distributes the trust assets to the trust beneficiaries, according to the trust agreement. Trusts require a significant amount of paperwork, are costly to create and maintain, and usually require a lawyer to draw up the trust documents. Also, a revocable living trust does not shield your estate from your creditors, creditors of your estate, or estate taxes.

OWN PROPERTY AS JOINT TENANCY WITH RIGHTS OF SURVIVORSHIP

Assets owned as joint tenancy with rights of survivorship pass automatically to the surviving joint owner(s) at your death. To establish joint ownership, you may need to record new real estate deeds, titles for your car or boat, stock and bond certificates, statements of account for mutual funds, registration cards for your bank accounts, and other assets. This costs little and usually does not require a lawyer. Some drawbacks are that the joint owner has immediate access to your property, and your joint owner's creditors may reach the jointly held property.

DESIGNATE BENEFICIARIES

Assets pass outside of probate if you establish payable-on-death provisions for your savings accounts and CDs. Ask your agent to set up transfer-on-death provisions for brokerage accounts containing stocks, bonds, or mutual funds. Your retirement accounts, such as profit-sharing plans, 401(k)s, and IRAs can also pass along to designated beneficiaries. Finally, life insurance death proceeds will avoid probate, provided you name a beneficiary other than your estate.

Another way to avoid probate is to simply give away your property to your beneficiaries while you are living. Carefully planned gifting can also free those assets from gift and estate taxes.

MAKE LIFETIME GIFTS

Another way to avoid probate is to simply give away your property to your beneficiaries while you are living. Carefully planned gifting can also free those assets from gift and estate taxes. The following are usually nontaxable gifts:

- **Gifts to your spouse**
- **Gifts to qualified charities**
- **Gifts totaling $15,000 (in 2020) or less per person, per year ($30,000 in 2020 if you and your spouse can split the gifts)**
- **Tuition payments on behalf of an individual directly to an educational institution**
- **Medical care expenses paid directly to the provider on behalf of an individual**

OTHER WAYS TO BYPASS OR MINIMIZE PROBATE

If your estate is small enough to meet state guidelines, your beneficiaries can simply claim your assets by presenting a notarized affidavit. About half of the states set a limit of $10,000 to $20,000 of the qualified estate value; most of the other states allow as much as $100,000. You can generally deduct estate expenses from your qualified estate value, such as taxes, debts, loans, or family allowance payments, plus the value of any other assets that pass outside probate (e.g., a home jointly owned with a spouse). Real estate is usually disqualified from claims by affidavit. Therefore, your estate may qualify even if it is fairly large. Expect the process to take 30 to 45 days. Another method is for your executor to file for summary, or simplified probate. This stream-lined process is generally a paper filing only, requiring no attorney. States vary widely regarding the allowable size of an estate for simplified probate.

Investment Management

WHAT ABOUT 1968?

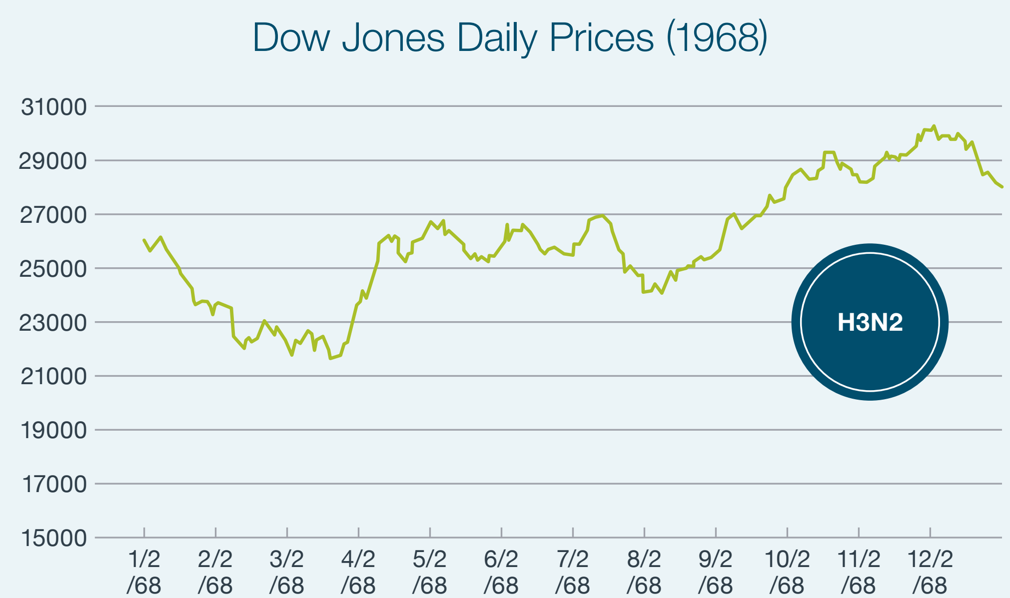
JOSEPH MANFREDI | MBA
COO, Senior Portfolio Manager & Executive Manager
jmanfredi@bwfa.com

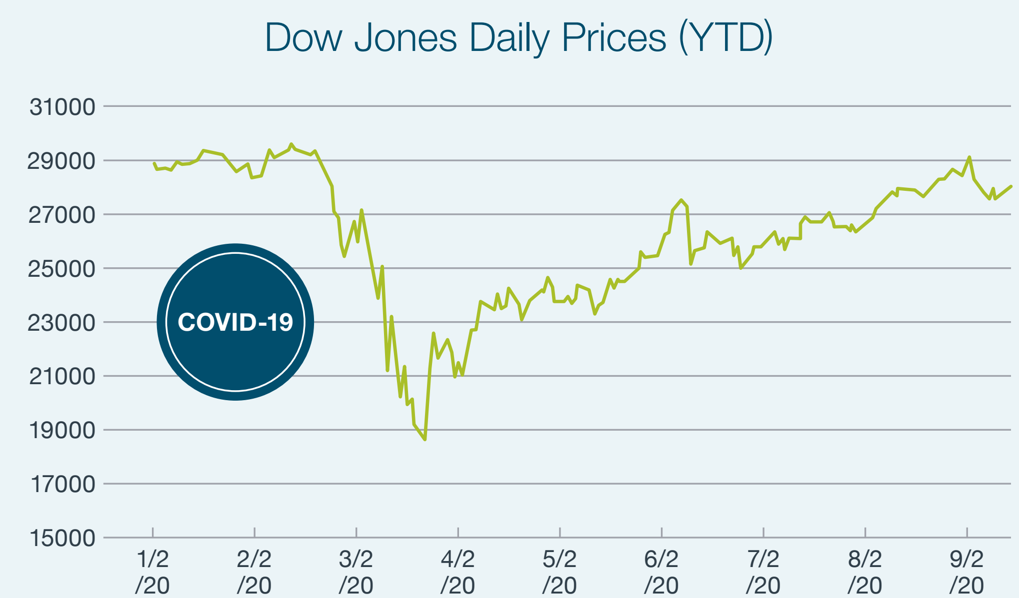
In the most recent June 2020 BWFA Advisor magazine, I wrote, “What a Difference 100 Years Makes...or Does It?”. In the article I drew comparison to today’s pandemic with the Spanish Flu pandemic of 1918.

What we saw is, despite the unimaginable human suffering and death, the stock market found its bottom and subsequently moved higher. It did so in 1918 and it is doing it again now, 100 years later.

SO, WHAT ABOUT 1968?

There have unfortunately been several major health pandemics in our modern history and we can see stark similarities between 1968 and today, in both health issues and overall social and societal unrest.





- **Like today, in 1968, stocks did not necessarily trade on headline news—gaining, at the same time the reports show increased COVID cases and related deaths.**
- **Like today, in 1968, scores of US citizens died from a flu virus—the H3N2 flu which killed well over 100,000 Americans by the methods of counting at that time.**
- **Like today, in 1968, there was social unrest, protests, riots and murders—most notably the assassinations of Martin Luther King Jr. and Robert F. Kennedy.**
- **And, like today, in 1968, the broader US stock market performed well during this time, despite it all.**

As often discussed with our clients, the stock market will anticipate what might come in the future—it is a leading economic indicator. Today, the market is anticipating a recovery in the economy despite a recent economic downturn from the nearly complete shutdown of the US economy earlier in the year.

Also, the market is anticipating more uncertainty—potential additional setbacks from the health crisis and the upcoming elections—which will possibly add to additional volatility in the short run. We must keep our gaze keenly on what lies ahead in the years to come and the opportunity that presents for us as investors.

Likewise the stock market doesn’t see the daily “scary” headlines as dangerous. These daily happenings are coupled with the longer term US government monetary and fiscal policies. The effect of these stimulus moves seems to suggest better times ahead, based on the reaction of the stock market. Most importantly, the “scary” news we consume on a daily basis will not necessarily act as a long term impediment to markets ability to go higher long term. If we act prudently, the long term prospects of building personal wealth remains as a reality.

At BWFA, we guide clients through the “scary times”, without seeing the danger, but rather the opportunity of investing that exists, as long term investors, to best contribute to overall financial well being.

The market is anticipating more uncertainty—potential additional setbacks from the health crisis and the upcoming elections—which will possibly add to additional volatility in the short run. We must keep our gaze keenly on what lies ahead in the years to come and the opportunity that presents for us as investors.

Investment Management

NET UNREALIZED APPRECIATION: THE UNTOLD STORY

CHRIS KELLY | CPA, CFP®, M. ACCY
Financial Advisor, Portfolio Manager & Executive Manager
ckelly@bwfa.com

If you participate in a 401(k), ESOP, or other qualified retirement plan that lets you invest in your employer's stock, you need to know about net unrealized appreciation — a simple tax deferral opportunity with an unfortunately complicated name.

When you receive a distribution from your employer's retirement plan, the distribution is generally taxable to you at ordinary income tax rates. A common way of avoiding immediate taxation is to make a tax-free rollover to a traditional IRA. However, when you ultimately receive distributions from the IRA, they'll also be taxed at ordinary income tax rates. (Special rules apply to Roth and other after-tax contributions that are generally tax free when distributed.)

But if your distribution includes employer stock (or other employer securities), you may have another option — you may be able to defer paying tax on the portion of your distribution that represents net unrealized appreciation (NUA).

You won't be taxed on the NUA until you sell the stock. What's more, the NUA will be taxed at long-term capital gains rates — typically much lower than ordinary income tax rates. This strategy can often result in significant tax savings.

WHAT IS NET UNREALIZED APPRECIATION?

A distribution of employer stock consists of two parts: (1) the cost basis (that is, the value of the stock when it was contributed to, or purchased by, your plan), and (2) any increase in value over the cost basis until the date the stock is distributed to you. This increase in value over basis, fixed at the time the stock is distributed in-kind to you, is the NUA.

For example, assume you retire and receive a distribution of employer stock worth $500,000 from your 401(k) plan, and that the cost basis in the stock is $50,000. The $450,000 gain is NUA.

HOW DOES IT WORK?

At the time you receive a lump-sum distribution that includes employer stock, you'll pay ordinary income tax only on the cost basis in the employer securities. You won't pay any tax on the NUA until you sell the securities. At that time the NUA is taxed at long-term capital gain rates, no matter how long you've held the securities outside of the plan (even if only for a single day). Any appreciation at the time of sale in excess of your NUA is taxed as either short-term or long-term capital gain, depending on how long you've held the stock outside the plan.

> In general, the NUA strategy makes the most sense for individuals who have a large amount of NUA and a relatively small cost basis. However, whether it's right for you depends on many variables, including your age, your estate planning goals, and anticipated tax rates.

Using the example on page 10, you would pay ordinary income tax on $50,000, the cost basis, when you receive your distribution. Let's say you sell the stock after ten years, when it's worth $750,000. At that time, you'll pay long-term capital gains tax on your NUA ($450,000). You'll also pay long-term capital gains tax on the additional appreciation ($250,000), since you held the stock for more than one year. Note that since you've already paid tax on the $50,000 cost basis, you won't pay tax on that amount again when you sell the stock.

If your distribution includes cash in addition to the stock, you can either roll the cash over to an IRA or take it as a taxable distribution. And you don't have to use the NUA strategy for all of your employer stock — you can roll a portion over to an IRA and apply NUA tax treatment to the rest.

WHAT IS A LUMP-SUM DISTRIBUTION?

In general, you're allowed to use these favorable NUA tax rules only if you receive the employer securities as part of a lump-sum distribution.

To qualify as a lump-sum distribution, both of the following conditions must be satisfied:

- **It must be a distribution of your entire balance, within a single tax year, from all of your employer's qualified plans of the same type (that is, all pension plans, all profit-sharing plans, or all stock bonus plans)**
- **The distribution must be paid after you reach age 59½, or as a result of your separation from service, or after your death**

NUA AT A GLANCE	
You receive a lump-sum distribution from your 401(k) plan consisting of $500,000 of employer stock. The cost basis is $50,000. You sell the stock 10 years later for $750,000.*	
TAX PAYABLE AT DISTRIBUTION — STOCK VALUED AT $500,000	
Cost basis — $50,000	Taxed at ordinary income rates; 10% early payment penalty tax if you're not 55 or disabled
NUA — $450,000	Tax deferred until sale of stock
TAX PAYABLE AT SALE — STOCK VALUED AT $750,000	
Cost basis — $50,00	Already taxed at distribution; not taxed again at sale
NUA — $450,000	Taxed at long-term capital gains rates regardless of holding period
Additional appreciation — $250,000	Taxed as long- or short-term capital gain, depending on holding period outside plan (long-term in this example)

*Assumes stock is attributable to your pre-tax and employer contributions and not after-tax contributions

(CONTINUE READING ON PAGE 12)

NUA IS FOR BENEFICIARIES, TOO

If you die while you still hold employer securities in your retirement plan, your plan beneficiary can also use the NUA tax strategy if he or she receives a lump-sum distribution from the plan. The taxation is generally the same as if you had received the distribution. (The stock doesn't receive a step-up in basis, even though your beneficiary receives it as a result of your death.)

If you've already received a distribution of employer stock, elected NUA tax treatment, and die before you sell the stock, your heir will have to pay long-term capital gains tax on the NUA when he or she sells the stock. However, any appreciation as of the date of your death in excess of NUA will forever escape taxation because, in this case, the stock will receive a step-up in basis.

Using our example, if you die when your employer stock is worth $750,000, your heir will receive a step-up in basis for the $250,000 appreciation in excess of NUA at the time of your death. If your heir later sells the stock for $900,000, he or she will pay long-term capital gains tax on the $450,000 of NUA, as well as capital gains tax on any appreciation since your death ($150,000). The $250,000 of appreciation in excess of NUA as of your date of death will be tax free.

SOME ADDITIONAL CONSIDERATIONS

- **If you want to take advantage of NUA treatment, make sure you don't roll the stock over to an IRA. That will be irrevocable, and you'll forever lose the NUA tax opportunity.**
- **You can elect not to use the NUA option. In this case, the NUA will be subject to ordinary income tax (and a potential 10% early distribution penalty) at the time you receive the distribution.**
- **Holding a significant amount of employer stock may not be appropriate for everyone. In some cases, it may make sense to diversify your investments.**

WHEN IS IT THE BEST CHOICE?

In general, the NUA strategy makes the most sense for individuals who have a large amount of NUA and a relatively small cost basis. However, whether it's right for you depends on many variables, including your age, your estate planning goals, and anticipated tax rates. In some cases, rolling your distribution over to an IRA may be the better choice.

Bon Appétit!

BWFA FAMILY FAVORITES

Pumpkin Bread

INGREDIENTS

- 3 ½ cups flour
- 2 1/2 cups sugar
- 2 tsp baking soda
- 1 1/2 tsp salt
- 1 tsp cinnamon
- 1 tsp nutmeg
- 2 cups pureed cooked or canned pumpkin
- 1 cup corn oil
- 2/3 cup water
- 4 eggs

DIRECTIONS

1. Stir together in large bowl flour, sugar, baking soda, salt, cinnamon and nutmeg.
2. Stir together pumpkin, oil and water. Add eggs one at a time, beating well after each addition.
3. Make well in center of flour mixture. Add pumpkin mixture and stir until flour is moistened.
4. Pour into 2 greased loaf pans (9x5x3). Bake 350° for 1 hour.

Alternately: You can put the pumpkin, oil, water and eggs in bowl and mix with kitchen-aid mixer and then add the dry ingredients and mix. You can make 6 large muffins and 4 small loaves. The baking time is usually around 30 minutes or so.

— SHARED BY CHRISTINE CARPENTER

Roasted Broccoli Parmigiana Subs

INGREDIENTS

1 head broccoli

Olive oil

Salt

Marinara sauce of your choice (Rao's brand is awesome!)

Grated parmesan cheese

Mozzarella cheese

Sub rolls

DIRECTIONS

1. Separate broccoli into florets, brush with generous amount of olive oil, sprinkle with salt.
2. Roast on sheet tray in 450° oven for about 20-25 minutes.
3. When broccoli is tender and browned, layer onto split sub rolls, top with marinara, dust with parmesan cheese, and finish with mozzarella.
4. Place sandwiches back onto sheet tray and broil for a minute or two to melt cheese **(be careful not to burn!)**
5. Remove from oven, close up sandwiches and enjoy!

— SHARED BY ERIC MANAS

Crock Pot Tortellini Soup

INGREDIENTS

1 lb ground turkey (can substitute ground beef, ground sausage, etc. or leave out for vegetarian version)

1 onion, chopped

5 cloves of garlic, minced

2 quarts chicken broth (can substitute vegetarian option)

28 oz crushed tomatoes

14 oz diced tomatoes

10 oz frozen chopped spinach

1 package refrigerated tortellini of choice

Grated parmesan

DIRECTIONS

1. In a large skillet, brown the meat and break into small pieces.
2. In same skillet, add onions & garlic and sauté until tender. Season with Italian seasoning, salt & pepper.
3. Add all ingredients except tortellini to the crock pot, cook on low. Ready in 3-4 hours but can be left on low all day.
4. About 30 min. before you're ready to eat, add tortellini to crock pot.
5. Top with grated parmesan cheese.

— SHARED BY CORTNEY CARONNA

Penne with Broccoli Pesto

INGREDIENTS

8 oz penne pasta (or any shape you like!)

1 head broccoli

1/2 cup grated parmesan

1/2 cup basil

3 tbsp olive oil

2 tbsp lemon juice

Salt and pepper

DIRECTIONS

1. Separate broccoli into florets, boil for about 3 minutes until crisp tender.
2. Remove from boiling water, and shock in ice water to stop the cooking.
3. Add to food processor with cheese, basil, oil and lemon. Pulse until combined but still a little chunky.
4. Add salt and pepper to taste.
5. Boil pasta in broccoli cooking water until al dente.
6. Remove from pot, and combine in pan with broccoli pesto, over medium low heat.
7. Add some pasta cooking water as needed to achieve the texture you want.
8. Cook until warmed through and the pasta is done.
9. Serve with more grated parmesan on top.

— SHARED BY ERIC MANAS

Pumpkin Pie Dip

INGREDIENTS

15 oz can of pumpkin puree

8 oz container of Cool Whip (thawed)

1 small (4 serving) package of instant vanilla pudding mix (I use sugar free)

1 tsp pumpkin pie spice

DIRECTIONS

1. Mix pumpkin, cool whip, dry pudding mix & pumpkin pie spice with electric mixer until well combined & fluffy.
2. Cover & chill until ready to serve.
3. Serve with graham crackers, Nilla wafers, shortbread cookies, ginger snaps, waffle cones, pretzels, apple slices, etc. Whatever you like!

— SHARED BY CORTNEY CARONNA

Jewish Apple Cake

INGREDIENTS

3 apples sliced and covered with 1/2 cup sugar and 2 tbsp cinnamon. Set aside.

Mix

2 cups sugar

1 cup oil

4 eggs

Add

3 cups flour

2 1/2 tsp baking powder

3 tsp vanilla

1/4 cup orange or pineapple juice

DIRECTIONS

1. Grease bundt pan and sprinkle with flour
2. Put 1/2 batter, then apples, then rest of batter.
3. Bake 350° for 1-1½ hours
4. Check and remove when inserted toothpick comes out clean.

— SHARED BY CHRISTINE CARPENTER

"We are so fortunate to have Meghan Manas on our team and in an executive leadership position at BWFA. Her creativity and quick responsiveness make her an amazing talent".

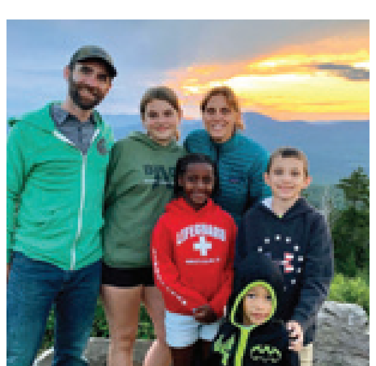
— ROB CARPENTER, CEO

MEGHAN, HAPPY 10TH ANNIVERSARY — FROM YOUR BWFA FAMILY!

Let's celebrate Meghan by taking a scroll through some highlights of the last 10 years!

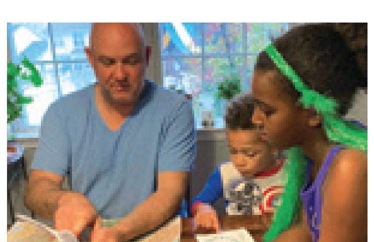
amanaslife Years 1-5 have flown by. Ezra is the final piece to our family. He is funny, kind, lovable and a lover of hot wheels. I hope this day was as special for you as you are to us. We love you sweet boy! #amanaslife #adoptionrocks

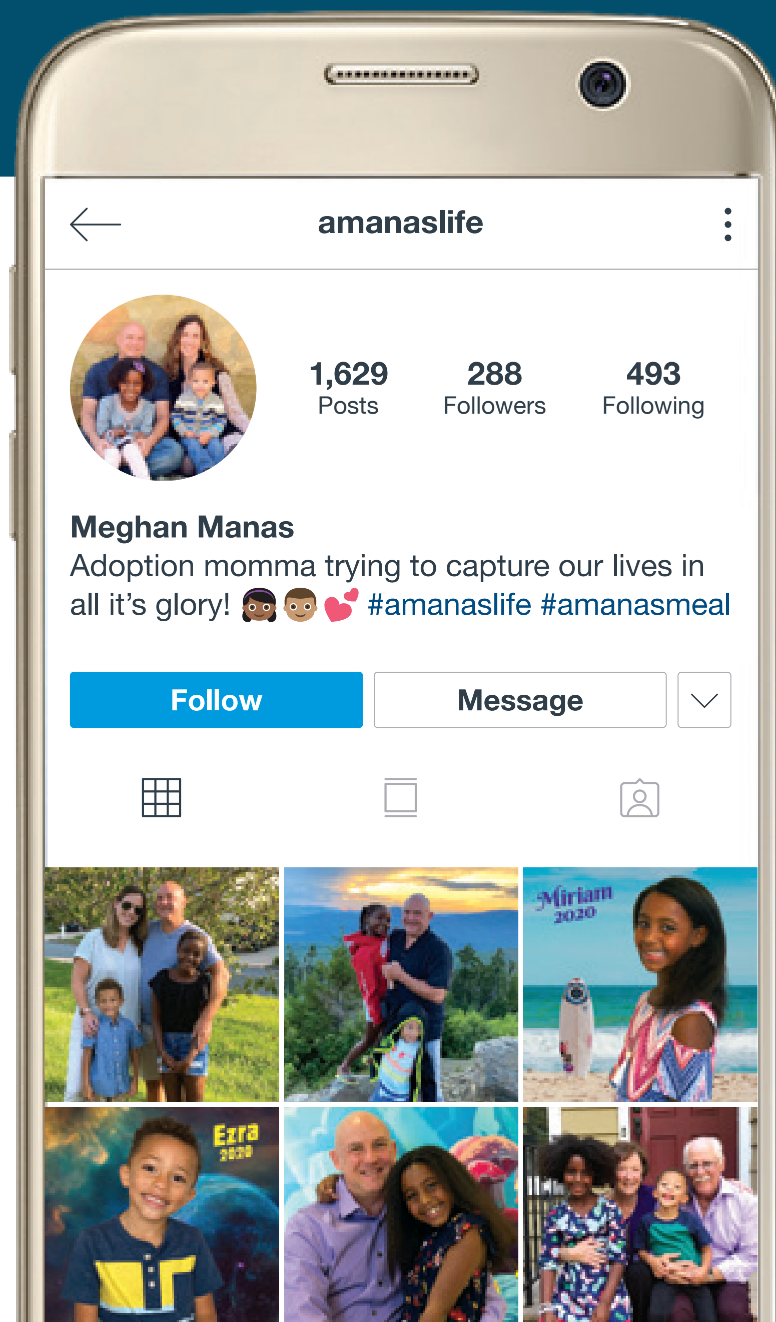
AUGUST 18, 2020

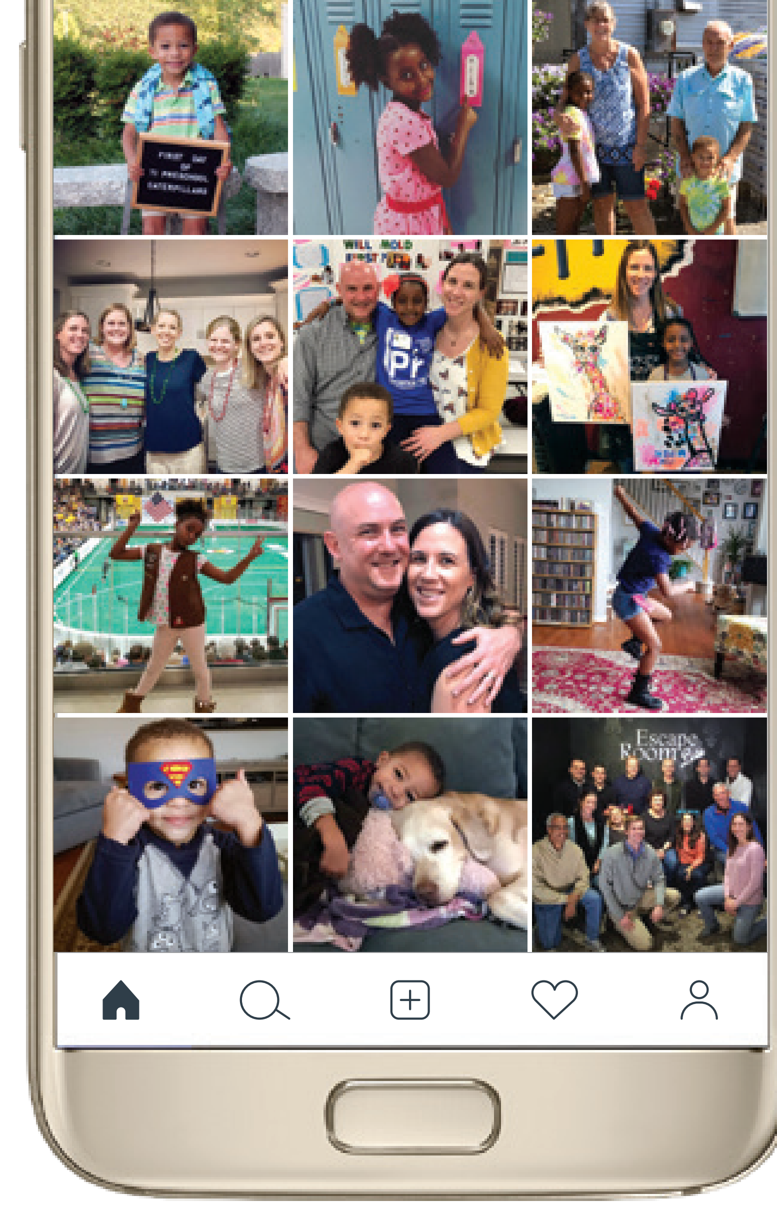


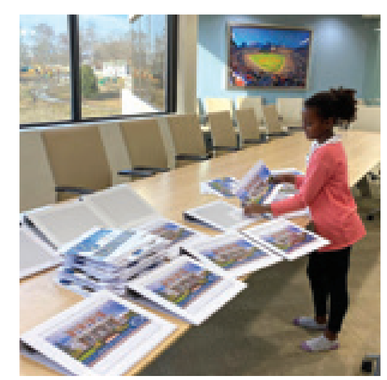
amanaslife What a week! I am incredibly lucky to have a husband who can be home with the kids and teach them during these uncertain times. My job is not a job that can just be halted, so to have the support of Eric is amazing. He kept me posted all week with pics ❤️ I don't often brag but I will today - #myhusbandrocks #amazingfather #amanaslife

MARCH 20, 2020









amanaslife A short day at the #bwfa office today! I had a helper who put together our 2020 business plan binders and then we enjoyed some sushi! #amanaslife

DECEMBER 24, 2019

amanaslife What a great day bonding with our amazing team at @bwfa1 today at @scholacooks! To top off the event, we learned that one of us is officially off the market ❤️! #amanaslife

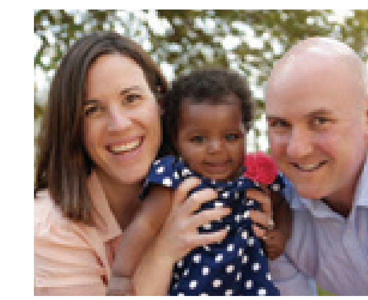
DECEMBER 6, 2019

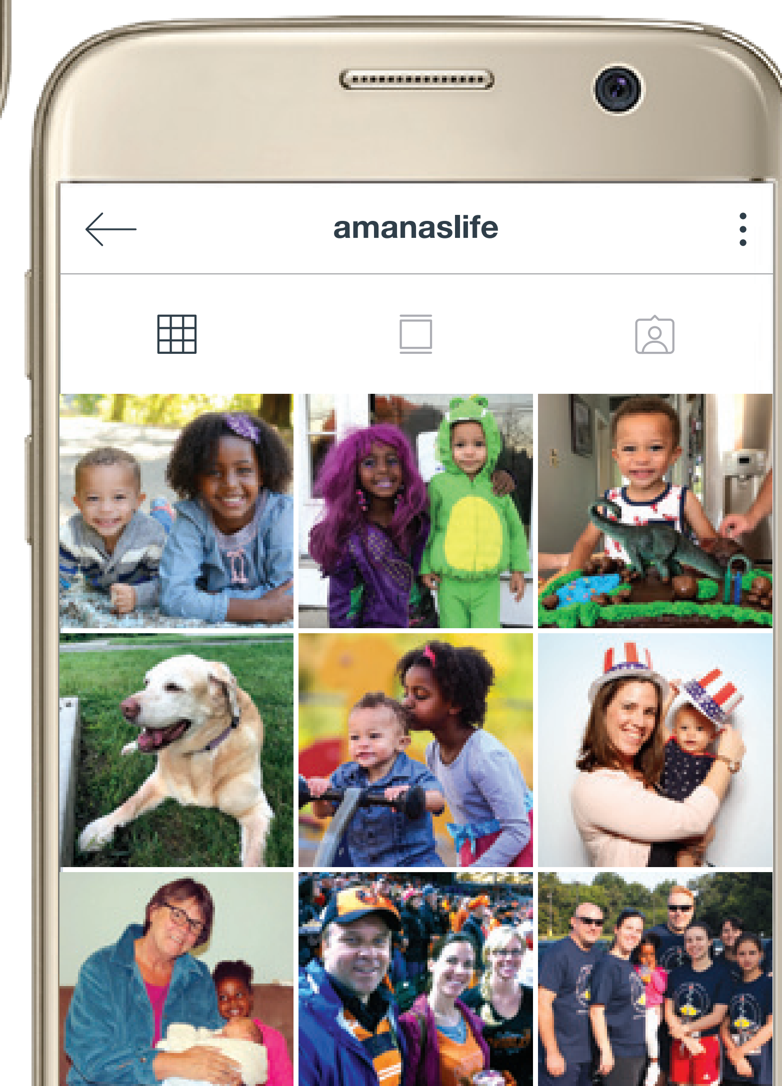
amanaslife Six years ago today, we got the call we had waited years for — we were going to be parents to a beautiful little Ethiopian princess. Miriam came into our lives and swept us off our feet from the very first picture we ever saw of her. I don't think I have ever known another person who loves life, friends, dancing, singing, eating, swimming, basically anything more than our Miriam. Today we celebrate her. #amanaslife #adoption #ethiopianadoption #adoptionrocks

OCTOBER 30, 2019

amanaslife And then my soul saw you and it kind of went "oh there you are. I've been looking for you"#mothersday #365project #365tolife #amanaslife #adoption

MAY 14, 2017





Tax Services

TAXATION OF INVESTMENTS

MATTHEW SMILER | ChFC®
Tax Advisor & Associate Financial Planner
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It's nice to own stocks, bonds, and other investments. Nice, that is, until it's time to fill out your federal income tax return. At that point, you may be left scratching your head. Just how do you report your investments and how are they taxed?

IS IT ORDINARY INCOME OR A CAPITAL GAIN?

To determine how an investment vehicle is taxed in a given year, first ask yourself what went on with the investment that year. Did it generate interest income? If so, the income is probably considered ordinary. Did you sell the investment? If so, a capital gain or loss is probably involved. (Certain investments can generate both ordinary income and capital gain income, but we won't get into that here.)

If you receive dividend income, it may be taxed either at ordinary income tax rates or at the rates that apply to long-term capital gain income. Dividends paid to an individual share-holder from a domestic corporation or qualified foreign corporation are generally taxed at the same rates that apply to long-term capital gains.

Long-term capital gains and qualified dividends are generally taxed at special capital gains tax rates of 0 percent, 15 percent, and 20 percent depending on your taxable income. (Some types of capital gains may be taxed as high as 25 percent or 28 percent.) The actual process of calculating tax on long-term capital gains and qualified dividends is extremely complicated and depends on the amount of your net capital gains and qualified dividends and your taxable income. But special rules and exclusions apply, and some dividends (such as those from money market mutual funds) continue to be treated as ordinary income.

The distinction between ordinary income and capital gain income is important because different tax rates may apply and different reporting procedures may be involved.

Here are some of the things you need to know.

CATEGORIZING YOUR ORDINARY INCOME

Investments often produce ordinary income. Examples of ordinary income include interest and rent. Many investments — including savings accounts, certificates of deposit, money market accounts, annuities, bonds, and some preferred stock — can generate ordinary income. Ordinary income is taxed at ordinary (as opposed to capital gains) tax rates.

But not all ordinary income is taxable — and even if it is taxable, it may not be taxed immediately. If you receive ordinary income, the income can be categorized as taxable, tax exempt, or tax deferred.

- **Taxable income:** This is income that's not tax exempt or tax deferred. If you receive ordinary taxable income from your investments, you'll report it on your federal income tax return. In some cases, you may have to detail your investments and income on Schedule B.
- **Tax-exempt income:** This is income that's free from federal and/or state income tax, depending on the type of investment vehicle and the state of issue. Municipal bonds and U.S. securities are typical examples of investments that can generate tax-exempt income.
- **Tax-deferred income:** This is income whose taxation is postponed until some point in the future. For example, with a 401(k) retirement plan, earnings are reinvested and taxed only when you take money out of the plan. The income earned in the 401(k) plan is tax deferred.

The distinction between ordinary income and capital gain income is important because different tax rates may apply and different reporting procedures may be involved.

A quick word about ordinary losses: It's possible for an investment to generate an ordinary loss, rather than ordinary income. In general, ordinary losses reduce ordinary income.

UNDERSTANDING WHAT BASIS MEANS

Let's move on to what happens when you sell an investment vehicle. Before getting into capital gains and losses, though, you need to understand an important term — basis. Generally speaking, basis refers to the amount of your investment in an asset. To calculate the capital gain or loss when you sell or exchange an asset, you must know how to determine both your initial basis and adjusted basis in the asset.

First, initial basis. Usually, your initial basis equals your cost — what you paid for the asset. For example, if you purchased one share of stock for $10,000, your initial basis in the stock is $10,000. However, your initial basis can differ from the cost if you did not purchase an asset but rather received it as a gift or inheritance, or in a tax-free exchange.

Next, adjusted basis. Your initial basis in an asset can increase or decrease over time in certain circumstances. For example, if you buy a house for $100,000, your initial basis in the house will be $100,000. If you later improve your home by installing a $5,000 deck, your adjusted basis in the house may be $105,000.

You should be aware of which items increase the basis of your asset, and which items decrease the basis of your asset. **See IRS Publication 551 for details.**

CALCULATING YOUR CAPITAL GAIN OR LOSS

If you sell stocks, bonds, or other capital assets, you'll end up with a capital gain or loss. Special capital gains tax rates may apply. These rates may be lower than ordinary income tax rates.

Basically, capital gain (or loss) equals the amount that you realize on the sale of your asset (i.e., the amount of cash and/or the value of any property you receive) less your adjusted basis in the asset. If you sell an asset for more than your adjusted basis in the asset, you'll have a capital gain. For example, assume you had an adjusted basis in stock of $10,000. If you sell the stock for $15,000, your capital gain will be $5,000. If you sell an asset for less than your adjusted basis in the asset, you'll have a capital loss. For example, assume you had an adjusted basis in stock of $10,000. If you sell the stock for $8,000, your capital loss will be $2,000.

Schedule D of your income tax return is where you'll calculate your short-term and long-term capital gains and losses, and figure the tax due, if any. You'll need to know not only your adjusted basis and the amount realized from each sale, but also your holding period, your taxable income, and the type of asset(s) involved. **See IRS Publication 544 for details.**

(CONTINUE READING ON PAGE 20)

(CONT'D FROM PAGE 19)

- **Holding period:** Generally, the holding period refers to how long you owned an asset. A capital gain is classified as short term if the asset was held for a year or less, and long term if the asset was held for more than one year. The tax rates applied to long-term capital gain income are generally lower than those applied to short-term capital gain income. Short-term capital gains are taxed at the same rate as your ordinary income.
- **Taxable income:** Long-term capital gains and qualified dividends are generally taxed at special capital gains tax rates of 0%, 15%, and 20% depending on your taxable income. (Some types of capital gains may be taxed as high as 25 percent or 28 percent.) The actual process of calculating tax on long-term capital gains and qualified dividends is extremely complicated and depends on the amount of your net capital gains and qualified dividends and your taxable income.
- **Type of asset:** The type of asset that you sell will dictate the capital gain rate that applies, and possibly the steps that you should take to calculate the capital gain (or loss). For instance, the sale of an antique is taxed at the maximum tax rate of 28 percent even if you held the antique for more than 12 months.

USING CAPITAL LOSSES TO REDUCE YOUR TAX LIABILITY

You can use capital losses from one investment to reduce the capital gains from other investments. You can also use a capital loss against up to $3,000 of ordinary income this year ($1,500 for married persons filing separately). Losses not used this year can offset future capital gains. Schedule D of your federal income tax return can lead you through this process.

NEW MEDICARE CONTRIBUTION TAX ON UNEARNED INCOME MAY APPLY

High-income individuals may be subject to a 3.8 percent Medicare contribution tax on unearned income (the tax, which first took effect in 2013, is also imposed on estates and trusts, although slightly different rules apply). The tax is equal to 3.8 percent of the lesser of:

- **Your net investment income (generally, net income from interest, dividends, annuities, royalties and rents, and capital gains, as well as income from a business that is considered a passive activity), or**
- **The amount of your modified adjusted gross income that exceeds $200,000 ($250,000 if married filing a joint federal income tax return, $125,000 if married filing a separate return)**

So, effectively, you're subject to the additional 3.8 percent tax only if your adjusted gross income exceeds the dollar thresholds listed above. It's worth noting that interest on tax-exempt bonds is not considered net investment income for purposes of the additional tax. Qualified retirement plan and IRA distributions are also not considered investment income.

GETTING HELP WHEN THINGS GET TOO COMPLICATED

The sales of some assets are more difficult to calculate and report than others, so you may need to consult an IRS publication or other tax references to properly calculate your capital gain or loss. Also, remember that you can always seek the assistance of an accountant or other tax professional. The BWFA Tax Team is here to help you with any of these questions or concerns.

Business Services

WHICH IS BETTER, A FINANCIAL BUYER OR A STRATEGIC BUYER?

BRIAN MACMILLAN
Managing Director Mergers & Acquisitions
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If you decide to sell your business to an outside acquirer, you're going to have to decide between a financial and a strategic buyer—understanding the different motivations of these two buyers can be the key to getting a good price for your business.

A financial buyer is acquiring your future profit stream, so they will evaluate your business based on how much profit it is likely to make and how reliable that profit stream is likely to be. The more profit you can convince them your company will produce, the more they will pay for your business.

But there is a limit to how much they will pay, because financial buyers are playing the buy-low, sell-high game. They do not have a strategic rationale for buying your business. They don't have an army of sales reps to sell your product or a network of retailers where your product could be merchandised. They are simply trying to get a return on their investors' money, so they tend to buy small and mid-sized businesses using a combination of this investment layered on top of debt, and they want to buy your business as cheaply as possible with the hope of growing it and flipping it five or ten years down the road. Exceptions can change this outlook as some financial buyers may already own a company or two within your industry. In this scenario, the financial buyer becomes more like a strategic buyer.

Because financial buyers are usually investors and not operators, they want you and your team to stick around, so they rarely buy all of a business. Instead, they buy a chunk and ask you to hold on to a tranche of equity to keep you committed. Ideally, when you sell the equity you kept, it is worth significantly more than when you sold the initial portion to the financial buyer. The key is to sell to a financial buyer that has the wherewithal to help your business grow.

A strategic buyer is different—usually a larger company in your industry, they are evaluating your business based on what it is worth in their hands. They will try and estimate how much of their product or service they can sell if they added you into the mix. Because of their size, this can often lead to buyers who are willing and able to pay much more for your business.

> A financial buyer will evaluate your business based on how much profit it is likely to make. A strategic buyer is usually a larger company that will evaluate your business based on what it is worth in their hands.

As an example, a seller had built a software company to 45 employees when they decided to shop the business to some Private Equity investors. The Private Equity firms offered four to six times Earnings Before Interest Taxes Depreciation and Amortization (EBITDA), which the seller deemed low for a fast-growing software company.

The seller was then approached by a strategic acquirer, which was a global software business with a lot of customers who could use what the selling company had built. The strategic acquirer offered around two times revenue—a much fatter multiple than the PE firms were offering.

Every small and mid-sized business is different, and their owners have specific goals related to the sale of their business. As you begin succession planning, please contact the Mergers & Acquisitions team at BWFA to discuss how different exit strategies can impact you and your company.

What's Happening at BWFA

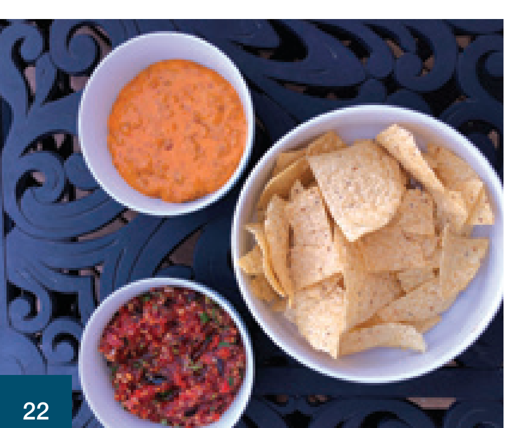
Kate is ready for the open road!

Carpenter Driving Tour

We are excited to welcome another member to the BWFA family! Matt & Lindsay Smiler are proud parents to a beautiful and healthy baby girl, **Nola Grace Smiler!** Best wishes and congratulations to the new family!

The Carpenter family out and about in our Nation's Capital on a beautiful summer day.

Meghan, Eric, Miriam & Ezra enjoy one of a few hikes during a family camping trip in Maine. They conquered the Piazza Rock trail, Cascade Falls, and Bald Mountain —ending the days relaxing lakeside.

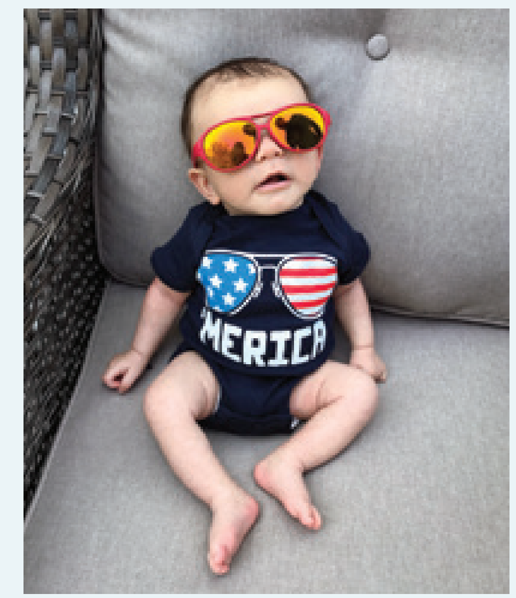


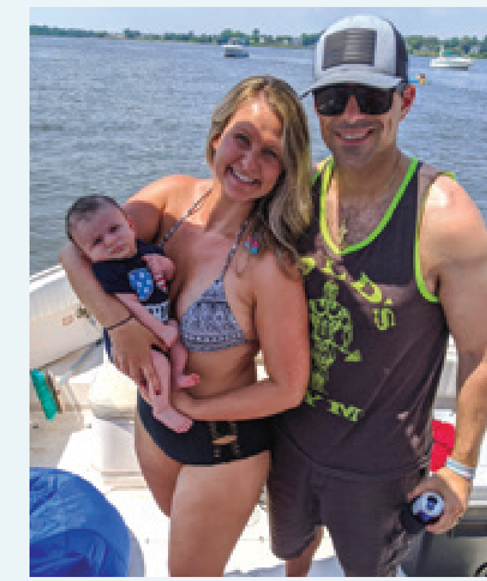
Our Virtual **Schola Cooking Classes** have been a hit! Chips & dip from **Margaritaville**. (photo shared by a BWFA Client)

Joe & Amanda Manfredi (his oldest of four daughters) and **Joe & Lady Susanna** (below) on Topsail Beach NC.

A Manas family graduation celebration. Goodbye preschool, hello kindergarten!

The **Manfredi family** on Topsail Beach, NC.





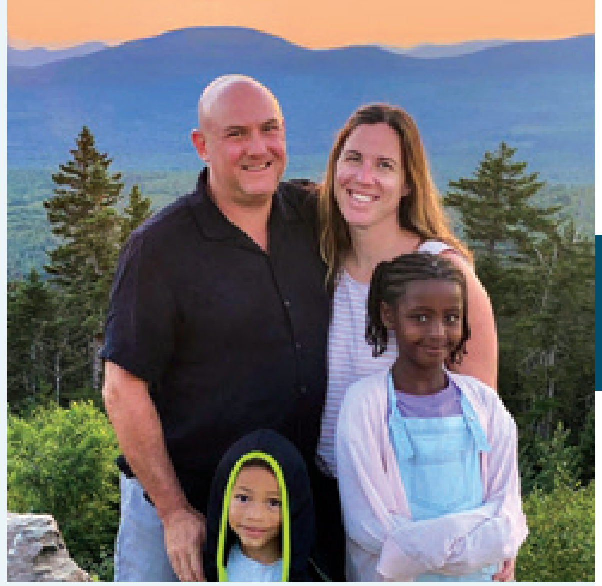
Cortney, Joe & Vincent Caronna set sail to celebrate 4th of July 2020. Baby boy is ready and adorable in his shades!

Tacos from **Margaritaville** Cooking Class (photo shared by a BWFA Client)

Employee Spotlight

GET TO KNOW MEGHAN

MEGHAN MANAS
Director, Client Services
mmanas@bwfa.com



WHAT LEAD YOU TO THIS CAREER?

After the economic downturn in 2008, I was let go from my long-time job as Director of Purchasing for a large billiards company. I was looking for an entry level position with a local company and stumbled upon the ad for Executive Assistant for BWFA. I was not planning a long-term career in the financial world! BWFA and the people are what lead me to this career.

IF YOU WERE NOT IN THE FINANCIAL WORLD, YOU WOULD BE...?

I would love to be someone who travels with my family to places like Africa to help the children and people in need. I would build homes and schools, supply food, medical care, etc. That would be so rewarding.

MOST REWARDING PART OF WORKING AT BWFA?

The daily interaction I get with the staff and clients. I thrive off personal interaction so this is the perfect job for me! Also, seeing the amazing growth and success of the company since Rob became CEO. I cannot wait to see what the next ten years has in store!

FAVORITE THINGS TO DO OUTSIDE OF BWFA?

Spend time with my family, read, visit Maine.

FAVORITE SONG?

My wedding song "In Spite of Ourselves" by John Prine and Iris Dement. Miss you John Prine!

WHERE DO YOU SEE YOURSELF IN 5 YEARS?

Celebrating my 15th year with BWFA!

SHARE A MEMORABLE TRAVEL EXPERIENCE.

Hands down its both trips I took to adopt my children. The trips to Ethiopia to meet and adopt Miriam were pretty amazing.

WHO/WHAT INSPIRES YOU?

People that stand up for what they believe. People who want to see change and step outside their comfort zone to speak for those without a voice, those who have to fight for their rights to live in peace, be treated with dignity, have equal opportunity, and the right to be educated.

Upcoming Events

These events are being offered as **WEBINARS / VIRTUAL CLASSES ONLY** until further notice.
Visit **BWFA.com** for the latest updates and schedule. We hope you can join us online!
For questions or help registering for any event: Email Cortney Caronna at **ccaronna@bwfa.com.**

All Seminars are from **11:45 AM – 1:00 PM** unless noted otherwise.

October

OCTOBER 1, 2020	Tax Reform Bills and Your Tax Return
OCTOBER 6, 2020	Disability Planning
OCTOBER 8, 2020	Long-Term Care
OCTOBER 13, 2020	Lifestyle: Tips for Relieving Stress & Anxiety During Difficult Times
OCTOBER 15, 2020	Estate Planning: Trustee Selection
OCTOBER 15, 2020	**6:00 PM – 9:00 PM** Lifestyle Book Club: "This Tender Land"
OCTOBER 20, 2020	State of Residence in Retirement
OCTOBER 21, 2020	How the Presidential Election Might Impact Your Portfolio?
OCTOBER 22, 2020	Lifestyle: Self Care for the Caregiver
OCTOBER 22, 2020	**5:30 PM – 6:45 PM** 8 Things That Drive Your Company Value
OCTOBER 27, 2020	Lifestyle: Mindfulness Matters
OCTOBER 29, 2020	BOO! Investing & Retirement Planning Doesn't Have to be Scary!

November

NOVEMBER 5, 2020	Estate Planning: Probate & Guardianship
NOVEMBER 9, 2020	**4:30 PM - 6:00 PM** Lifestyle Cooking Class: Thanksgiving
NOVEMBER 10, 2020	Grief: Surviving the Holidays
NOVEMBER 11, 2020	Lifestyle: "Taming the Anxious Mind" Book Review
NOVEMBER 12, 2020	Pet Power: Understanding Estate Planning for Pets
NOVEMBER 12, 2020	**5:30 PM – 6:45 PM** Lifestyle: Gratitude as a Spiritual Practice
NOVEMBER 17, 2020	Making the Most of Medicare
NOVEMBER 18, 2020	Tax Filing: Tips, Tricks and Myths
NOVEMBER 19, 2020	Family Wealth Office
NOVEMBER 24, 2020	Do You Have Too Much Cash, Earning Too Little?

December

DECEMBER 1, 2020	Estate Planning: When a Loved One Passes
DECEMBER 3, 2020	**5:30 PM – 6:45 PM** Business Exit Strategy & Succession Planning
DECEMBER 8, 2020	CST New Client Workshop
DECEMBER 10, 2020	The Financial Planning Aspects of Estate Planning
DECEMBER 14, 2020	**4:30 PM - 6:00 PM** Lifestyle Cooking Class: Holiday Appetizers
DECEMBER 15, 2020	Do I Need a Bank? What Alternatives are There?
DECEMBER 16, 2020	**6:00 PM - 9:00 PM** Lifestyle Book Club: "Holidays On Ice"
DECEMBER 17, 2020	Estate Planning: Achieving Perfection for Your Legacy
DECEMBER 17, 2020	**5:30 PM – 6:45 PM** Lifestyle: Setting Intentions for the New Year

B | W | F | A

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FINANCIAL ADVISORS

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