
Let us help you find your financial balance!
Fred Dunbar
CLU®, ChFC®, RFC®, AIF®
We bring quality services to the shore, providing a "common sense" approach to pursuing our clients' financial goals for thirty years.
Financial Planning* Asset Management* Investment Planning* Retirement Planning
COMMON CENTS PLANNING
1-800-647-0762
239 Baltimore Pike Glen Mills, PA • 6606 Central Ave. N. Sea Isle City, NJ
fdunbar@commoncentsplanning.com • www.commoncentsplanning.com
Securities offered through Commonwealth Financial Network, Member FINRA/SIPC. *Advisory services offered through Planning Directions Inc., a Registered Investment Adviser, are separate and unrelated to Commonwealth.

A Holly Jolly Christmas

"A Holly Jolly Christmas" is a classic holiday song written by Johnny Marks and first performed by Burl Ives for the 1964 Christmas special, "Rudolph the Red Nose Reindeer." You're probably humming the lyrics right now. The lyrics start with the title, letting you know it's the best time of the year. I believe most people enjoy this time of year. Once you get past the hustle and bustle of holiday shopping, you get a chance to enjoy it with family and friends. If you are a parent or grandparent, then you enjoy the look on the children's faces.

As I write this, we are approaching the presidential election. It's been amazing, the amount of people who don't like either candidate. Well, by now we all know who our new president ~~is~~ will be. Chances are 50 percent of you are happy and the other 50 percent upset. My hunch is if it is Hillary Clinton, then the markets have remained in about the same trading range. If it is Donald Trump, my hunch is that the markets are down somewhat, since he is an unknown commodity. Hopefully everyone did their civic duty and voted. Remember, if you didn't vote you cannot complain.

As we enter the final stretch of the year, it is time to start thinking about rebalancing your portfolio and maybe doing some tax management. You should rebalance your portfolio at least once a year, if not more in a volatile market. Suppose you started with 60 percent in stocks (risk) and 40 percent in bonds (your security blanket) but now stocks have increased to make up 75 percent of your investments. This means that you have less safety now in your investments. You now will take profit from some of the stocks to get you back in balance.

We finished 2015 with the markets down. We started this year with a lot of hope for a strong market, but it was quickly diminished with the S&P down 5.07 percent for the month of January. February was flat and all hope seemed to vanish. Most of the TV and radio pundits kept saying that a down January means we will have a down year. Stop listening to them. As I write this article, the S&P is up 5.67 percent.

Rebalancing your investments is fairly easy, especially if you use a professional to help you. You have to start with the end in mind. It is based on how much risk you are comfortable taking. Today it seems many people are taking more risk than they should due to this ultra-low interest rate environment. Can you sleep at night? If not, you may have too much risk in your portfolio. In figuring out your risk tolerance, it's fairly easy if you're single since you only have to answer to yourself. If you're married or have a partner, is more difficult because now it is "our" money, not just your money. Always include your better half in deciding on your risk tolerance. Remember, the one thing that people have fought about for thousands of years is money.

Once you decide on risk, then design your portfolio that way. As a rule of thumb, if you're conservative you may not want more than 20 percent in equities. A capital-preservation portfolio is a little bit more risk (40 percent stocks) with the hope of maintaining your principal. If you're a moderate risk taker, then you probably will have close to 60 percent in stocks. You may be a growth investor and risk does not bother you; then you may have 80 percent or more invested in stocks.

If you are rebalancing your portfolio by yourself (Ebenezer Scrooge) and don't want to ask an expert, then you may go with the old adage of your age equals the amount of bonds. If you are age 40, then your investment mix should be 40 percent bonds and cash, 60 percent stocks. If you are 72, then you should be holding 72 percent bonds and cash, 28 percent stocks. Generally, as you get older the less risk you take. I know this is oversimplifying it, but it can work. A professional will certainly diversify more efficiently and in different asset classes within the bonds and stocks.

Next, you gather all of your investment statements including personal accounts (Individual, IRA, Joint, Transfer on Death, etc.) and retirement accounts (401(k), 403(b), SEP IRA, Simple IRA, etc.). Total the number of bonds and stocks you own. It may make sense to keep more bonds in your retirement accounts due to the taxes on dividends.

In order to rebalance, you have to figure out what you want to sell and buy. If you hold investments outside of a tax-deferred retirement account, then you have to keep taxes in mind. When many of you think of taxes, it may ~~churn~~ turn your stomach, similar to the old fruitcakes your family used to receive this time of the year.

As you rebalance your investments, review the front page of your statements to see how much has been paid in dividends (many of you live on this each month) and whether they are qualified (special tax break) or ordinary dividends subject to regular income taxes. Look to see what investments you have already sold. Did you make a profit or did you sell at a loss? You want to total both the gains and the losses. If you made more than you lost, then you will owe capital-gain taxes, which are taxed at a lower rate than ordinary income tax.

Next, review your nonretirement investments to see if you can sell something for a loss. I know it sounds negative, but it doesn't have to be. If you have been receiving dividends on your investments, you may have already paid taxes on them. You look at your original investment plus any dividends or capital gains that have been reinvested, and this is your cost basis. Then look at the current value, and if it is higher than the cost basis, it has made money; if it is lower, then you have a loss and you may be able to sell that investment for a loss.

This can seem confusing. It is simply the accounting rules at work. If you work with a CPA or tax adviser, they can help calculate the cost basis on your nonretirement investments. You can send them your year-end account statements and tax forms and they can help you with the calculation. That can make rebalancing your investment portfolio much easier.

There is a great commercial by a local bank on TV where dad is packing the car for vacation. The gist of the commercial is that many people spend more time planning for their vacation than they do planning for their retirement. How sad is that? Do not fall into that trap, since your retirement lasts certainly longer than one or two weeks.

The easiest thing to do is to give yourself the gift of a couple of hours of a paid professional to do this for you. Now that the gifts are wrapped and you feel reasonably certain that you have tax managed and rebalanced your investments, grab a cup of cheer since this is the best time of the year.

I hope that each of you has a Merry Christmas or a Happy Hanukkah. May 2017 be a year of health, happiness and prosperity.

Fred Dunbar, CLU, ChFC, RFC, AIF,® is President of Planning Directions, Inc., a registered investment adviser, and Common Cents Planning, Inc. He is also a registered representative of and offers securities through Commonwealth Financial Network, member FINRA/SIPC. Advisory services offered through Planning Directions, and fixed insurance products and services offered by Common Cents Planning, are separate and unrelated to Commonwealth. Fred may be contacted at 800-647-0762, by e-mail at fdunbar@commoncentsplanning.com or by mail at 239 Baltimore Pike, Glen Mills, PA, 19342. "This material is intended for informational/educational purposes only and should not be construed as investment advice, a solicitation, or a recommendation to buy or sell any security or investment product. Please contact your financial professional for more information specific to your situation."