Docsa Capital Management, Inc.
Tim Schauer, CFA, CPA
Sophit Lee, CFP®
1210 W. Milham Ave.
Suite 201
Portage, MI 49024
269-488-2322 x2
info@docsacapital.com
www.docsacapital.com

We hope you find the articles in our newsletter informative. We welcome your questions and discussions on topics featured in this or previous issues. Your feedback is also welcome.

Please let us know if there are topics you would like to read. Thank you for sharing this newsletter with your family and friends.

October 2014, Volume 27

Docsa Capital Management, Inc.

Prepare Now for a Year-End Investment Review

Getting organized for your year-end investment review with your financial professional may help make the review process more efficient. Here are some suggestions for making your meeting as productive as possible.

Decide what you want to know

One of the benefits of a yearly investment review is that it can help you monitor your investment portfolio. A key component of most discussions is a review of how your investments have performed over the last year. Performance can mean different things to different people, depending on their individual financial goals and needs. For example, an investor who's focused on long-term growth might define "performance" slightly differently than an investor whose primary concern isn't overall growth but trying to maintain a portfolio that has the potential to produce current income needed to pay ordinary living expenses.

Consider in advance what types of information are most important to you and why. You may want to check on not only your portfolio's absolute performance but also on how it fared compared to some sort of benchmark. For example, you might want to know whether any equity investments you held outperformed, matched, or underperformed a relevant index, or how your portfolio fared against a hypothetical benchmark asset allocation. (Remember that the performance of an unmanaged index is not indicative of the performance of any specific security, and indices are not available for direct investment. Also, asset allocation cannot guarantee a profit or eliminate the possibility of loss, including the loss of principal.)

Almost as important as knowing how your portfolio performed is understanding why it performed as it did. Was any overperformance or underperformance concentrated in a single asset class or a specific investment? If so, was that consistent with the asset's typical behavior over time? Or was last year's performance an anomaly that bears watching or taking action? Has any single investment grown so much that it now represents more of your portfolio than it should? If so, should you do a little profit-taking and redirect that money into something else?

Are any changes needed?

If your goals or concerns have changed over the last year, you'll need to make that clear during your meeting. Your portfolio probably needs to evolve over time as your circumstances change. Making sure you've communicated any life changes will make it easier to adjust your portfolio accordingly and measure its performance appropriately next year.

If a change to your portfolio is suggested based on last year's performance--either positive or negative--don't hesitate to ask why the change is being recommended and what you might reasonably expect in terms of performance and potential risk as a result of a shift. (However, when looking at potential returns, remember that past performance is no guarantee of future results.) Don't be reluctant to ask questions if you don't understand what's being presented to you; a little clarification now might help prevent misunderstandings and unrealistic expectations that could have a negative impact in the future.

Also, before making any change, find out how it might affect your investing costs, both immediate and ongoing. Again, a few questions now may help prevent surprises later.

Think about the coming year

Consider whether you would benefit next April from harvesting any investment losses before the end of the year. Selling a losing position could generate a capital loss that could potentially be used to offset either capital gains or up to $3,000 of ordinary income on your federal income tax return.

If you've amassed substantial assets, you could explore whether you might benefit from specialized assistance in dealing with issues such as taxes, estate planning, and asset protection. Finally, give feedback on the review process itself; it can help improve next year's session. *Note: All investing involves risk, including the potential loss of principal, and there can be no guarantee that any investing strategy will be successful.*

According to the Bureau of Labor Statistics 2012 American Time Use Survey, retirees in 2012 spent 4.5 of their total 8 leisure hours per day watching television.

Retirement Myths and Realities

We all have some preconceived notions about what retirement will be like. But how do those notions compare with the reality of retirement? Here are four common retirement myths to consider.

1. My retirement won't last that long

The good news is that we're living longer lives. The bad news is that this generally translates into a longer period of time that you'll need your retirement income to last. Life expectancy for individuals who reach age 65 has been steadily increasing. According to the National Center for Health Statistics, life expectancy for older individuals improved mainly in the latter half of the 20th century, due largely to advances in medicine, better access to health care, and healthier lifestyles. Someone reaching age 65 in 1950 could expect to live approximately 14 years longer (until about age 79), while the average 65-year-old American today can expect to live about another 19 years (to age 84) (Source: National Vital Statistics Report, Volume 61, Number 4, May 2013). So when considering how much retirement income you'll need, it's not unreasonable to plan for a retirement that will last for 25 years or more.

2. I'll spend less money after I retire

Consider this--Do you spend more money on days you're working or on days you're not working? One of the biggest retirement planning mistakes you can make is to underestimate the amount you'll spend in retirement. One often hears that you'll need 70% to 80% of your preretirement income after you retire. However, depending on your lifestyle and individual circumstances, it's not inconceivable that you may need to replace 100% or more of your preretirement income.

In order to estimate how much you'll need to accumulate, you need to estimate the expenses you're likely to incur in retirement. Do you intend to travel? Will your mortgage be paid off? Might you have significant health-care expenses not covered by insurance or Medicare? Try thinking about your current expenses and how they might change between now and the time you retire.

3. Medicare will pay all my medical bills

You may presume that when you reach age 65, Medicare will cover most health-care costs. But Medicare doesn't cover everything. Examples of services generally not covered by traditional Medicare include most chiropractic, dental, and vision care. And don't forget the cost of long-term care--Medicare doesn't pay for custodial (nonskilled) long-term care services, and Medicaid pays only if you and your spouse meet certain income and asset criteria. Without proper planning, health-care costs can sap retirement income in a hurry, leaving you financially strapped.

Plus there's the cost of the Medicare coverage itself. While Medicare Part A (hospital insurance) is free for most Americans, you'll pay at least $104.90 each month in 2014 if you choose Medicare Part B (medical insurance), plus an average of $31 per month if you also want Medicare Part D (prescription coverage). In addition, there are co-pays and deductibles to consider--unless you pay an additional premium for a Medigap policy that covers all or some of those out-of-pocket expenses. (As an alternative to traditional Medicare, you can enroll in a Medicare Advantage (Part C) managed care plan; costs and coverages vary.)

4. I'll use my newfound leisure hours to ______ (fill in the blank)

According to the Bureau of Labor Statistics 2012 American Time Use Survey, retirees age 65 and older spent an average of 8 hours per day in leisure activities. (Leisure activities include sports, reading, watching television, socializing, relaxing and thinking, playing cards, using the computer, and attending arts, entertainment, and cultural events.) This compares to an average of 5.4 hours per day for those age 65 and older who were still working.

So how did retirees use their additional 2.6 hours of leisure time? Well, they spent most of it (1.6 hours) watching television. In fact, according to the survey, retirees actually spent 4.5 of their total 8 leisure hours per day watching TV.

And despite the fact that many workers cite a desire to travel when they retire, retirees actually spent only 18 more minutes, on average, per day than their working counterparts engaged in "other leisure activities," which includes travel.

10 Basic Tax To-Dos for the Rest of 2014

Here are 10 things to consider as you weigh potential tax moves between now and the end of the year.

1. Make time to plan

Effective planning requires that you have a good understanding of your current tax situation, as well as a reasonable estimate of how your circumstances might change next year. There's a real opportunity for tax savings when you can assess whether you'll be paying taxes at a lower rate in one year than in the other. So, carve out some time.

2. Defer income

Consider any opportunities you have to defer income to 2015, particularly if you think you may be in a lower tax bracket then. For example, you may be able to defer a year-end bonus or delay the collection of business debts, rents, and payments for services. Doing so may enable you to postpone payment of tax on the income until next year.

3. Accelerate deductions

You might also look for opportunities to accelerate deductions into the 2014 tax year. If you itemize deductions, making payments for deductible expenses such as medical expenses, qualifying interest, and state taxes before the end of the year, instead of paying them in early 2015, could make a difference on your 2014 return.

Note: *If you think you'll be paying taxes at a higher rate next year, consider the benefits of taking the opposite tack--looking for ways to accelerate income into 2014, and possibly postponing deductions.*

4. Know your limits

If your adjusted gross income (AGI) is more than $254,200 ($305,050 if married filing jointly, $152,525 if married filing separately, $279,650 if filing as head of household), your personal and dependent exemptions may be phased out, and your itemized deductions may be limited. If your 2014 AGI puts you in this range, consider any potential limitation on itemized deductions as you weigh any moves relating to timing deductions.

5. Factor in the AMT

If you're subject to the alternative minimum tax (AMT), traditional year-end maneuvers such as deferring income and accelerating deductions can have a negative effect. Essentially a separate federal income tax system with its own rates and rules, the AMT effectively disallows a number of itemized deductions, making it a significant consideration when it comes to year-end tax planning. For example, if you're subject to the AMT in 2014, prepaying 2015 state and local taxes probably won't help your 2014 tax situation, but could hurt your 2015 bottom line. Taking the time to determine whether you may be subject to AMT before you make any year-end moves can save you from making a costly mistake.

6. Maximize retirement savings

Deductible contributions to a traditional IRA and pretax contributions to an employer-sponsored retirement plan such as a 401(k) could reduce your 2014 taxable income. 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 from federal income tax, making Roth retirement savings vehicles appealing for many.

7. Take required 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.

8. Know what's changed

A host of popular tax provisions, commonly referred to as "tax extenders," expired at the end of 2013. Among the provisions that are no longer available: 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.

9. Stay up-to-date

It's always possible that legislation late in the year could retroactively extend some of the provisions above, or add new wrinkles--so stay informed.

10. Get help if you need it

There's a lot to think about when it comes to tax planning. That's why it often makes sense to talk to a tax professional who is able to evaluate your situation, keep you apprised of legislative changes, and help you determine if any year-end moves make sense for you.

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.

IRA and retirement plan contributions

For 2014, you can contribute up to $17,500 to a 401(k) plan ($23,000 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 2014 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 2014 IRA contributions.

Docsa Capital Management, Inc.
Tim Schauer, CFA, CPA
Sophit Lee, CFP®
1210 W. Milham Ave.
Suite 201
Portage, MI 49024
269-488-2322 x2
info@docsacapital.com
www.docsacapital.com

I just learned that my credit- and debit-card information was part of a data breach. What should I do?

Now, more than ever, consumers are relying on the convenience of credit and debit cards to make everyday purchases, such as gas and groceries, and to make online purchases. With this convenience, however, comes the risk of having your account information compromised by a data breach.

In recent years, data breaches at major retailers have become commonplace across the United States. Currently, most retailers use the magnetic strips on the backs of credit and debit cards to access account information. Unfortunately, the account information that is held on these magnetic strips is also easily accessed by computer hackers.

While many U.S. banks and financial institutions are in the process of replacing the older magnetic strips with more sophisticated and secure embedded microchips, it will take time for both card issuers and retailers to get up to speed on these latest card security measures.

In the meantime, if you find that your account information is at risk due to a data breach, you should make it a priority to periodically review your credit card and bank account activity. If you typically wait for your monthly statement to arrive in the mail, consider signing up for online access to your accounts--that way you can monitor your accounts as often as needed. If you see suspicious charges or account activity, you should contact your bank or credit-card company as soon as possible.

In most cases, your bank or credit-card company will automatically issue you a new card and card number. If not, request to have new cards and card numbers issued in your name. As an additional precaution, you should also change the PIN associated with the cards.

Whether you will be held liable for the unauthorized charges depends on whether the charges were made to your credit- or debit-card account and how quickly you report them.

For more information on your rights if you are affected by a data breach, visit the Federal Trade Commission and Consumer Financial Protection Bureau websites.

Are con artists adopting trendy twists on old scams?

In a word, yes. You may be great at deleting e-mails from Nigerian princes to avoid online phishing, but fraudsters keep coming up with new schemes for prying information or money from potential victims. And while scams sometimes involve hot topics that are getting a lot of attention in the news, which may make them seem legitimate, they still may be based on old-school techniques such as phone calls.

If a broker contacts you about investing in high-yielding certificates of deposit, don't provide any information or send money right away. Why? Because of reports that scammers have been posing as brokers to pitch CDs, claiming to represent a legitimate firm--perhaps even one that you already do business with. They may give you a number to call or offer to have their supervisor send you forms to help you transfer funds in an attempt to acquire data that can be used to steal either your money or identity. Even caller ID can be rigged to fake a firm's number; check the number independently with the firm's website or your own records and call directly to verify the caller's identity.

Another area ripe for fraud is linked to the recent legalization of medical or recreational marijuana in some states. As with any enterprise making headlines, so-called "pump-and-dump" artists have begun touting small, thinly traded companies linked to that industry. In many cases, they hope to inflate demand and drive up the stock price quickly--the "pump"--and then dump their vastly inflated shares at a profit, leaving their victims holding the bag(gie). Any unproven company in a relatively new industry deserves extra scrutiny of its financials, management, business plan, and other information. Don't be rushed into a decision just because a stranger tells you the window of opportunity is closing or promises fast profits.

Finally, if you receive a phone call threatening you with jail time or the loss of your driver's license unless you pay what you owe the IRS, don't panic, even if they cite part of your Social Security number or you also get a call from your local police department or motor vehicles department that seems to "verify" the claim. Again, your first step should be to contact the IRS, police, or motor vehicles department on your own, using a phone number you obtained yourself rather than one provided by a caller.