Joel Isaacson & Co.
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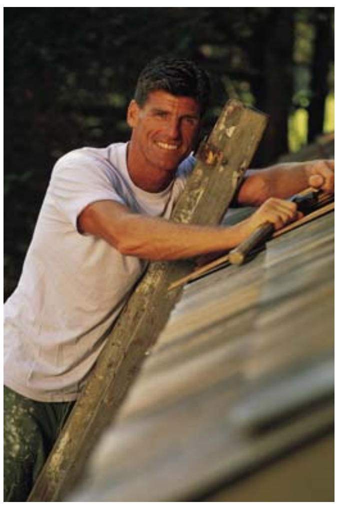
Five Ways To Plan Smarter And For The Long Haul

Maybe you're in the homestretch before retirement or perhaps you've already stopped working. If you've been diligent in setting aside funds to sustain you through your golden years, congratulations are in order, but you can't rest on your laurels. As life expectancies continue to increase, it's more important than ever to address concerns that you might outlast your money. As the rebound in the economy and stocks has demonstrated, you need to take steps to plan for the long haul and stick with that plan through downturns. Although there are no guarantees when it comes to investing, consider these five suggestions for planning for the long term:



1. Be able to ride out stock market downturns. Even if investing in equities helped get you where you are today, you may decide that the inherent volatility of the stock market means you should get out of it altogether during retirement. That might not be the best approach.

Instead, try to stay on a path for sustained growth that factors in your personal tolerance for risk. For instance, a conservative investor embarking on retirement might allocate 30% of a portfolio to equities and 70% to fixed-income investments. A more aggressive investor likely would choose a higher percentage—perhaps 50% or 60%—to keep in stocks. But the important thing is to find a balance between risk and reward that helps you meet your goals and that won't send you fleeing from stocks when they decline sharply.

2. Try to live off the income your investments generate. The longer you can go without tapping the principal of your savings, the better. But that doesn't mean that interest and dividends alone always can carry the day. Assume you have a $1 million portfolio that produces 3% in annual income ($30,000), plus you and your spouse receive Social Security benefits of $2,000 a month each. That gives the two of you a total of $78,000 annually before taxes, and that may not be enough to support the lifestyle you have in mind.

Depending on your situation, you could arrange to do some consulting work in retirement, wait until age 70 to begin drawing Social Security—a delay that will earn you a higher monthly benefit—or seek higher investment returns. In any event, look for ways to avoid drawing down your savings too quickly.

3. Weigh the 4% solution. That's a rule of thumb for the percentage of a nest egg you might withdraw annually to take income to fund a 30-year

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Will 2014 Follow Lead Set By 2013?

Will 2014 follow 2013's lead? An improving global economy as well as the Federal Reserve's supportive policies helped propel stocks higher during the fourth quarter and for the full year. Large cap U.S. stocks rose 32%, their best annual gains since 1997, while small cap stocks soared even higher.

As economic conditions in Europe and Japan showed some signs of improvement, developed international stocks were strong as well, returning 22% for the year. In contrast, emerging-markets stocks were negative, as investors reacted to softer economic growth and potential changes in U.S. monetary policy.

Looking ahead, the Fed's tapering can be viewed as a vote of confidence on the economy. However, its intention to keep the federal funds rate near zero for the foreseeable future reflects its view that risks remain. Even as we recognize economic improvements here and globally, we continue to see excessive global debt, continued sluggish wage and income growth, unprecedented monetary policies with uncertain exit plans, and questions about the strength of economies around the globe.

In short, while there have been fundamental improvements in the macro environment over the past year, many big-picture risks remain as we look out over the next five years. Therefore, we believe it is prudent to manage portfolios with these risks—and their potentially significant market impacts—firmly in mind.

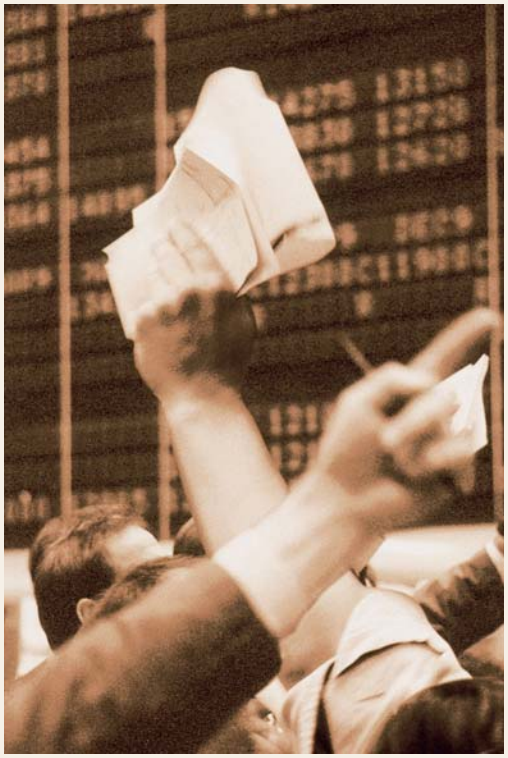
Don’t Chase After The Market News

Did you read the newspaper today or check the news online? Invariably, the stock market will be heading up or down, with the movement triggered by anything from company earnings announcements to a change in economic indicators or even a political event such as the recent U.S. government shutdown. And, more often than not, financial pundits may respond by urging investors to buy or sell something.

But you can drive yourself crazy, if you haven’t already, by making stock market decisions based on what just has occurred or what you think will happen next. In fact, chasing after the news is a common investment mistake. There are at least four good reasons to avoid this temptation like the plague:

1. The stock market usually moves ahead of the news.

There was no “all clear” signal that the severe stock market downturn of 2008-2009 had abated. But the market hit bottom on March 9, 2009, and embarked on a long, profitable climb even as other financial news remained dire. Typically, stocks move about six months ahead of economic developments, reflecting the collective knowledge, trends, and inclinations of investors. If you try to beat the market by reacting to the latest news, you’ll probably be much too late to benefit.



2. You don’t have all the necessary information.

Markets tend to move based on the decisions of mutual fund managers or professional analysts who monitor and interpret financial data for a living. They have a lot more information than you do, and they get it much sooner than you—and millions of others like you—who will hear it on television or find it on the Internet. That puts you at a decided disadvantage.

3. You can’t believe all the hype.

In this electronic age, media reports are often prone to hyperbole, as the pressure to generate interest from a fickle public continues to increase. That could lead producers to overreact to news tidbits or sensationalize minor events. One small incident usually doesn’t portend a complete economic collapse, so take reports of impending doom with a grain of salt. It isn’t likely that the sky is falling!

4. Market timing is difficult, if not impossible.

To be successful at market timing, you have to be extremely skilled or lucky, or both. Over the long term, buying or selling based on what you hear or read almost never beats a consistent, methodical long-term approach. It’s better to make investment decisions based on financial particulars rather than on instincts and hunches.

Building a diversified portfolio combining stocks, bonds, and other investments can help you progress toward your financial goals—and it can help you stop worrying about what you hear on the news. ●

Reminders On Your Beneficiary Choices

Quick: Who are the beneficiaries of your retirement plan, life insurance policies, and investment accounts? Many people don’t remember whom they named as a beneficiary or are uncertain. But it’s important to know, especially if your circumstances have changed since you completed the original paperwork.

You probably carefully considered whom to designate as beneficiaries of your financial accounts and life policies when you initially established them. But you may have shoved the documents into a drawer and forgotten all about them.

Suppose your family situation has changed. Maybe you have remarried and you have children from an earlier union. Do you still want your former spouse to inherit anything? Should your new spouse be named as a beneficiary? Aging, death, divorce, and other life-events, including the birth of a child or a job-switch, make it wise to periodically review beneficiary choices and ensure your assets go to the people you want to benefit most.

One reason it’s so important to get beneficiary designations right is that when you name a beneficiary on your retirement accounts and life insurance policies, those assets will be transferred without going through probate or facing other complications. Moreover, the designations for financial accounts and insurance policies trump whatever it may say in your will. So, even if you change your will to cut out an estranged relative, that person still could benefit unless the beneficiary designations also are changed. And if there are discrepancies, the matter could end up in court—probably the last thing you would want.

Furthermore, getting the beneficiaries right may affect estate taxes. For instance, if you name your spouse as the beneficiary of your 401(k) and IRAs, those accounts won’t

Building On Four Tax Pillars Of Real Estate

Commercial real estate can be a productive investment. If rental income flows in, it will provide a steady return on the capital you've invested, and if prices rise, you may be able to sell your interest at a profit. Of course, it doesn't always work out that way. But there also are potential tax advantages that can make such investments very appealing.

There are four key tax advantages relating to rental real estate that you may be able to tap, although a few obstacles could stand in the way.

1. Annual deductions. When you acquire real estate, you likely will have to take a loan and pay interest on it, and you'll also owe property taxes to the local authorities. Both of those expenses are tax-deductible and can help offset the taxable rental income you receive. Moreover, you can recover the cost of investment property through depreciation deductions. IRS rules specify a cost recovery period of 27.5 years for residential property and 39 years for commercial property. Depreciation is one of the biggest tax advantages on the books and can go a long way toward making an investment in real estate worthwhile.

2. Capital gains on property sales. If you sell a property at a profit, you may be able to pay tax on the gain at the 15% rate that applies to most long-term capital gains (for holdings you've owned for more than a year). If you are a single filer with taxable income of more than $400,000 ($406,750 in 2014) or a joint filer with more than $450,000 ($457,600 in 2014), the long-term rate is now 20%—still much better than ordinary income tax rates that currently reach as high as 39.6%. In recent years, of course, selling property at a profit often has been problematic, though values now are rising in many parts of the country and investments in real estate have tended to provide favorable returns over extended periods of time.

3. Section 1031 exchanges. One way to avoid a taxable gain on the sale of commercial or investment real estate is to "swap" property with another investor. Under Section 1031 of the tax code, "like-kind" exchanges can be tax-free if certain requirements are met, and the tax law definition of like-kind is quite liberal. For instance, you might be able to swap an apartment building for raw land. Also, to facilitate Section 1031 exchanges involving multiple properties, you're allowed to utilize a qualified intermediary. Such exchanges allow the indefinite deferral of the taxable gain you would have realized on the sale of appreciated property.

4. Step-up in basis at death. If you never sell your real estate property, your heirs will benefit from a "step-up" in the property's cost basis for income tax purposes. The basis of inherited property is adjusted to its value on the date of the death of the person it's coming from. That lets you and your heirs completely avoid tax on the appreciation of the property during your lifetime. There also may be no tax on the transfer of the property. If it goes to your spouse, he or she will be able to take advantage of an unlimited marital deduction, while other heirs may be protected by a $5.34 million exemption (in 2014) for transfers to non-spouse beneficiaries.

There are, however, some restrictions on the tax breaks for real estate owners. Among the most significant is a series of rules relating to "passive activities," such as the ownership of rental real estate by most investors. Those rules could limit the annual loss you can claim for such property. You'll generally be able to deduct no more than the amount of your income from that passive activity for the year.

Still, you might be able to claim at least a partial tax loss (beyond the amount of your income from the property) if you "materially participate" in rental real estate activity—for example, by managing tenants, arranging repairs, and other such activities. If you qualify, you will be entitled to deduct a loss of up to $25,000. But that benefit begins to phase out when your adjusted gross income exceeds $100,000, and it ends at $150,000.

You also might be able to deduct losses on a property in full if you qualify as a "real estate professional," although those requirements are more stringent than the test for active participation. Generally, you'll be eligible only if more than half of your personal services for the year are devoted to real estate trades or activities and you spend at least 750 hours annually on those trades or businesses. In other words, real estate normally has to be your principal occupation. ●

be included in your taxable estate (although the assets eventually could be subject to estate tax when your spouse dies).

Another money-saving idea that might surface from reviewing your beneficiaries: If you have more than one child and intend to divide your IRA proceeds among them, be sure to list all intended children and the appropriate percentages. After your demise, each child will be able to establish an inherited IRA in their own name and take required distributions based on their individual life expectancies, not yours or their older siblings.

Finally, if you name a charity as an account beneficiary, the asset will pass to the charity tax-free. In addition, your estate will be entitled to a charitable deduction, which may reduce or eliminate tax liability.

For these and other reasons, it's crucial to get beneficiary designations right, and to revise them when necessary as your circumstances change. Going to the trouble of regularly reviewing your designations could be time well spent. ●

What To Do When You're Suddenly Widowed

If your spouse should suddenly pass away, you could find yourself overwhelmed—not just emotionally, but also by a host of financial decisions. Your financial situation is probably about the last thing you'd want to be thinking about, and many things could wait, at least for a little while. Indeed, after such a dramatic event in life, it's probably best not to rush into anything. However, time isn't always on your side, and some decisions may be required immediately—especially if you have not planned properly. And sooner or later, you'll need to address certain financial issues. Here are some practical suggestions that may be helpful:

Deadlines. After losing a loved one, it can be easy to neglect deadlines. You'll generally need to file an estate tax return for your spouse within nine months of death, for example, and you still must file a federal income tax return for the year of death by April 15. Don't let letters from places like the IRS and financial institutions fall to the bottom of a pile. Missing deadlines can cost you dearly.

Retirement Accounts. Review benefit options for 401(k)s, pensions, and other retirement accounts. You'll likely need to decide between taking a lump sum or periodic distributions, rolling the funds into an IRA, or leaving the plan assets where they are. Each option has pros and cons.

Cash-Flow. Estimate your expenses for the next five to 10 years. Will you be paying for one or more children to attend college? When do you expect to retire, and what sort of lifestyle do you envision? This requires a thorough analysis of your finances and also might entail adjusting your investment strategy.

Insurance. Don't ignore insurance concerns. Typically, a surviving spouse inherits most, if not all, of the other spouse's assets and will be the primary or sole beneficiary of life insurance death benefits. This is a time to consider what you can do to protect your children's future. Meanwhile, in light of your changed situation, review all of your insurance policies. Be sure your health, disability, long-term care, umbrella and other polices still meet your needs.

Retirement. After losing a spouse, your retirement goals may change. You may want to consider retiring earlier or later. How much in Social Security benefits will you receive based on earnings history? Social Security is complicated, and you'll need to gather all of the facts to make good decisions.

Investments. Pull together all of the relevant records for your spouse's investments and any assets you held jointly. Once you know where you stand, be sure you understand all of the investments you own and are comfortable with the risk they entail. Set a long-term course for the future, but realize that adjustments may be needed now.

We're available to provide any assistance you need. ●

Five Ways To Plan Smarter

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retirement. The idea is to take 4% of your total portfolio during the first year of your retirement and then to adjust that amount in subsequent years to account for inflation.

But like any rule of thumb, this doesn't factor in unusual circumstances, like the economic conditions you may face. You might decide a lower or higher percentage would be appropriate depending on your situation.

4. Let the IRS determine your income. Once you reach age 70½, you'll have to begin taking "required minimum distributions" from 401(k)s and other employer-sponsored plans (if you're no longer working) and IRAs. The size of each year's RMD depends on your account balances and your life expectancy. Another way to determine how much income to draw from your portfolio during retirement is to use the IRS calculation for your RMDs.

Suppose that you are age 70½ and have $500,000 in an IRA. The IRS says your first distribution would be about $18,800. Will that be sufficient to supplement your other sources of income? In some cases, such an approach might work well, but it doesn't take all of your personal circumstances into account.

5. Make a "bucket list." Another possible way to hedge your bets against market downturns and make your savings last is to divide your money into various "buckets." One bucket might be earmarked to supplement Social Security and other reliable income in covering your basic expenses, with the funds kept in conservative, liquid accounts. You could have a second bucket of money for discretionary expenses, such as travel, that you put into short- and intermediate-term bonds. The remainder could go into a third bucket, invested in a mix of stock and bond funds. As you rebalance the portfolio for the third bucket, you could use proceeds from investment sales to replenish the first two buckets.

All of these ideas are for illustrative purposes only. What you do will depend on your personal situation and goals. The important thing is to consider all of your options and come up with a plan that is realistic and based on the long haul. ●