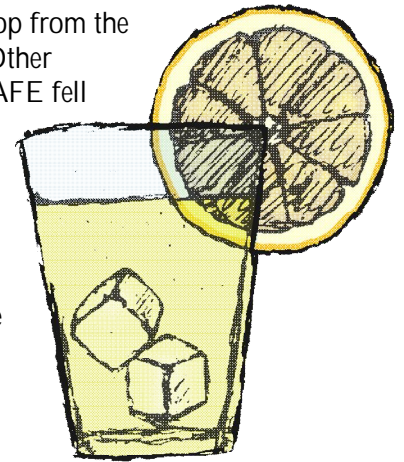


SETTING SAIL FOURTH QUARTER 2015

MAKING LEMONADE OUT OF LEMONS: TAKING ADVANTAGE OF A STOCK MARKET CORRECTION

The third quarter of 2015 marked the first US stock market correction (a 10% drop from the most recent high) since 2012. During the quarter, the S&P 500 dropped 6.4%. Other countries had it worse. A popular international stock market index, the MSCI EAFE fell by 9.5% during the same quarter. Although corrections are never popular and no one likes to see their account values decline, there are some ways to take advantage of a market decline.

For investors in the accumulation phase of life, a stock market correction is an opportune time to stick to your long-term plan and continue to buy stocks while they are on sale. Shoppers love sales because they get a better value and the same could be said for stocks. Too often, I hear of workers who stop funding their 401(k)s during downturns or only contribute to bond funds. What a waste of an opportunity. The market is giving savers value, all you have to do is take it and be patient.



Well, what about for those in the decumulation phase (retirement)? Once again, this is the time to stick to your long-term plan. Part of that plan should be to have enough in fixed income investments to meet your cash withdrawal needs for several years. Now is the time to rely on your advanced planning to sell your bonds for your withdrawals. A stock market correction is also an opportune time to rebalance your account to move your various funds back to their intended allocation. Right now,

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that probably means selling bonds and buying stocks while they are on sale. This will make a lot of sense logically, but may feel very wrong. Don't trust your gut on this, stick to the long-term plan!

A Roth IRA conversion is moving assets from your Traditional IRA (taxed when you withdraw) to a Roth IRA (tax-free withdrawals in many circumstances). Roth conversions can be great tools for managing years with lower income and taking advantage of a low tax bracket. The values of the assets transferred to the Roth IRA are taxable in the year of transfer, but their gains are typically tax free if taken out after 59½. In an ideal situation, asset values would decline, you would convert them at lower values to pay tax on, and then they would increase in value inside the Roth IRA. A stock market correction could be that ideal situation. It is certainly better than when the market was at its high.

So let's make the most of this situation. It's not what we asked for, but it could be a great opportunity. --ASC

'TIS THE SEASON: MAKING THE MOST OF YOUR CHARITABLE DONATIONS

The last quarter of the year seems to be the most active time for non-profit organizations to solicit funds. I don't know whether it is because they expect potential donors to be more generous during the holiday season, or because people are thinking of tax deductions. While many charitable organizations are legitimate and use donations wisely, there are many who don't. The tough part is selecting which charities are most appropriate for you.

To give a sense of how crazy some charity fund-raising activities are, let me share a recent example. A client brought me solicitations he had received in just a few weeks from five different charities. Every one of them was packaged as a "sweepstakes" (in big letters, of course), encouraging the potential donor to enter their sweepstakes for huge prizes (up to \$1,000,000) and, by the way, while you're at it, won't you also send a donation to help? All of them came from the same promoter (Ventura Associates International LLC) and four of them had the identical rules, including the disclosure that the odds of winning were approximately 1 to 1,192,052,400.

I researched these organizations, and found the following:

Name	Estimated Annual Revenues	Revenues to Fundraising	Revenues to Program Beneficiaries	Charity Navigator Rating	Tampa Bay Times Rating of Worst Charities
Coalition to Salute America's Heroes Foundation	\$15,000,000	30%	62%	1 of 4 stars	Not shown
Heart Center of America	\$3,000,000	78%	3%	0 of 4 stars	Not shown
National Veterans Service Fund	\$7,000,000	50%+	8%	None	8th
United States Deputy Sheriffs' Association	\$2,700,000	88%	6%	0 of 4 stars	16th
Roger Wyburn-Mason and Jack M. Blount Foundation for the Eradication of Rheumatoid Disease (dba Arthritis Trust of America)	less than \$1,000,000	Not available	0%	None	46th

Furthermore, each solicitation stated the individual's name may be (and assuredly was) sold to other organizations, (which could be either a profit or non-profit entity). That's just what we need, right?

To maximize the effectiveness of your charitable donations, here are a few thoughts:

- Research the organization (see accompanying box for possible resources).
- Budget how much you feel you can donate for the year to all charities and stick to it!
- Tell phone solicitors that you don't make charitable commitments on the phone. If they're legitimate, they'll offer to send you information, which at least gives you time to do some research. Never give out any financial information over the phone.
- Stay local. There are many excellent charitable and other non-profit organizations in Eastern Idaho. Some of these organizations (such as Development Workshop, Inc.) haven't received ratings from the above organizations, usually because of size. A lack of a rating for such organizations isn't necessarily a negative. In addition, donations to many Idaho organizations (schools, libraries, and rehabilitation facilities, to name a few) provide an Idaho state tax credit.
- Ask about their privacy policy. Many non-profits receive significant revenues for sales of their donor list. If there's no written guarantee that your information will be kept private, think hard about whether they should get your money. --JRC

Resources:

Charity Navigator

(www.charitynavigator.org) gives ratings based on finances and transparency. The service is free, but does require signing up. CN is a non-profit so you will be asked for donations periodically. CN also provides recommendations for alternative charities with good ratings in different areas of interest.

GuideStar (www.guidestar.org)

provides ratings based on transparency and disclosure and isn't as helpful as Charity Navigator. It is a great source, however, for IRS tax filings that provide a wealth of information.

Better Business Bureau

(www.give.org) provides lists of "accredited" charities. None of the above charities was on its accredited list. The local office of the BBB can also be helpful.

YOUR INCOME DOESN'T JUST AFFECT YOUR TAXES ANYMORE

Back when we lived in simpler times, like 2006, the amount of income you reported on your tax forms usually just affected how much you paid in taxes. Sure, these figures were important for applying for a loan or qualifying for financial aid for college, but they mostly just affected your tax bill. Oh, how the times have changed! For example:

On a Personal Note . . .

Nola and I took an end-of-tourist-season trip to West Yellowstone last weekend. While, theoretically, we have a trailer to save money on meals, we still end up eating out. For dinner Friday night, we went to Buckaroo Bill's Barbecue (and Ice Cream). What grabbed our attention was a menu item on the outside sign: Poutine! This is the closest thing to a Canadian national dish—french-fries topped by fresh cheese curds (yes, they must be fresh) and gravy. BBB added a half of a barbecued chicken on top. Chicken was perfectly cooked, fries were fresh-cut, and the gravy was tangy and tasty. The order was huge; Nola and I shared it and still couldn't eat it all. Décor is very touristy—booths are decorated like Conestoga pioneer wagons with a faux campfire setting in the middle of the room. Service was quick and attentive.

We also recently returned to the Red Iguana in Salt Lake City (North Temple, just west of the railroad tracks.) The neighborhood has improved a lot since we first ate there many years ago. (They now have optional valet parking, so you're not worried about someone stealing or vandalizing your car.) There still are no reservations and there is still always a line (although they have installed some benches). And the food is just as good as always! Hearty, huge quantities, seasoned perfectly. Everything we've eaten has been great. Their nachos are spectacular—huge mound of chips, beans, guacamole, sour cream, peppers, tomatoes and cheese.

- Starting in 2007, Medicare Part B premiums are now determined by how much income you reported on your most recent tax return filed. The standard monthly Medicare Part B premium for 2015 is \$104.90. This rate applies to Medicare recipients whose Modified Adjusted Gross Income is \$85,000 or less for individual taxpayers and \$170,000 or less for joint filers. Above those income levels, the premiums ratchet up as high as \$335.70 per month. Although the vast majority of taxpayers do not fall into these higher income levels, an unusual income event like selling a business or selling investments at a gain may be enough to trigger the higher premiums.



- The Affordable Care Act has added another layer of income complexity to those who get their health insurance through the health care exchange. Premium tax credits are available to help pay for health insurance premiums to taxpayers whose Modified Adjusted Gross Income is between 100% and 400% of the Federal Poverty Level for their household size. This means that some assistance is available for two-person households with income as high as \$63,720 and for four-person households with income of \$97,000. These premium tax credits can be significant, especially if the income level is just over the Federal Poverty Level (\$15,930 for 2-person home, \$24,250 for 4-person home).
- Of course, income levels still affect income taxes too. Federal tax law changes in the past few years have made income taxes less burdensome for lower-income taxpayers and more burdensome for higher income taxpayers. For example, taxpayers with taxable income (after deductions) of \$37,450 (single) or \$74,900 (joint filers) enjoy ordinary income tax rates no higher than 15% and a long-term capital gains and qualified dividends rate of 0%. This is tax-bracket range is great place to be and sometimes it makes sense to take on extra income to maximize these lower brackets, particularly if there is an expectation that another year you might be in a higher bracket.

In this current environment, selling an investment at a gain or loss, making Traditional IRA to Roth IRA conversion, funding retirement accounts such as 401(k)s and SEP IRAs, and other decisions can make an impact on your taxes and in other key financial areas as well. We strive to help our clients understand the overall impact before hastily making these kinds of decisions. The old days of dealing with the consequences the next year are over. --ASC

Too many people spend money they haven't earned to buy things they don't want to impress people they don't like.

Will Rogers (1879-1935) actor, political commentator, and cowboy

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