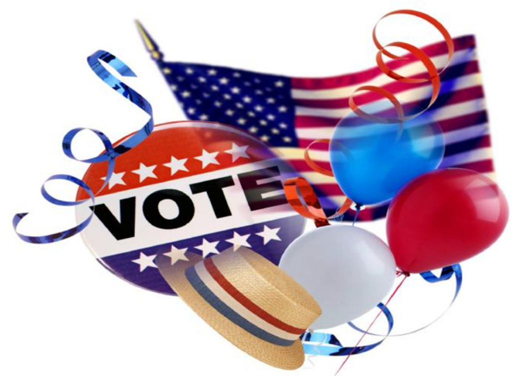
SETTING SAIL
SECOND QUARTER 2016

WHAT DOES THE ELECTION MEAN FOR MY INVESTMENTS?

We're hearing this question frequently this year. The simple answer (and only correct one) is "We don't know". We do know that investors hate uncertainty, and that distaste is reflected in recent the volatile markets. Given that this year's election uncertainty is higher than normal, we believe it is fair to expect that market volatility will be higher than usual through the rest of the year.



Dimensional Fund Advisors (DFA) recently researched historical returns during election periods. Here are their conclusions:

- "It is difficult to identify systematic return patterns in election years." Accordingly, there is no historical pattern we can look to that tells us what to expect.
- "On average, market returns have been positive both in election years and in the subsequent year." Since 1928, the average election year return has been 11.2%. The average return in the subsequent year (when the president takes office) has been 9.3%. However, there have been notable exceptions: during 2008 (as we painfully remember) the S&P 500 dropped 37.0%, recovering 26.5% in 2009. In 1980, (the first Reagan campaign) the S&P 500 was up 32.5%, but dropped 4.9% in 1981. (Based on the total return of the S&P 500, including dividends).

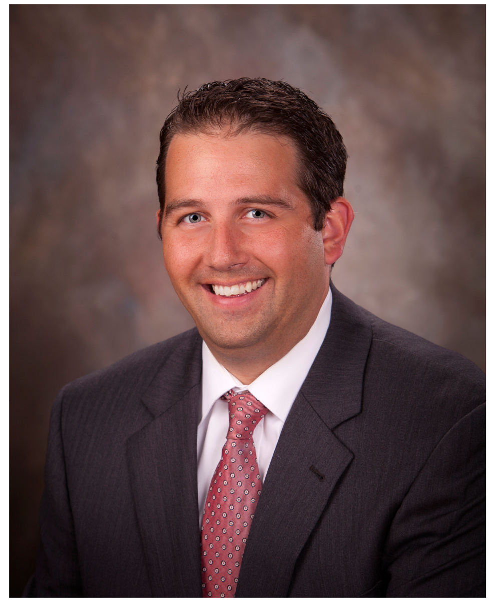
SETTING SAIL is written by Joseph R. Call, CPA/PFS, CFP® and Alan S. Campbell, MBA, CFP® and published quarterly by **SPINNAKER FINANCIAL ADVISORS, LLC,** a Registered Investment Adviser. The firm provides ***fee-only*** wealth management services, including investment advisory and management services and comprehensive financial planning and consulting.

***As fiduciary advisors*, we are deeply committed to helping families and individuals reach their lifestyle and financial goals by thorough and creative planning, disciplined investing, and reduction of execution, tax, and management costs.**

For more information about our firm, including articles about our services, visit our website. To learn how we can help you reach your goals, please contact us for a free consultation. Our phone number is 208-542-0742 or you can contact Danielle Dursteler at dani@spinnakerfinancial.com.

- "Market expectations associated with election outcomes are embedded in security prices." It is highly unlikely that investors can be any more successful trying to "outguess" the market during election periods than they are at any other time. Accordingly, during this year it is as important as ever to focus on what we can control (how much we invest, how much we withdraw, our commitment to our allocations, etc.) as ever.

We've posted a summary of DFA's analyses at our website at www.spinnakerfinancial.com/additional-reading. ---*JC*



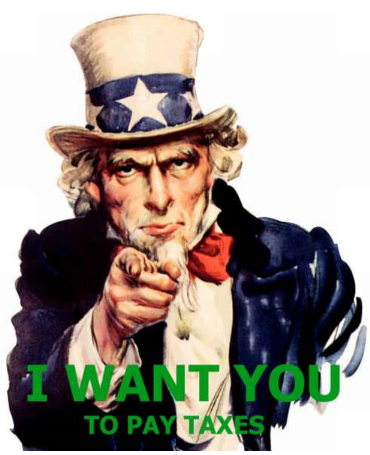
We are excited to announce that effective January 1, 2016 **Alan Campbell, MBA, CFP®** became a member of the firm. If you haven't met Alan yet, you should. He joined us in August 2014 and has had a huge impact on the services we're providing our clients. *See his complete bio at our webpage: http://www.spinnakerfinancial .com/our-team.*

How to Skip Quarterly Tax Estimates: Pay Your Taxes from Your Required Minimum Distribution (RMD)

It's that time of year again: time to settle up with Uncle Sam for our 2015 income taxes and start paying quarterly estimated tax payments for 2016. This exercise can drive taxpayers' nuts, particularly when income is variable and sporadic. I once heard a story about a woman who was in a coma for a number of weeks. When she came to and was told the current date she exclaimed, "That means we missed our quarterly income tax payment."

Sometimes life throws us curveballs, but the IRS thinks that all pitches are straight fastballs. For example, if this happens to be the year a taxpayer decides to sell a cabin, rental home, or business, there will often be a gain to pay taxes on. If this transaction takes place in the last quarter of the year, they may find themselves owing an underpayment penalty on top of their taxes for not paying enough estimated tax payments during the course of the year. According to the logic of the tax code, taxpayers should have known in April that a taxable event was going to occur in December and calculate the estimated taxes accordingly.

Now to be fair, the tax code has a safe harbor provision that states that if a taxpayer pays in 100-110% (depending on their income level) of their prior year's tax liability in estimated payments, they can escape the underpayment penalty regardless of their tax liability. This provision is usually very helpful after low-income years, but not always practical after high-income years. In the year after a high income year, it may not be realistic to make high estimated payments when income is likely to be much lower. But then, a good year in the market or an extra IRA withdrawal for an unexpected expense could lead to an underpayment penalty.



However, there is a way to pay your taxes at the end of the year in a way that the IRS counts as if it were paid evenly throughout the year. This way, you can pay your taxes based on what happened during the year as opposed to guessing. This method is called ***withholding***. When tax is withheld and paid directly to the IRS, they don't keep track of when it was withheld; it is treated as paid throughout the year. Withholding is very common for employees receiving regular paychecks. For retirees, the most common form of withholding is from IRA distributions.

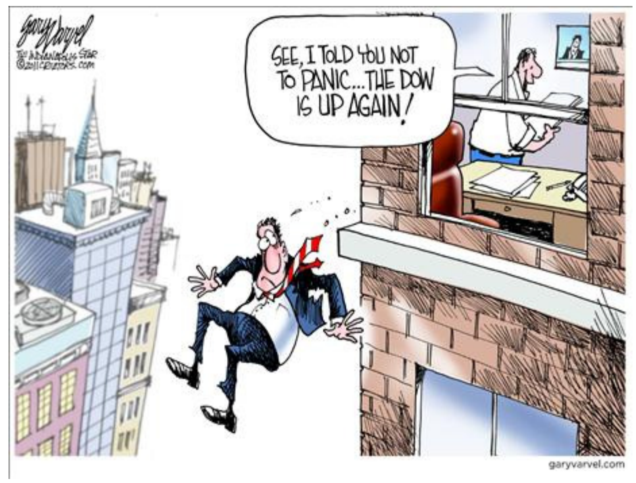
Here are some examples of how to use tax withholding to avoid quarterly payments:

- If you are retired and required to take a minimum withdrawal from your IRA (Required Minimum Distribution or RMD), and don't have a spending need for those funds, you could skip your quarterly estimates, distribute the RMD near the end of the year, and withhold an appropriate amount for taxes from the distribution. This way, the amount of taxes is based on looking back on the year rather than guessing what might happen.

- Another, more advanced strategy involves an IRA rollover. Let's say you need to make a tax payment by the end of the year. Cash flow is tight at the moment but you have really good reason to believe it will be better in a month. You can take a withdrawal from your IRA, have it all withheld for taxes, then pay the account back within 60 days and call the redeposit a 60-day rollover. There are number of ways this plan might not work, but it is an option to consider.

To pull off these strategies, it helps to have year-round income tax planning discussions with your financial planner or accountant. We are happy to help our clients plan for their income taxes as the year develops and the financial curveballs get thrown their way. *--AC*

THE ONLY THING WE HAVE TO FEAR . . . .



There's been a lot of research lately on why investors respond as they do to investment markets. One theory is that, as humans, we are genetically predisposed to run like the dickens when we're frightened, the theory being is that those who didn't run in the face of the danger were eaten by various predators over the millennia. As the old Louis Jordan hit (Number 1 on the Billboard R&B and Blues Chart for 17 weeks, back in 1946) goes: "Ain't nobody here but us chickens…"

In Jason Zweig's *Your Money and Your Brain; How the New Science of Neuroeconomics Can Help Make You Rich* he describes how our brain reacts to various stimuli and then connects that with the brain's interaction with financial data. Here are some of the tidbits I've picked up so far:

- From the brain's standpoint, "scoring" financially is almost indistinguishable from scoring a hit off of an addictive drug. This is why sometimes people become addicted to inappropriate emotionally-charged behavior and chase investment returns. It also helps explain why otherwise rational individuals are so easily seduced by outlandish claims of high returns and find themselves in Ponzi schemes and other scams.

On a Personal Note . . .

On a recent trip to Las Vegas (for the AICPA Personal Financial Planning Advanced Conference), Nola, a couple of her sisters, one of her nephews and I REALLY went out on a limb in search of great BBQ. Our search led us to "**Rollin Smoke Barbeque**" in Las Vegas. To say that this was off the beaten path isn't sufficient. It wasn't on any kind of path at all. Located in an industrial area almost under I-15, we actually drove past it twice before we found it, and then we weren't sure we wanted to get out of the car! (RSB has now opened a second location in, of all places, Pawn Plaza, which is right next to Rick's World Famous Gold & Silver Pawn Shop, of reality-TV's "Pawn Stars".) Once inside, it smelled spectacular!! The friendly staff was eager to answer questions about the menu and make sure we enjoyed everything (which we did.) We sampled ribs (of course), pulled pork, brisket, chicken, and even one of their specialties, Smoked Meat Loaf. Their Chipotle Cole Slaw (one of several great sides we tasted) was fantastic. *--JC*

I'm a sucker for Mexican food. If I lost a bet and had to eat the same kind of food every day for the rest of my life, I would happily choose Mexican food and consider myself lucky. On a recent vacation to Maui when I should have been taking in the local cuisine, I couldn't resist the allure of **Roasted Chiles**. My wife Amber, a.k.a. the world's toughest guacamole critic, gave her overwhelming blessing on their chips and guacamole. I tried the langostino (squat lobster) enchiladas which were absolutely heavenly. The staff provided excellent and attentive service. It was a great evening out with a large family group. *--AC*

- As investors start to believe that they no longer understand the odds of making money—which tends to occur in volatile markets—the amygdala, one of the brain's centers for expressing fear, goes into overdrive. Unstable markets actually do drive us crazy!
- When investors say they have a "high tolerance for investment risk", that usually means that they have a high tolerance for making money. We're fine taking risks as long as we know that we'll be okay; once we feel we're not, we panic. With few exceptions, any one who thinks that a plunge in the value of their investments won't bother them is either wrong or out-of-touch.
- Humans typically have a very difficult time telling the truth about their own behavior. ("Not telling the truth" is not necessarily the same thing as "lying". Frequently, we don't tell the truth because we don't recognize it.) Unfortunately, when investors don't tell the truth (regardless of the reason) about their investment behavior they'll continue repeating harmful behaviors (buying high, selling low, not learning from mistakes, etc.)

Part of the solution: emotionally detach yourself from your investments. Focusing on other aspects of your overall financial wellbeing (of which investments are just a part) and your long-term goals. We have also found that one of the most important roles we fill for clients is to protect them from damaging behaviors. *--JC*

FI·DU·CI·AR·Y

\DEFINITION\: A person legally appointed and authorized to hold assets in trust for another person. The fiduciary manages the assets for the benefit of the other person, rather than for his or her own profit.*

\USAGE\: A registered investment advisor, who is held to a "fiduciary standard," looks after the assets of another person on that person's behalf, is fully transparent, and required to disclose any potential conflicts of interest.

*Investopedia.com

The Latest on Department of Labor (DOL) Fiduciary Rules

The new hotly-debated DOL rules on advisor obligations to their clients recently became effective, although it is still too soon to know for sure the impact they will have on those in the financial services industry and their clients. **They won't have any significant impact on our firm or on our clients: as a Registered Investment Advisor (RIA) our firm has always been held to a fiduciary standard in our client relationships.** While no professional relationship is completely free from conflicts of interests, we are required to disclose any conflicts of interest that might exist and eliminate whatever we can. The new rules are significantly different and could be a game-changer for traditional broker-dealers and their representatives and insurance agents who have not been held to the same standard.

While the intent of the rules was to minimize conflicts of interest, the rules allow broker-dealers and other salesmen of securities and insurance to enter into a Best Interest Contact Exemption (BICE) agreement with clients. This agreement essentially allows the brokers to get around many of their fiduciary obligations. Personally, we feel that is a major flaw in the new rules.

We will be keeping our website updated for more information on these new rules. **The key thing to remember about our firm is that we have always been fiduciaries, and will always be fiduciaries!** *--JC*

> I know everybody says money can't buy happiness,
> But it could buy me a boat;
> It could buy me a truck to pull it.
>
> *Chris Janson (1986-) American country music singer and songwriter.*