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By now all portfolio management clients should have their 2016 Tax Preparer Report as they were uploaded to your vault (or your preparer's folder) last week. If you don't have yours, please contact me. The Trump rally continued in February although we should be prepared for a pullback, particularly if the progress on deregulation and tax reform falls short of the expectations that have driven the rally. And the excitement in Washington continues; I guess we should get used to that. Life down here, and the weather, have been great but I understand it's not been too shabby in Wisconsin either. Let's just hope the warm spells back home don't cause buds to break on the fruit trees too soon. Have a great month of March!
Bruce Heling, CFP CPA
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401(k) Withdrawals: Beware the Penalty Tax



You've probably heard that if you withdraw taxable amounts from your 401(k) or 403(b) plan before age 59½, you may be socked with a 10% early distribution penalty tax on top of the federal income taxes you'll be required to pay.

But did you know that the Internal Revenue Code contains quite a few exceptions that allow you to take penalty-free withdrawals before age 59½?

Sometimes age 59½ is really age 55...or age 50

If you've reached age 55, you can take penalty-free withdrawals from your 401(k) plan after leaving your job if your employment ends during or after the year you reach age 55. This is one of the most important exceptions to the penalty tax.

And if you're a qualified public safety employee, this exception applies after you've reached age 50. You're a qualified public safety employee if you provided police protection, firefighting services, or emergency medical services for a state or municipality, and you separated from service in or after the year you attained age 50.

Be careful though. This exception applies only after you leave employment with the employer that sponsored the plan making the distribution. For example, if you worked for Employer A and quit at age 45, then took a job with Employer B and quit at age 55, only distributions from Employer B's plan would be eligible for this exception. You'll have to wait until age 59½ to take penalty-free withdrawals from Employer A's plan, unless another exception applies.

Think periodic, not lump sums

Another important exception to the penalty tax applies to "substantially equal periodic payments," or SEPPs. This exception also applies only after you've stopped working for the employer that sponsored the plan. To take

advantage of this exception, you must withdraw funds from your plan at least annually based on one of three rather complicated IRS-approved distribution methods.

Regardless of which method you choose, you generally can't change or alter the payments for five years or until you reach age 59½, whichever occurs later. If you do modify the payments (for example, by taking amounts smaller or larger than required distributions or none at all), you'll again wind up having to pay the 10% penalty tax on the taxable portion of all your pre-age 59½ SEPP distributions (unless another exception applies).

And more exceptions...

Distributions described below generally won't be subject to the penalty tax even if you're under age 59½ at the time of the payment.

- Distributions from your plan up to the amount of your unreimbursed medical expenses for the year that exceed 10% of your adjusted gross income for that year (You don't have to itemize deductions to use this exception, and the distributions don't have to actually be used to pay those medical expenses.)
- Distributions made as a result of your qualifying disability (This means you must be unable to engage in any "substantial gainful activity" by reason of a "medically determinable physical or mental impairment which can be expected to result in death or to be of long-continued and indefinite duration.")
- Certain distributions to qualified military reservists called to active duty
- Distributions made pursuant to a qualified domestic relations order (QDRO)
- Distributions made to your beneficiary after your death, regardless of your beneficiary's age

Keep in mind that the penalty tax applies only to taxable distributions, so tax-free rollovers of retirement assets are not subject to the penalty. Also note that the exceptions applicable to IRAs are similar to, but not identical to, the rules that apply to employer plans.

Why Diversification Matters



Diversification and asset allocation are methods used to help manage investment risk; they do not guarantee a profit or protect against investment loss.

When investing, particularly for long-term goals, there is one concept you will likely hear about over and over again — diversification. Why is diversification so important? The simple reason is that it helps ensure that your risk of loss is spread among a number of different investments. The theory is that if some of the investments in your portfolio decline in value, others may rise or hold steady, helping to offset the losses.

Diversifying within asset classes

For example, say you wanted to invest in stocks. Rather than investing in just domestic stocks, you could diversify your portfolio by investing in foreign stocks as well. Or you could choose to include the stocks of different size companies (small-cap, mid-cap, and/or large-cap stocks).

If your primary objective is to invest in bonds for income, you could choose both government and corporate bonds to potentially take advantage of their different risk/return profiles. You might also choose bonds of different maturities, because long-term bonds tend to react more dramatically to changes in interest rates than short-term bonds. As interest rates rise, bond prices typically fall.

Investing in mutual funds

Because mutual funds invest in a mix of securities chosen by a fund manager to pursue the fund's stated objective, they can offer a certain level of "built-in" diversification. For this reason, mutual funds may be an appropriate choice for novice investors or those wishing to take more of a hands-off approach to their portfolios. Including a variety of mutual funds with different objectives and securities in your portfolio will help diversify your holdings that much more.

Mutual funds are sold by prospectus. Please consider the investment objectives, risks, charges, and expenses carefully before investing. The prospectus, which contains this and other information about the investment company, can be obtained from your financial professional. Be sure to read the prospectus carefully before deciding whether to invest.

Diversifying among asset classes

You might also consider including a mix of different types of asset classes — stocks, bonds, and cash — in your portfolio. Asset allocation is a strategic approach to diversifying your portfolio. After carefully considering your investment goals, time horizon, and risk tolerance, you would then invest different percentages of your portfolio in targeted asset classes to pursue your goal.

Winning asset classes over time

The following table, which shows how many times during the past 30 years each asset class has come out on top in terms of performance, helps illustrate why diversifying among asset classes can be important.

	Number of winning years, 1987-2016
Cash	3
Bonds	5
Stocks	10
Foreign stocks	12

Performance is from December 31, 1986, to December 31, 2016. Cash is represented by Citigroup 3-month Treasury Bill Index. Bonds are represented by the Citigroup Corporate Bond Index, an unmanaged index. Stocks are represented by the S&P 500 Composite Price Index, an unmanaged index. Foreign stocks are represented by the MSCI EAFE Price Index, an unmanaged index. Investors cannot invest directly in any index. However, these indexes are accurate reflections of the performance of the individual asset classes shown. Returns reflect past performance and should not be considered indicative of future results. The returns do not reflect taxes, fees, brokerage commissions, or other expenses typically associated with investing.

The principal value of cash alternatives may fluctuate with market conditions. Cash alternatives are subject to liquidity and credit risks. It is possible to lose money with this type of investment.

The return and principal value of stocks may fluctuate with market conditions. Shares, when sold, may be worth more or less than their original cost.

U.S. Treasury securities are guaranteed by the federal government as to the timely payment of principal and interest, whereas corporate bonds are not. The principal value of bonds may fluctuate with market conditions. Bonds are subject to inflation, interest rate, and credit risks. Bonds redeemed prior to maturity may be worth more or less than their original cost.

The risks associated with investing on a worldwide basis include differences in financial reporting, currency exchange risk, as well as economic and political risk unique to the specific country.

Investments offering the potential for higher rates of return also involve higher risk.

Buying a Fuel-Efficient Vehicle



Fuel-efficient vehicles are designed to help reduce pollution emissions and fossil fuel dependence, which can limit the effects of climate change. These factors make fuel-efficient vehicles appealing to drivers looking to be more green. But there are pros and cons to consider before buying an electric or hybrid car.

You're searching for a new car and interested in fuel-efficient vehicles. On the surface, they sound like a good idea: You may save money by making fewer trips to the gas station, and you'll help protect the environment. However, there are pros and cons to owning and driving a fuel-efficient vehicle, particularly when it comes to your finances.

Know your options

Many different vehicles fall into the fuel-efficient category. There are electric vehicles (EVs), which run solely on electricity. One or more electric motors are powered by rechargeable battery packs. Some EVs have built-in chargers, whereas others must be plugged into external chargers. EVs produce zero emissions and run quietly.

Another kind of fuel-efficient vehicle is the traditional hybrid, which exists in two forms: parallel and series. Parallel hybrids have a small internal combustion engine as well as batteries that power an electric motor. The vehicle's transmission and wheels can be powered by both the engine and electric motor. Series hybrids use an on-board generator to produce electricity which, in turn, charges batteries or powers the electric motor. The vehicle is never directly powered by the gasoline engine.

Plug-in hybrids are very similar to traditional hybrids, but plug-ins rely on a different primary energy source. The battery-powered electric motor functions as the main source of power. When the battery reaches a certain level, the internal engine's power kicks in and the vehicle uses gasoline to extend its range. The battery is recharged by plugging the vehicle into an external charger, hence the name.

In addition to EVs and hybrids, vehicles that run on alternative fuel are also considered fuel-efficient. Alternative fuels include diesel, bio-diesel, ethanol, compressed natural gas, and hydrogen fuel cells.

Weigh the advantages against the disadvantages

One of the biggest factors in deciding whether to buy a fuel-efficient vehicle is cost. Generally, fuel-efficient vehicles come with a higher purchase price that can be off-putting when comparing them to standard vehicles. And if your fuel-efficient car is equipped with an expensive battery, you must be prepared to pay even more when the battery eventually needs to be replaced.

Other drawbacks include scarcity of public chargers, limited driving range, and fewer model options to choose from (as opposed to traditional vehicles).

On the other hand, driving a green vehicle could add some green to your wallet. Many EVs and hybrids qualify for a federal income tax credit. Depending on your vehicle's battery capacity, you could earn a credit ranging from \$2,500 up to \$7,500. However, certain restrictions do apply. For more information, see IRS Form 8936, Qualified Plug-in Electric Drive Motor Vehicle Credit.

Your auto insurance provider may also offer discounts if you drive an EV or hybrid. It's worth checking to see whether you will save on insurance by driving a fuel-efficient vehicle.

Chances are good that a fuel-efficient vehicle will save you money at the gas station. Fuel-efficient vehicles typically have superior fuel economy, which means you'll likely be taking fewer trips to refuel your car. Over time, the savings from reduced gas station stops could be significant.

Decide what suits your lifestyle

Financial considerations aside, think about what kind of car best fits your needs. To help decide, ask yourself these questions:

- Can you afford a more expensive fuel-efficient vehicle, or does it make more sense to buy a conventional vehicle?
- How much driving do you do in a typical week?
- Do you want an EV or a hybrid? Or do you want to consider an alternative fuel option?
- If you choose an EV or plug-in, are you able to charge it at home? If you frequently drive longer distances, will you be able to recharge it easily on the road?
- When will you need to replace the battery in your vehicle? How expensive will it be?
- What kind of gas mileage should you expect to get from an EV or hybrid?
- Are there any reliability or safety issues associated with EVs or hybrids?

If you don't drive your vehicle on a consistent basis, you might consider sticking with a conventional vehicle. For example, after just one week of not driving an EV or hybrid vehicle, the battery could be affected and may not function properly.

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How can I prepare financially for stormy weather?

Floods, tornadoes, torrential rain, lightning, and hail are common events in many parts of the country during the spring and may result in widespread damage. Severe weather often strikes with little warning, so take measures now to protect yourself and your property.

Review your insurance coverage. Make sure your homeowners and auto insurance coverage is sufficient. While standard homeowners insurance covers losses from fire, lightning, and hail, you may need to buy separate coverage for hurricanes, floods, earthquakes, and other disasters. Consult your insurer or insurance professional, who can help determine whether you have adequate coverage for the risks you face.

Create a financial emergency kit. Collect financial records and documents that may help you recover more quickly after a disaster. This kit might contain a list of key contacts and copies of important documents, including identification cards, birth and marriage certificates, insurance policies, home inventories, wills, trusts, and deeds. Make sure your kit is stored in a secure fireproof and

waterproof container that is accessible and easy to carry. The Emergency Financial First Aid Kit, available online at ready.gov, offers a number of checklists and forms that may help you prepare your own kit, as well as tips to guide you through the process.

Protect your assets. Take some commonsense precautions to safeguard your home, vehicles, and other possessions against damage. For example, to prepare for a possible power outage, you might want to install an emergency generator and a sump pump with a battery backup if you have a basement or garage that is prone to flooding. Inspect your yard and make sure you have somewhere to store loose objects (e.g., grills and patio furniture) in a hurry, cut down overhanging tree limbs, and clean your gutters and down spouts. Check your home's exterior, too, to make sure that your roof and siding are in good condition, and invest in storm windows, doors, and shutters. In addition, make sure you know how to turn off your gas, electricity, and water should an emergency arise. And if you have a garage, make sure your vehicles are parked inside when a storm is imminent.



What are some tips for creating a home inventory?

Imagine having to remember and describe every item in your home, especially after you've been the victim of a fire, theft, or natural disaster.

Rather than relying on your memory, you may want to prepare a home inventory — a detailed record of all your personal property. This record can help substantiate an insurance claim, support a police report when items are stolen, or prove a loss to the IRS. Here are some tips to get started.

Tour your property. A simple way to complete your inventory is to make a visual record of your belongings. Take a video of the contents of each room in your home and spaces where you have items stored, such as a basement, cellar, garage, or shed. Be sure to open cabinets, closets, and drawers, and pay special attention to valuable and hard-to-replace items. You can also use the tried-and-true low-tech method of writing everything down in a notebook, or use a combination approach. Mobile inventory apps and software programs are available to guide you through the process.

Be thorough. Your home inventory should provide as many details as possible. For

example, include purchase dates, estimated values, and serial and model numbers. If possible, locate receipts to support the cost of big-ticket items and attach copies of appraisals for valuables such as antiques, collectibles, and jewelry.

Keep it safe. In addition to keeping a copy of your inventory in your home where you can easily access it, store a copy elsewhere to protect it in the event that your home is damaged by a flood, fire, or other disaster. This might mean putting it in a safe deposit box, giving it to a trusted friend or family member for safekeeping, or storing it on an external storage device that you can take with you or on a cloud-based service that provides easy and secure access.

Update it periodically. When you obtain a valuable or important item, add it to your inventory as soon as possible. Review your home inventory at least once a year for accuracy. You can also share it annually with your insurance agent or representative to help determine whether your policy coverages and limits are still adequate.