



CEDAR POINT

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Our office will be closed on the following days:
Thursday, November 26
Friday November 27
Thursday, December 24- closing at noon
Friday, December 25
Thursday, December 31- closing at 3pm
Friday, January 1

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What is asset allocation?

Correlation and Portfolio Performance



Different types of investments are subject to different types of risk. On days when you notice that stock prices have fallen, for example, it would not be unusual to see a rally in the bond market.

Asset allocation refers to how an investor's portfolio is divided among asset classes, which tend to perform differently under different market conditions. An appropriate mix of investments typically depends on the investor's age, risk tolerance, and financial goals.

The concept of correlation often plays a role in constructing a well-diversified portfolio that strikes a balance between risk and return.

Math that matters

In the financial world, correlation is a statistical measure of how two securities perform relative to each other. Securities that are positively correlated will have prices that tend to move in the same direction. Securities that are negatively correlated will have prices that move in the opposite direction.

A correlation coefficient, which is calculated using historical returns, measures the degree of correlation between two investments. A correlation of +1 represents a perfectly positive correlation, which means the investments always move together, in the same direction, and at a consistent scale. A correlation of -1 means they have a perfectly negative correlation and will always move opposite one another. A correlation of zero means that the two investments are not correlated; the relationship between them is random.

In reality, perfectly positive correlation is rare, because distinct investments can be affected differently by the same conditions, even if they are similar securities in the same sector.

Correlations can change

While some types of securities exhibit general trends of correlation over time, it's not uncommon for correlations to vary over shorter periods. In times of market volatility, for example, asset prices were more likely to be

driven by common market shocks than by their respective underlying fundamentals.

During the flight to quality sparked by the financial crisis of 2008, riskier assets across a number of different classes exhibited unusually high correlation. As a result, correlations among some major asset classes have been more elevated than they were before the crisis. There has also been a rise in correlation between different financial markets in the global economy.¹ For example, the correlation coefficient for U.S. stocks (represented by the S&P Composite Total Return index) and foreign stocks (represented by the MSCI EAFE GTR index) increased from 0.75 over the last 25 years to 0.89 over the last 10 years.²

Over the long run, a combination of investments that are loosely correlated may provide greater diversification, help manage portfolio risk, and smooth out investment returns. Tighter relationships among asset classes over the last decade may be a good reason for some investors to reassess their portfolio allocations. However, it's important to keep in mind that correlations may continue to fluctuate over time because of changing economic and market environments.

The performance of an unmanaged index is not indicative of the performance of any particular investment. Individuals cannot invest directly in an index. Past performance is no guarantee of future results. All investing involves risk, including the possible loss of principal. Asset allocation and diversification strategies do not guarantee a profit or protect against investment loss; they are methods used to help manage investment risk.

Investing internationally carries additional risks such as differences in financial reporting, currency exchange risk, as well as economic and political risk unique to the specific country. This may result in greater share price volatility. When sold, investments may be worth more or less than their original cost.

¹ International Monetary Fund, 2015

² Thomson Reuters, 2015, for the period 12/31/1989 to 12/31/2014



2015 Year-End Tax Planning Basics



AMT "triggers"

You're more likely to be subject to the AMT if you claim a large number of personal exemptions, deductible medical expenses, state and local taxes, and miscellaneous itemized deductions. Other common triggers include home equity loan interest when proceeds aren't used to buy, build, or improve your home; and the exercise of incentive stock options.

Required minimum distributions

Once you reach age 70½, you generally must start taking required minimum distributions (RMDs) from traditional IRAs and employer-sponsored retirement plans (an exception may apply if you're still working and participating in an employer-sponsored plan). Take any distributions by the date required--the end of the year for most individuals. The penalty for failing to do so is substantial: 50% of the amount that should have been distributed.

As the end of the 2015 tax year approaches, set aside some time to evaluate your situation and consider potential opportunities. Effective year-end planning depends on a good understanding of both your current circumstances and how those circumstances might change next year.

Basic strategies

Consider whether there's an opportunity to defer income to 2016. For example, you might be able to defer a year-end bonus or delay the collection of business debts, rents, and payments for services. When you defer income to 2016, you postpone payment of the tax on that income. And if there's a chance that you might be paying taxes at a lower rate next year (for example, if you know that you'll have less taxable income next year), deferring income might mean paying *less* tax on the deferred income.

You should also look for potential ways to accelerate 2016 deductions into the 2015 tax year. If you typically itemize deductions on Schedule A of Form 1040, you might be able to accelerate some deductible expenses--such as medical expenses, qualifying interest, or state and local taxes--by making payments before the end of the current year, instead of paying them in early 2016. Or you might consider making next year's charitable contribution this year instead. If you think you'll be itemizing deductions in one year but claiming the standard deduction in the other, trying to defer (or accelerate) Schedule A deductions into the year for which you'll be itemizing deductions might let you take advantage of deductions that would otherwise be lost.

Depending on your circumstances, you might also consider taking the opposite approach. For example, if you think that you'll be paying taxes at a higher rate next year (maybe as the result of a recent compensation increase or the planned sale of assets), you might want to look for ways to accelerate income into 2015 and possibly defer deductions until 2016 (when they could potentially be more valuable).

Complicating factors

First, you need to factor in the alternative minimum tax (AMT). The AMT is essentially a separate, parallel federal income tax system with its own rates and rules. If you're subject to the AMT, traditional year-end strategies may be ineffective or actually have negative consequences--that's because the AMT effectively disallows a number of itemized deductions. So if you're subject to the AMT in 2015, prepaying 2016 state and local taxes

probably won't help your 2015 tax situation, and, in fact, could hurt your 2016 bottom line.

It's also important to recognize that personal and dependency exemptions may be phased out and itemized deductions may be limited once your adjusted gross income (AGI) reaches a certain level. This is especially important to factor in if your AGI is approaching the threshold limit and you're evaluating whether to accelerate or defer income or itemized deductions. For 2015, the AGI threshold is \$258,250 if you file as single, \$309,900 if married filing jointly, \$154,950 if married filing separately, and \$284,050 if head of household.

IRA and retirement plan contributions

Deductible contributions to a traditional IRA and pretax contributions to an employer-sponsored retirement plan such as a 401(k) could reduce your 2015 taxable income. (Note: A number of factors determine whether you're eligible to deduct contributions to a traditional IRA.) Contributions to a Roth IRA (assuming you meet the income requirements) or a Roth 401(k) plan are made with after-tax dollars--so there's no immediate tax savings--but qualified distributions are completely free of federal income tax.

For 2015, you're generally able to contribute up to \$18,000 to a 401(k) plan (\$24,000 if you're age 50 or older) and up to \$5,500 to a traditional or Roth IRA (\$6,500 if you're age 50 or older). The window to make 2015 contributions to an employer plan generally closes at the end of the year, while you typically have until the due date of your federal income tax return to make 2015 IRA contributions.

Important notes

The Supreme Court has legalized same-sex marriage nationwide, significantly simplifying the federal and state income tax filing requirements for same-sex married couples living in states that did not previously recognize their marriage.

A host of popular tax provisions (commonly referred to as "tax extenders") expired at the end of 2014. Although it is possible that some or all of these provisions will be retroactively extended, currently they are not available for the 2015 tax year. Among the provisions: deducting state and local sales taxes in lieu of state and local income taxes; the above-the-line deduction for qualified higher-education expenses; qualified charitable distributions (QCDs) from IRAs; and increased business expense and "bonus" depreciation rules.



Taxes, Retirement, and Timing Social Security



**This hypothetical example is for illustrative purposes only, and its results are not representative of any specific investment or mix of investments. Actual rates of return and results will vary. The example assumes that earnings are taxed as ordinary income and does not reflect possible lower maximum tax rates on capital gains and dividends, as well as the tax treatment of investment losses, which would make the return more favorable. Investment fees and expenses have not been deducted. If they had been, the results would have been lower. You should consider your personal investment horizon and income tax brackets, both current and anticipated, when making an investment decision as these may further impact the results of the comparison. Investments offering the potential for higher rates of return also involve a higher degree of risk to principal.*

The advantages of tax deferral are often emphasized when it comes to saving for retirement. So it might seem like a good idea to hold off on taking taxable distributions from retirement plans for as long as possible. (Note: Required minimum distributions from non-Roth IRAs and qualified retirement plans must generally start at age 70½.) But sometimes it may make more sense to take taxable distributions from retirement plans in the early years of retirement while deferring the start of Social Security retirement benefits.

Some basics

Up to 50% of your Social Security benefits are taxable if your modified adjusted gross income (MAGI) plus one-half of your Social Security benefits falls within the following ranges: \$32,000 to \$44,000 for married filing jointly; and \$25,000 to \$34,000 for single, head of household, or married filing separately (if you've lived apart all year). Up to 85% of your Social Security benefits are taxable if your MAGI plus one-half of your Social Security benefits exceeds those ranges or if you are married filing separately and lived with your spouse at any time during the year. For this purpose, MAGI means adjusted gross income increased by certain items, such as tax-exempt interest, that are otherwise excluded or deducted from your income for regular income tax purposes.

Social Security retirement benefits are reduced if started prior to your full retirement age (FRA) and increased if started after your FRA (up to age 70). FRA ranges from 66 to 67, depending on your year of birth.

Distributions from non-Roth IRAs and qualified retirement plans are generally fully taxable unless nondeductible contributions have been made.

Accelerate income, defer Social Security

It can sometimes make sense to delay the start of Social Security benefits to a later age (up to age 70) and take taxable withdrawals from retirement accounts in the early years of retirement to make up for the delayed Social Security benefits.

If you delay the start of Social Security benefits, your monthly benefits will be higher. And because you've taken taxable distributions from your retirement plans in the early years of retirement, it's possible that your required minimum distributions will be smaller in the later years of retirement when you're also receiving more income from Social Security. And smaller

taxable withdrawals will result in a lower MAGI, which could mean the amount of Social Security benefits subject to federal income tax is reduced.

Whether this strategy works to your advantage depends on a number of factors, including your income level, the size of the taxable withdrawals from your retirement savings plans, and how many years you ultimately receive Social Security retirement benefits.

Example

Mary, a single individual, wants to retire at age 62. She can receive Social Security retirement benefits of \$18,000 per year starting at age 62 or \$31,680 per year starting at age 70 (before cost-of-living adjustments). She has traditional IRA assets of \$300,000 that will be fully taxable when distributed. She has other income that is taxable (disregarding Social Security benefits and the IRA) of \$27,000 per year. Assume she can earn a 6% annual rate of return on her investments (compounded monthly) and that Social Security benefits receive annual 2.4% cost-of-living increases. Assume tax is calculated using the 2015 tax rates and brackets, personal exemption, and standard deduction.

Option 1. One option is for Mary to start taking Social Security benefits of \$18,000 per year at age 62 and take monthly distributions from the IRA that total about \$21,852 annually.

Option 2. Alternatively, Mary could delay Social Security benefits to age 70, when her benefits would start at \$38,299 per year after cost-of-living increases. To make up for the Social Security benefits she's not receiving from ages 62 to 69, during each of those years she withdraws about \$40,769 to \$44,094 from the traditional IRA--an amount approximately equal to the lost Social Security benefits plus the amount that would have been withdrawn from the traditional IRA under the age 62 scenario (plus a little extra to make the after-tax incomes under the two scenarios closer for those years). When Social Security retirement benefits start at age 70, she reduces monthly distributions from the IRA to about \$4,348 annually.

Mary's after-tax income in each scenario is approximately the same during the first 8 years. Starting at age 70, however, Mary's after-tax income is higher in the second scenario, and the total cumulative benefit increases significantly with the total number of years Social Security benefits are received.*



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What is asset allocation?



Each type of investment has specific strengths and weaknesses that enable it to play a specific role in your overall investing strategy.

Some investments may offer growth potential. Others may provide regular income or relative safety, or simply serve as a temporary place to park your money. And some investments may even serve to fill more than one role. Because you likely have multiple needs and objectives, you probably need some combination of investment types, or asset classes.

Balancing how much of each asset class should be included in your portfolio is a critical task. The balance between growth, income, and safety is determined by your asset allocation, and it can help you manage the level and types of risks you face.

The combination of investments you choose can be as important as your specific investments. Your mix of various asset classes such as stocks, bonds, and cash alternatives generally accounts for most of the ups and downs of your portfolio's returns.

Ideally, your portfolio should have an overall combination of investments that minimizes the

risk you take in trying to achieve a targeted rate of return. This often means balancing conservative investments against others that are designed to provide a higher potential return but also involve more risk. However, asset allocation doesn't guarantee a profit or eliminate the possibility of investment loss.

Someone living on a fixed income, whose priority is having a regular stream of money coming in, will probably need a very different asset allocation than a young, well-to-do working professional whose priority is saving for a retirement that's 30 years away. Even if two people are the same age and have similar incomes, they may have very different needs and goals, and their asset allocations should be tailored to their unique circumstances.

And remember, even if your asset allocation was appropriate for you when you chose it, it may not be appropriate for you now. It should change as your circumstances do and as new ways to invest are introduced. A piece of clothing you wore 10 years ago may not fit now; you just might need to update your asset allocation, too.

How can I protect my Social Security number from identity theft?



Your Social Security number is one of your most important personal identifiers. If identity thieves obtain your Social

Security number, they can access your bank account, file false tax returns, and wreak havoc on your credit report. Here are some steps you can take to help safeguard your number.

Never carry your card with you. You should never carry your Social Security card with you unless it's absolutely necessary. The same goes for other forms of identification that may display your Social Security number (e.g., Medicare card)

Do not give out your number over the phone or via email/Internet. Oftentimes, identity thieves will pose as legitimate government organizations or financial institutions and contact you to request personal information, including your Social Security number. Avoid giving out your Social Security number to anyone over the phone or via email/Internet unless you initiate the contact with an organization or institution that you trust.

Be careful about sharing your number. Just because someone asks for your Social Security

number doesn't mean you have to share it. Always ask why it is needed, how it will be used, and what the consequences will be if you refuse to provide it.

If you think someone has misused your Social Security number, contact the Social Security Administration (SSA) immediately to report the problem. The SSA can review your earnings record with you to make sure their records are correct. You can also visit the SSA website at www.ssa.gov to check your earnings record online.

Unfortunately, the SSA cannot directly resolve any identity theft problems created by the misuse of your Social Security number. If you discover that someone is illegally using your number, be sure to contact the appropriate law-enforcement authorities. In addition, consider filing a complaint with the Federal Trade Commission and submitting IRS Form 14039, Identity Theft Affidavit, with the Internal Revenue Service. Visit www.ftc.gov and www.irs.gov for more information.

