Wealth Management

KANE COMPANY

A FEE-ONLY REGISTERED INVESTMENT ADVISOR

Certified Public Accountants and Financial Advisors

Kane Company, P.C. 515-270-2727 Spring 2016

10 Sensible Stock Market Strategies After A Fall

The start to 2016 was one of the worst in history for stock market investors as the Standard & Poor's (S&P) 500 registered a record-breaking plunge in January. Some prognosticators are predicting doom and gloom for the rest of the year and a bear market. They say the market downturn might even lead to a recession.

But experienced investors know not to panic. While it's important to keep abreast of the S&P 500 and other key indicators, it's equally essential—if not more so—to stick to investment principles that have guided you successfully in the past. Consider these 10 practical suggestions:

1. Have a game plan. Assuming you have lofty long-term objectives—a comfortable retirement, say, or buying a second home—make sure you map out a plan to get there. Focus on how much you need to set aside and invest annually, and if you're saving for retirement, factor in future withdrawals. Also keep in mind some of the advice below.

2. Balance risk with reward. While your investment plan should be designed to make money over time, it's important to consider the risks that could disrupt your path to profits. Ideally, your investment strategies should maximize your rate of return while minimizing the risks—and how much risk you're willing to accept will depend on many factors that may relate to you alone.

3. Play with "house money." With any investment, losses are possible, and you'll need to consider what you can afford to lose, and when. While the stock market, historically, always has made money over the long haul, there have also been steep dips along the way, and that could hurt if you're counting on the money you lose. Try not to invest amounts earmarked for paying your mortgage, sending your kids to college, and other necessities.

4. Diversify. Spreading your money across several kinds of investments is essential to most investment plans. Including a variety of stocks from across sectors or industries, as well as a diverse mix of bonds and cash equivalents in your portfolio, can help when one type of investment rises while others fall. Putting money into mutual funds or exchange-traded funds (ETFs) indexed to market benchmarks can be a simple way to diversify.

5. Avoid market timing. Getting in and out of stocks quickly tends to be a loser's game. If you're lucky you might see short-term benefits but over longer periods it's impossible to outguess financial markets.

6. Don't forget about taxes. When you examine your investments, you

(Continued on page 4)

Kane Co Amending Iowa Returns At No Cost, Matching Gifts

Kane Company, P.C. will prepare at no cost 2015 Iowa Amended Income Tax Returns for our clients affected by the Iowa legislature's late coupling with the Internal Revenue Code's Federal Tax Extender's Bill. We invite affected clients to donate a portion of their refund to the Community Foundation of Greater Des Moines - Johnston Community School Foundation Fund in lieu of a fee for preparing the 2015 Iowa Amended Return. Along with my wife Amber, we will personally match all of our clients' charitable contributions. Since Iowa was so slow to couple with the Federal Tax Extenders, it does not feel right in this instance to charge them to receive the refund they should have gotten in the first place. We want to turn this frustrating situation into a positive impact for our Johnston community. Refunds range between $9 and $440, and will mainly affect school teachers, those with the tuition & fees deduction, and home owners paying mortgage insurance (PMI). We will be contacting our affected clients, in order to complete those 2015 Iowa Amended Returns and provide them with information on donating to the Johnston Community School Foundation.

Please note: our business hours are 8:00am-4:00pm Monday through Thursday and 8:00am-3:00pm on Fridays now through December.

Steven L. Kane, CPA/PFS, CFP®

Women Save More For Retirement Than Men But Have Less

Question: Are men or women more likely to invest in retirement savings plans at work?

Answer: 73 percent of women employees participate in such plans while only 66 percent of men do.

Question: Do men or women put more of their employment income into retirement savings accounts?

Answer: Women put 7 percent of their salary into retirement savings while men stash away 6.8 percent.

Question: Are men or women more likely to invest their retirement savings in the stock market?

Answer: Women are just as aggressive as men when it comes to investing their money for retirement, with women investing 73 percent of their savings in equities compared to 74 by men.

Despite these statistics – compiled and reported by the research department at Vanguard – women still come up short in the all-important area of account balances.

Jean Young, senior research analyst at Vanguard and author of the report, says that in March 2015, women held an average of $79,572 in defined contribution retirement plans as compared to an average of $123,262 held by men. The median balances, for women and men, were $24,446 and $36,875, Young says.

"Women seem to be a bit better at (retirement saving) than men. They're more likely to save, and when they save, they save more," she adds.

Then what is behind these discrepancies? The glass ceiling is partly responsible. To this day, women still make less money on average than men even when they're doing the same kind of work.

In addition, because men make more money than women, it tends to be easier for them to save more money over time. Young says that when the Vanguard researchers adjusted their data to account for disparities in income, the savings balance differences almost vanished, except for workers at the very top end of the income picture.

Why do differences persist at the top of the income scale? Young believes that may be because men are likely to have spent more of their careers in high-paying jobs compared with women. That may give the well-paid men more years to put away substantial retirement savings.

Another reason women may lag behind overall is access to retirement savings plans. Lower-paid workers and part-time employees—and women are likely to fall into both categories—frequently can't participate in such plans.

Another study, by the Employee Benefits Research Institute, found that the gender pay gap also can be explained by the kinds of jobs men and women gravitate to. Women in the past have frequently applied for jobs at the bottom end of the employment spectrum, and often chose part-time work because of their other responsibilities.

Young says these findings are a reminder that women need to negotiate for better salaries when applying for jobs or promotions. ●

Do Roth IRA Math Before Converting

The Roth IRA conversion has been one of the most popular retirement planning techniques in recent years and there's nothing to indicate that this trend will change. The main attraction is that the money you take from a Roth after the conversion is generally free from income tax and you don't have to dilute your nest egg with required minimum distributions (RMDs) as you do with traditional IRAs. For many retirement-savers, it's a good deal.

But the benefits of Roth IRAs come at a price: When you convert funds in a traditional IRA to a Roth, you must pay tax on the conversion amount, just like you would with a regular distribution from an IRA. The trick is to minimize the tax liability when you pull off this maneuver.

Normally, withdrawals from a traditional IRA are fully taxable at ordinary income tax rates, currently reaching as high as 39.6%. In addition, these distributions increase your exposure to the 3.8% surtax on net investment income, as well as other potential adverse tax consequences such as the personal exemption phaseout (PEP). Furthermore, you must begin taking RMDs from your traditional IRA accounts after you reach age 70½—no exceptions.

Once you convert to a Roth, "qualified" distributions after five years are completely exempt from income tax. Qualified distributions, for this purpose, include withdrawals you take after age 59½, that are made because of death or disability, or are used for a first-time home purchase (up to a lifetime limit of $10,000). And you don't have to take RMDs during your lifetime no matter how long you live.

You may be able to contribute directly to a Roth IRA, but that option is phased out for upper-income taxpayers. A conversion may be your only viable route.

If you're thinking about a Roth

Don’t Be Victimized By These 10 Common Scams

Scams of all varieties continue to bilk unsuspecting victims out of billions of dollars each year. In particular, older Americans are being targeted, especially those who have been recently widowed. With that in mind, here are 10 scams to watch out for:

1. IRS imposters. This scam proliferates during tax-return season. A caller will say he or she is an IRS agent and claim you owe back taxes. Then the caller threatens you with stiff penalties or a lawsuit—and even arrest—if you don’t wire the money immediately. But the IRS doesn’t call debtors without sending a notice via U.S. mail first. To be on the safe side, if you get such a call, check with the IRS at 1-800-829-1040 to check the caller’s credentials.

2. Tech support. Typically, you receive a phone call purporting to be from Microsoft or another software company, and the caller says a virus has invaded your computer. Then you’re asked to provide access to your computer and the hacker installs malware that steals personal information. These software companies don’t make unsolicited phone calls, so hang up immediately.

3. Robo-calls. Are you a victim of those annoying automatic telephone calls? Although the call itself isn’t an attempt at ID theft, it helps the crooks build a “go-to list” for future phone scams. Use your caller ID to screen calls and don’t answer if someone is calling from a number you don’t know.

4. Charitable solicitations. Many legitimate charities call on the phone so it’s hard to weed out the real ones from the fakes. Investigate any charity before handing over cash or making a credit or debit card contribution by mail or online. If the charity is for real, the caller won’t hesitate to provide additional information. Check out charities at www.charitynavigator.org.

5. Credit cards. It’s not surprising that scam artists are working an angle as credit card companies change their cards from magnetic strips to chips. Someone impersonating a credit card company employee may request information or ask you to click on a link to update your status. But credit card companies don’t operate this way. If you have any doubts, call the company directly.

6. Dating websites. Initially, scams were based on prying money or sensitive data out of single people who recently have entered the dating scene. But now it has mushroomed into more sophisticated cons aimed at newcomers to religion-based sites. Because you’re “dating” someone from your faith, you may be more likely to let your guard down and give access to money.

7. Widows and widowers. A typical trick of con artists is to prey on your emotions. Of course, elderly individuals are especially vulnerable after the death of a loved one. It’s not unusual for a criminal to pretend to be a banker or other professional to coerce you to hand over funds. Rely on reputable financial planners you know and trust and close family members to steer you in the right direction.

8. Medical ID theft. ID theft often is associated with financial information, but loss of medical information can be just as damaging. Just imagine someone running up costs for expensive drugs, doctor visits, and even surgery under your name. What’s more, unlike theft of credit card data, you’re often held liable for these purchases. Don’t volunteer your particulars (for example, Social Security and insurance account numbers) unless you’re certain it’s for a valid reason. Check with your insurer about any charges you don’t understand.

9. Gift card vouchers. If you’re targeted for this scam, you receive an unsolicited email offering you a free gift card from a well-known retailer or restaurant if you click on a link. It can look legitimate—the scammers will go to great lengths to replicate logos and corporate designs—but often it isn’t. Clicking on the link will install malware on your computer that can siphon away personal data. No matter how appealing an offer is, don’t click on links you have not verified.

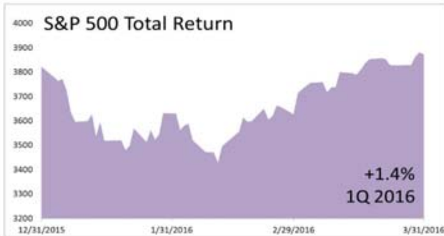
10. Counterfeit apps. Finally, in a highly publicized incident, Apple developed some applications that were found to contain vicious malware that spied on consumers. While Apple believes it has purged these malicious apps, similar occurrences could lead to loss of personal data. Try to use only well-known apps and consider reading reviews before purchasing them.

These are just 10 of the scams currently making the rounds. Be on your guard and be skeptical of anything that doesn’t seem just right. ●

conversion this year, you might consider limiting the amount you convert to the maximum you can add to your income without moving into a higher tax bracket. For example, if you expect to be in the 25% bracket and have another $50,000 to spare before crossing into the 28% bracket, you could take this opportunity to convert $50,000 from your traditional IRA to a Roth. Not only is that amount below the thresholds for the 3.8% surtax and PEP, the tax rate is limited to 25%. You then could repeat this strategy over multiple years to keep your tax liability at a reasonable level.

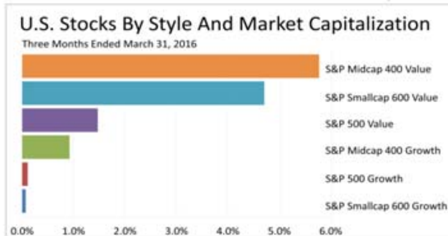
Finally, you’re holding another tax card up your sleeve: If it suits your needs, you might decide to “recharacterize” part of the converted amount back into a traditional IRA. This could be a good idea if the value of the account declines significantly after the conversion. You have until the tax return due date for the year of the conversion plus extensions to recharacterize, giving you plenty of time to make an informed decision. ●

Market Data Bank: 1st Quarter 2016 Ψ



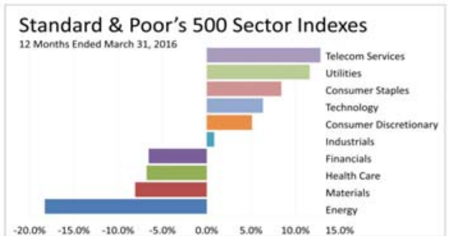
BULL MARKET RETURNS

Fears of a global slowdown and new lows in crude oil prices triggered an 11% selloff in stocks during the first six weeks of 2016. But a stream of data showing that the six-year U.S. economic expansion was still intact put the bulls back in control during the last six weeks of the quarter.



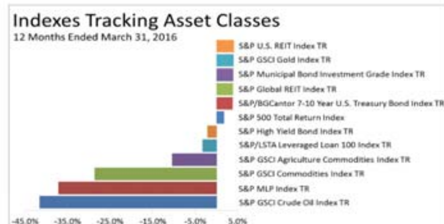
STOCKS TAKE A BREATHER IN 2015

Value stocks beat growth within each of the market capitalization bands — a total reversal from investor preferences in 2015. Small- and mid-cap value trounced gains on the four other styles, as investors almost whimsically changed their minds about what they favored.



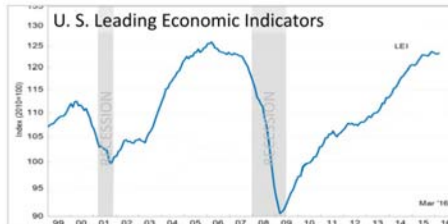
ENERGY STOCKS CRUSHED

For the 12 months ended March 31, 2016, the three sectors usually considered to be defensive — telecom, utilities, and consumer staples — were the leaders, as the broad market went sideways. Energy was the big loser as well as commodities-related sectors.



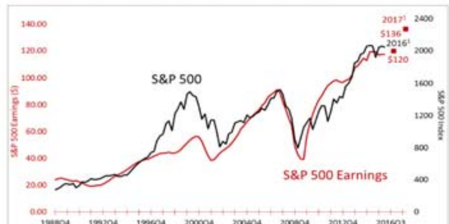
ASSET CLASSES

While the 1.8% total return on the S&P 500 in this 12-month period may seem paltry, and the returns of about 4% on indexes tracking real estate investment trusts, gold, and bonds may not be great, a prudently managed portfolio, diversified broadly among these 12 asset classes, would not have been crushed.



LEADING ECONOMIC INDICATORS

LEIs of the U.S. economy increased two-tenths of 1% in March. LEIs had dropped one-tenth of 1% in both January and February. So the March advance was welcome news. Since June 1999, LEIs have drifted lower for months or gone sideways for years before rising again.



S&P 500 INDEX VS. EARNINGS¥

Red squares show expected earnings on the S&P 500 index based on a April 6, 2016 forecast by Wall Street analysts for earnings of $117 per share in 2015, $120 in 2016, and $136 in 2017. Earnings growth is poised to propel stocks higher, unless a crisis or really bad unexpected news sets world progress back.

Past performance of investments is not a very reliable indicator of future performance. ± Indices and ETFs representing asset classes are unmanaged and not recommendations for any specific investment. Foreign investing involves currency and political risk and foreign-country instability. Bonds offer a fixed rate of return while stocks fluctuate. Leading economic indicators from the Conference Board. ¥Estimated bottom-up S&P 500 earnings per share as of April 6, 2016 was $117.26 for 2015, $120.03 for 2016 and $136.44 for 2017. Sources: Yardeni Research, Inc. and Thomson Reuters I/B/E/S survey of consensus estimates. Standard and Poor's for index price data through April 7, 2016; and actual earnings data through 2015.

Sensible Stock Market Strategies

(Continued from page 1)

may tend to focus on returns to the exclusion of practically everything else. But taxes also can have a major impact. Adding tax-exempt municipal bonds to your portfolio, for example, could improve your overall after-tax returns, and it makes sense to look for ways to offset capital gains with capital losses before the end of the year.

7. Review and rebalance. Regardless of how the stock market is performing today, it's important to look at your portfolio periodically and make whatever adjustments are necessary to stick to your long-term plan. Suppose you want to keep a hypothetical asset allocation of 50% in stocks, 25% in bonds, and 25% in other investments. If stock prices fall and your allocation drops to 35%, you may need to sell bonds and buy stocks to get things back in line. That also has the potential advantage of adding to your stocks when prices are low.

8. Try to keep your emotions out of it. It's easy to be swept up when the market is climbing or falling, but you'll be much better off if you're able to remain calm. Resisting impulse acquisitions and sales tends to be a winning long-term strategy.

9. Stick with your plan. It's not enough to develop an overall investment plan—you also need to follow it even when you face market turbulence—in other words, don't abandon the stock market just because you're experiencing some negative returns. Staying the course over the long term is likely to give you the best results.

10. Obtain professional assistance. Last, but not least, you don't have to go it alone. Your professional investment advisors can help you weather the inevitable ups and downs of the stock market. Don't hesitate to contact us at any time. ●

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