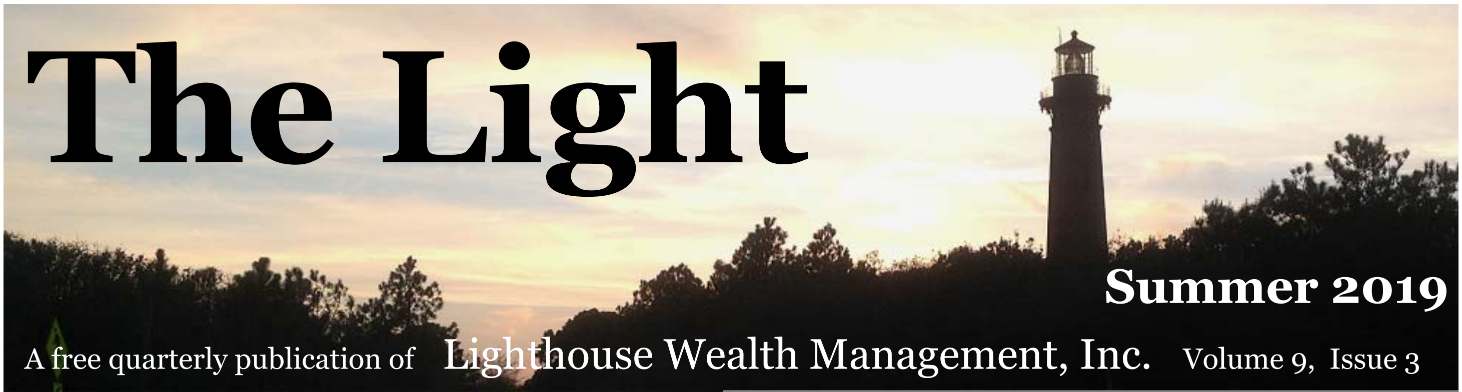

The Light

Summer 2019

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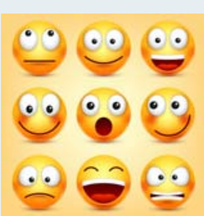
The Psychology of Money and Investing

By Tim Rowsey, CPA, Investment Advisor Rep.

Through our entire life we constantly make choices relating to money. One of the most basic revolves around the idea of time. Should I buy what I want today or delay to some future date? The delayed gratification of waiting comes easier to some than to others. We may even be born with a certain predisposition to save or spend.

In a famous experiment researchers at Stanford University gave a child a choice between a small reward such as a marshmallow, or a cookie immediately, or if they would wait 15 minutes, they would be given an additional treat. In follow up studies, the children who were able to delay and receive a higher award tended to have more positive life outcomes later in their lives. This distinction shown in children between those who could delay the gratification of their desires also shows up for adults who often are divided into spenders and savers.

Another aspect of our money decision-making is our emotions. Emotions such as fear, pain, pleasure and guilt can impact our money choices. Fear of missing out sometimes causes us to make decisions that are not really in our best interest, whether it is buying something that we really don't need, or spending more than we should on a new fad. Fear caused by temporary drops in markets can also cause us to overreact and make incorrect decisions relating to our investments. There can also be pain as we see values in retirement or investment accounts decline. This pain can cause us to want to avoid that experience in the future. On the flip side, most of us have experienced the pleasure of finding money in a purse or pocket that we didn't know was there, or the pleasure of seeing an investment unexpectedly grow a substantial amount in a short time.



With the emotional and immediate gratification issues that can hinder good money choices, what are some things that we can do to overcome these issues that impact our decision-making relating to money? If you are naturally a spender, or if fear or

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Could you Benefit From Charitable Donations From Your IRA?

By Chris Bevington, CPA, Investment Advisor Rep.

By now, you probably have the general understanding that, thanks to 2018 Tax Reform's higher standard deduction, fewer taxpayers are able to itemize. And while not having to track down itemized deductions does help simplify tax prep, use of the standard deduction effectively eliminates the charitable contribution deduction as a tax benefit. For taxpayers age 70 ½ or older, however, there is another option that may prove to be just as beneficial, if not more so. Such individuals can still help reduce their tax bill by making what are referred to as qualified charitable distributions (QCDs) directly from their IRAs. Read on to see if this is a strategy that may work for you.

Generally, a QCD is an otherwise taxable distribution from an IRA, owned by an individual who is age 70½ or over, that is paid directly from the IRA to a qualified charity. Each person can donate the full amount of his or her RMD, up to a maximum of $100,000 annually, effectively reducing the taxable amount of their mandatory withdrawal. Making a qualified charitable distribution not only lowers taxable income, it also has the potential advantage of decreasing the amount of Social Security benefits subject to tax, as well as potentially reducing future Medicare premiums.

If this sounds like a strategy that could work for you, below are things to consider:

1. **Each person can donate the full amount of his or her RMD up to a maximum of $100,000 annually.** If you're a married couple filing jointly, and you each have your own IRA, you both can use the $100,000 QCD rule.

2. **It's permissible to use less than the full RMD for the charitable distribution.** So, for example, if you have an RMD of $6,000 and you want to give only $4,000 to charity, you still would need to withdraw the remaining $2,000 and pay taxes on it. *(As you are likely aware, taking less than the full amount for your RMD could result in a tax penalty.)*

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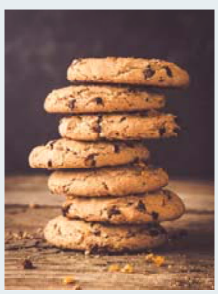
Helping individuals navigate their financial lives.

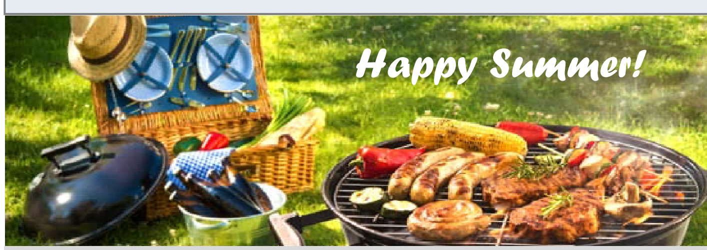
Psychology (continued from page 1)

guilt hinders good choices, what can you do? Here are some practical points that can help you make better choices no matter your mental predisposition.

1. Small changes and time can make a big difference. Spending $5 less each day, if saved and invested, would grow to over $500,000 over 40 years at an 8% return! Conversely, spending an extra $10 per month, putting it on a credit and only paying minimum payments, could easily cause a $15,000 or higher balance over 20 years. Small decisions can have big rewards or consequences over time.
2. Make it automatic. Payroll withholding for company 401(k) plans is a wonderful thing. Money that automatically comes out of your paycheck is normally not missed. If you start out having 5% withheld, increase it by 1% every year. Over time these consistent investments can help toward a better retirement. Automatic transfers to other savings or investment accounts also help take the emotions out of this important money decision.
3. Stop and ask yourself before every purchase, “Do I really need this?” Many purchasing decisions are emotional ones made to hide or try to heal an issue that has nothing to do with the actual purchase. The term “retail therapy” describes this process very well.
4. Pay credit card balances in full and don’t let interest on credit cards eat away at your financial wellbeing. If you can’t pay off the credit card when it comes due, stop using it until the balance is fully paid.
5. Keep your eye on your long term goal. For the children who couldn’t wait 15 minutes to get two cookies instead of one, the consequences were minimal. For adults who don’t keep some focus on their long term financial needs the potential future impact is much more significant.

While the mind and emotions can be a powerful influencer in money decisions, it is possible to organize your life and money decisions in a way that can minimize the impact of our natural fears and desires. If we can do this, we can join the children who chose to delay a little of today’s pleasure for tomorrow’s gain. ■





Donations (continued from page 1)

3. **It is also permissible to make a QCD that exceeds your RMD for a given year.** However, that extra distribution won’t carry over to meet RMDs for future years.

4. **The first dollar out of an IRA is considered to be the RMD.** So, if you take money out early in the year, that distribution would count toward your RMD, and you could potentially lose some of the tax benefit of a QCD. Say for example Joe takes his full RMD in February. In November, he wants to do a QCD. Joe cannot retroactively deem the February distribution to be a QCD. He must take an additional distribution if he still wishes to do a QCD for that calendar year. That income can be excluded, but it won't offset the income from the RMD taken earlier in the year.

5. **You should work with your IRA custodian to correctly accomplish a QCD.** Make sure you do not withdraw the funds or deposit the RMD into your personal account and then write a personal check. The donations must be made payable directly from the IRA to the charity. *(Most IRA custodians, including Charles Schwab, mail the check to the IRA owner who then mails/gives the check to the charity.)*

6. **Be sure to inform your tax preparer that you made a QCD.** Your IRA custodian will send you a 1099 showing the total annual distributions that have occurred, but the 1099 does not distinguish QCD amounts. Be sure to communicate the QCD amount to your tax preparer, so that it is correctly accounted for on your tax return, or your taxable income won’t be correctly reduced.

7. **You can distribute the money to multiple charities if you choose.** The $100,000 per person limit applies to the sum of all QCDs taken from all your IRAs in the tax year. You can make one large contribution or several smaller contributions to one or more charities.

8. **Donors cannot receive any benefit for making a qualified distribution to a charity.** So, for example, you can’t use a QCD to purchase something at a charity auction or tickets to a charity event.

9. **For a QCD to count toward your minimum annual IRA distribution, it must meet the same deadline as a normal distribution.** (Usually December 31.)

Not every organization or cause qualifies for a QCD. The organization must be a 501(c)(3). A QCD can’t be made to donor-advised fund sponsors, private foundations or supporting organizations. Before you arrange for the transfer of funds, be sure the charity is eligible.

Continued on next page

Now that you have a general understanding on QCDs, please review this hypothetical example as a way to further illustrate.

Let's say Bill and Bonnie Prospect are 73 year old taxpayers with taxable income of $120,000. Included in their taxable income are IRA distributions from Bill's RMD of $8,000 and Bonnie's of $12,000. The Prospects are quite charitable, and historically give $12,000 annually to their local church. In years past, their charitable contributions, when combined with real estate taxes, mortgage interest, etc., qualified the Prospects to itemize. However, with 2018 Tax Reform, and the increase to the standard deduction, they no longer have enough deductions to itemize, and they now take the standard deduction. The $12,000 donated to their church provided no tax benefit.

Now let's change the circumstances, and assume the Prospects took full advantage of their ability to make QCDs from their IRAs. Prior to taking any RMDs for the year, Bill and Bonnie contacted their investment advisor, and advised that each wished to make QCDs of $6,000 to their church. Doing so reduced the taxability of Bill's RMD distribution from $8,000 to $2,000 and Bonnie's from $12,000 to $6,000. Schwab wrote two $6,000 checks to the Prospects' local church, and mailed them to the Prospects' home address. The Prospects delivered the checks to their church, completing the $12,000 donation they had already intended, while also effectively reducing their taxable income by $12,000. In this example, their taxable income has them in the 22% federal bracket, meaning federal tax savings of $2,640. This also reduces state taxable income, meaning there would be state tax savings, as well.

As mentioned in the items to consider, since Bill and Bonnie used less than their full RMD for their charitable distributions, they will still need to complete the rest of their RMDs, and will be responsible for the tax on the remaining portion. However, they've effectively reduced their taxable income by $12,000 while also making their intended church donation. If there were other donations they wished to make, they would have the option of making further QCDs. And even though the Prospects no longer itemize, they still found a way to receive substantial tax benefit for their charitable giving.

If you're age 70 ½ or over, and this is a strategy you think you'd like to take advantage of, contact your investment advisor before taking any RMDs for the year, and we can help you through the process. ■

Market Recap

How the major indices performed in the 2nd Quarter 2019

DOW JONES INDUSTRIAL AVERAGE
2nd Quarter return 3.6% YTD return 15.4%

S & P 500 COMPOSITE
2nd Quarter return 4.94% YTD return 18.54%

RUSSELL 2000
2nd Quarter return 2.38% YTD return 16.98%

BARCLAYS AGGREGATE BOND
2nd Quarter return 3.21% YTD return 6.11%

*All indices are reported Total Return which includes Dividends

Market Update

By Greg Emmons, CFP®
Investment Advisor Rep.

Equity Markets went on a roller coaster in the second quarter.
Stocks had significant increases in the months of April and June, but May saw a steep decline. Overall the market was up for the quarter. The S&P 500 had an increase of 4.9%, marking the best first half for the market since 1997. The trade feud with China and what the Federal Reserve is doing with interest rates seem to be driving the markets on a day-to-day basis. While these two usually grab the headlines, it's important to remember they are just a part of the bigger story.

Bonds were also up for the quarter.
The Barclays Aggregate Bond Index rose by 3.2% for the quarter. The yield for the US 10 Year Treasury Note (an important indicator for lending rates) dipped back down below 2% at the end of June sending bond prices noticeably higher. The Federal Reserve has made it known that they would be open to lowering rates if the economy starts to slow.

Second Half Outlook
With the gains we've seen thus far in 2019, we wouldn't be shocked if the remainder of the year was a little more subdued. The trade negotiations with China, slowing global growth, and geopolitical tension with Iran and North Korea are all things to keep an eye on. There is always something going on to be "fearful" of and when it comes to investing it's usually best to keep your head down and your long term strategy in place. ■

Lighthouse Wealth Management
1078 Commerce Parkway
Ashland, Ohio 44805

Tim Rowsey, CPA, President
Investment Advisor Representative
Cell: 567-215-3015
trowsey@lightwealth.com

Aaron Rowsey, Vice President
Investment Advisor Representative
Cell: 419-606-5239
arowsey@lightwealth.com

Greg Emmons, CFP®
Investment Advisor Representative
Cell: 419-651-1507
gemmons@lightwealth.com

Chris Bevington, CPA
Investment Advisor Representative
Cell: 419-569-2139
cbevington@lightwealth.com

Cheri Smeltzer, Office Manager
Compliance Specialist
csmeltzer@lightwealth.com

Main office phone: 419-496-0016
Fax: 419-496-0054
www.lightwealth.com

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