The Light

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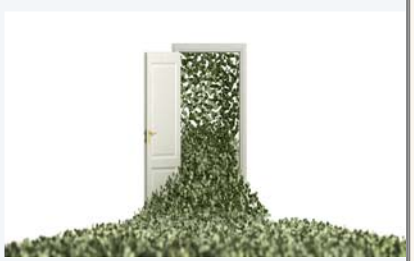
What To Do With Unexpected Money

By Tim Rowsey, CPA, Investment Advisor Rep.

Sometimes in our practice we work with people who suddenly receive a large amount of money that they were not expecting. This may have come from an inheritance, from the sale of a farm, business, or some other asset, or maybe even winning the lottery! For whatever reason, decisions must be made as to what to do with this windfall.



Many options are available, and it might be helpful to consider some of the basic options and discuss the benefits or issues with each. It is far too easy for someone in this situation to make hasty or unwise choices and later regret not taking the time to consider the consequences.

Unfortunately, one of the first decisions to be made relates to any tax liability relating to this additional money. If the proceeds come from lottery winnings or sale of a business, farm, or other asset, there would be some tax liability, which will ultimately reduce the amount of money that is truly available. Many people are pleasantly surprised to learn that most inherited income, whether it is life insurance proceeds, or stock or other inherited assets, are not taxable to the recipient. The exception to this general rule would be inheriting an annuity. In this case, the built in gain inside the annuity is taxed to the recipient. Once the tax considerations have been considered and the true amount of funds available after taxes is known, other options can be considered.

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Market Correction—Now What?

By Tim Rowsey, CPA, Investment Advisor Rep.

Since the end of the financial crisis in March of 2009, the stock market has been on a steady—but somewhat erratic—growth mode. From a low of 676 on March 9, 2009, the S & P 500 grew dramatically to a new all-time high of 2,130 in May of this year. This was over 200% growth in this six year time span. The Dow Jones Industrial Average also saw remarkable growth from that low point in 2009, growing from around 6,500 to over 18,000.

For a number of years pundits have been saying “someday there is going to be a correction”. In the third quarter of 2015 “someday” arrived. All of the major indices: the Dow Jones Industrials, S&P 500 and Nasdaq, have now experienced a decline of more than 10% from their May or July peaks. This 10% decline officially makes this decline a market correction.

When we experience a correction, it is helpful to look back in history and see that we have been here before. The last official correction was in the fall of 2011. Using the S & P 500 as a measure of the market, that index fell from a high of 1,345 on July 22nd to a low of 1,099 on October 3rd. This was nearly a 19% decline and almost would have counted as a bear market (20% decline). Since that low point, over the next four years the S & P 500 went on to gain an average of 15% per year to rise to its current reduced level of approximately 1,882. Similar recoveries can be found after all of the other historic corrections and bear markets. The

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Unexpected Money (continued from page 1)

Current debt is probably the next consideration. For an individual with credit card debt, student loans, car loans, or a home mortgage, paying off any or all of this debt would be an option. We usually recommend comparing the interest rates on any debt vs. the potential return on other uses of the funds. A practical example might help.

Mary Smith just sold her farm land for $1,500,000. After consulting with her tax and financial advisor she has learned that she will owe approximately $250,000 in federal and state taxes. This will leave her $1,250,000 after her tax bill is paid. Mary has no student loans, but she has $8,000 in credit card debt at a 12.99% rate, a car loan for $12,000 at 7.99%, and a home mortgage for $55,000 at 3.25%. In looking at potential other uses of her funds, Mary hopes to be able to grow her money in the range of 5% to 6% per year with some investments. Based on this scenario, we would advise Mary to pay off all debt that is costing her more than her expected rate of return of 5% to 6%. This would mean paying off the credit card and car loan but retaining her home mortgage. Mary would then be in a position to look at how to invest her remaining funds. For some individuals, being debt free is a lifetime goal, and also provides them with additional peace of mind. For them, paying off the home mortgage would also be a possibility, even though it would be wise economically to earn a higher rate of return on investments and take advantage of the low interest rate on the home mortgage.

Many people in this situation then look at giving back some of this unexpected income to charity or relatives. Any gift to a 501(c)3 organization, such as a church or university, would qualify as a charitable deduction and might potentially provide some tax savings. Gifts to individuals, including family members, do not provide any tax benefit, but may still be a priority for the donor.

Another option for unexpectedly received money is the purchase of some long held dream such as a new car, boat, dream vacation, etc. Decisions such as these are entirely personal in nature and there is no right or wrong choice. The only consideration in making these decisions is whether or not it is something that you will value in the future.

Normally, for our clients, we work with the money that is still remaining after all of the above considerations. These are the funds that can be invested and can provide either a monthly income stream, or can be grown to provide for future income, giving, or other priorities. Many people in this situation desire a lifetime income from this windfall of money. We can set up a recurring monthly deposit into their checking account. The actual amount would be dependent on the growth of their investments, which would also be dependent on the risk tolerance of the individual investor. This payout ratio can range from 4% to 6% per year.

Going back to Mary's example, after taxes, loan payoffs and some gifts, she invests $1,200,000. Based on her expected growth in her investments, she requests an annual payout of 5%. This means that she will receive a monthly deposit into her checking account of $5,000 per month. The balance of her investment is still available to her, but will be managed by us to continue to provide growth for her lifetime.

If you find yourself the beneficiary of some unexpected income, give us a call so we can help you navigate the many options and choices available to you with this new--found wealth. ■

Disclosure Statement

A copy of our Part 2 of Form ADV: Firm Brochure, which provides information about the qualifications and business practices of Lighthouse Wealth Management is available upon request. To request a copy contact Cheri Smeltzer at:

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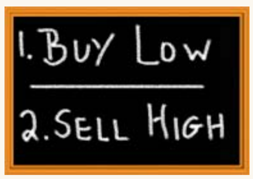
time to recover may vary, but each time sharp declines were followed by periods of recovery that led to new all-time highs. Normally, some type of market correction happens every few years.

It may also be helpful to look at what other successful investment experts have had to say, or the actual actions they have taken in down markets. Warren Buffet is the classic value investor. He has made billions of dollars by buying when others are panicking and selling. The classic saying in investing is "buy low and sell high". The problem is that most individual investors start to worry when there is a market decline, and they want to sell after values have declined. All this does is lock in losses. Several studies have shown that the average retail investor left to their own judgment will actually only achieve about a 2.3% annual return over time. Their problem is that they tend to "buy high and sell low". Emotions drive their decisions, and as we experience market corrections, or even bear markets, they move out of the market at exactly the wrong time. The normal recovery in values that should inevitably happen are missed as they are on the sidelines, or invested too conservatively during market recoveries.



Buffett's philosophy has always been to look for companies with strong balance sheets, cheap valuations and good management that are trading at a discount price due to market conditions. We would also add that using mutual fund managers who use that same philosophy in their funds should also result in the same kind of outstanding return with less risk than the market.

While going through a market correction is no fun and can be a trying emotional experience for investors, we encourage our clients to learn from history and hold on for the recovery that will eventually follow any market correction. ■

Market Recap

How the major indices performed in the 3rd Quarter 2015

DOW JONES INDUSTRIAL AVERAGE
3rd Quarter return -7.6% YTD return -8.6%

S & P 500 COMPOSITE
3rd Quarter return -6.9% YTD return -6.7%

RUSSELL 2000
3rd Quarter return -12.2% YTD return -8.6%

BARCLAYS AGGREGATE BOND
3rd Quarter return 1.2% YTD return 1.1%

Market Update

By Tim Rowsey, CPA
Investment Advisor Rep.

The third quarter of 2015 was negative across the board for equities.
Equities had the worst quarter since the fall of 2011. This decline was broad with a 7% or greater decline in all of the major equity indices. The decline this quarter moved us into an official "correction". Volatility was once again strong with an intra-day dip of over 1,000 points in the Dow in August. Overall the Dow moved more than 2% up or down on 7 different days this quarter. Unfortunately there were more down days than up days. Small cap stocks, as represented by the Russell 2000, were hit the worst with a 12.2% decline for the quarter. All the major equity indices are now down between 6% and 8% for the year.

Bonds were a safer haven for the quarter.
The Barclays aggregate Bond index increased by 1.2% for the quarter. The Federal Reserve once again deferred on an interest rate hike. Now the consensus is that the long expected interest rate increase may not happen until possibly December or 2016.

Corporate earnings and an expanding economy may be the key.
To see a recovery in the market we will need to see continued strong corporate earnings and growth in the economy. Nike is an example of how strong earnings are rewarded in the market. When they announced a significant increase in earnings last week the stock soared by 9.6%. As other companies continue to increase growth and profit that should positively impact stock values. We believe it is important to keep a long term perspective through this current market decline. All market corrections are ultimately followed at some point by recovery. ■

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ASHLAND AREA CHAMBER of COMMERCE

The Light is published quarterly by Lighthouse Wealth Management, Inc.

Subscriptions are free. Paperless delivery is available upon request. Call Cheri Smeltzer at 419-496-0016 or email her at csmeltzer@lightwealth.com to be added to our list or to change your subscription.

At Lighthouse Wealth Management, we want to help our clients reach their financial goals and have plenty of peace of mind along the way. We offer a holistic, full service approach. We start by getting to know and understand our clients' wants, needs, and dreams. We partner with them to help them navigate all the financial challenges of life. We can help answer financial questions, help with tax planning and preparation, and guide our clients with their investments to help them reach their ultimate financial goals.

Just as a Lighthouse provides guidance to passing ships, Lighthouse Wealth Management provides our clients with solid, trusted, conscientious guidance to help them navigate risks and lead them to their financial goals.

Lighthouse Wealth Management believes in giving back. We give 10% of our profits to charities, including CURE, International. **www.cure.org**

Our Services

- Investment Advisory Services
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- Retirement Planning
- 401(k) Rollovers
- Financial guidance in all areas

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