

# BURKE

FINANCIAL STRATEGIES

99 Wood Avenue South, Suite 102  
Iselin, NJ 08830  
732-744-1200

john.burke@burkefinancialstrategies.com  
steven.criscuolo@burkefinancialstrategies.com  
christopher.trainor@burkefinancialstrategies.com  
melissa.montalvo@burkefinancialstrategies.com



JOHN B. BURKE, MS, CFP®  
Financial Advisor



STEVEN CRISCUOLO, CPA  
Financial Advisor



CHRISTOPHER M. TRAINOR, CFP®  
Financial Advisor



MELISSA MONTALVO, CFP®  
Financial Advisor

financial



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U C C E S S

## Stock Investing Mistakes to Avoid

**F**ollowing are some common investing mistakes to learn about now, so that you don't have to learn the hard way:

**Not Having a Plan** — Every investor needs a well-established plan. Your plan should include:

✓ **Goals and objectives** — You want to be as specific as possible with your goals so that you will be able to measure if you are on track to meet

them. Saving for retirement or an education are goals that are too vague.

✓ **Risk tolerance** — If you are an investor who can't stomach the ups and downs of the market, you will probably be better off investing in blue chip stocks. Also, think about other risks that will impact your portfolio.

✓ **Benchmarks** — Determine what benchmarks you will use to measure the success of your portfolio.

✓ **Asset Allocation** — Decide how you will allocate your stock investments across various industries, company sizes, etc.

✓ **Diversification** — Allocating your assets among asset classes is the first step of diversification. You will also want to determine how you will diversify within each asset class.

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## Why You Should Not Hate Your Brokerage 1099 Form

Here are some things that almost nobody likes: spiders, snakes, warm squishy fruit, splinters, paper cuts... and IRS Form 1099 sent by your brokerage firm. That 1099 always seems to be late. It is so easy to misplace. And it reports every last bit of income, causing your accountant to give you bad news. While we realize that most of you just hand it to your accountant and give it little to no thought, I would like to share with you some things you might want to know about it.

A frequent question we get is, "When will I get my 1099?" The common misconception is that the brokerage firm, Raymond James (RJ) in our case, is required to mail 1099s by January 31st. The confusion most likely stems from the fact that W2 forms and 1099-Rs, sent to retirees with IRA distributions, are supposed to be mailed each year by January 31st. When one thinks of a 1099 from their brokerage account, they are

most often referring to 1099-Int for interest, 1099-Div for dividends, and 1099-B which reports gains and losses from securities transactions. Brokerage accounts typically contain all three types of transactions, so the brokerage company will issue a consolidated 1099 statement with all the different types of earnings included in one report. These 1099 forms don't actually have to be mailed until February 15th.

1099s are often delayed due to income reallocation. This process is conducted by the issuer of particular investments, and changes are subsequently reported to RJ. The types of securities impacted by income reallocation typically include Mutual Funds, Real Estate Investment Trusts, Exchange Traded Funds, Unit Investment Trusts, and select individual stocks. Brokerage firms would rather send out preliminary 1099s than have to send out Corrected 1099s, causing

you to have amend your tax returns.

There are many types of form 1099, but they all have one thing in common—they report income that was paid to you. And the various forms of income shown on 1099s are taxed at different rates. Interest, ordinary dividends and short-term capital gains (positions held for less than one year) are taxed at ordinary income tax rates. Qualified dividends and long-term capital gains (positions held for longer than one year) are taxed at preferential capital gain rates. We are very aware of different tax treatments, and do our best to purchase and sell investments in a tax efficient manner. A number of examples follow, along with general information about various forms 1099.

**Taxable Interest vs Tax-Exempt Interest** — When building your portfolio, we look at your income tax bracket and state of residence to see whether taxable bonds and/or tax-exempt

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## Stock Investing

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### **Not Doing Your Homework** —

When you are planning to invest in a company, you'll want to have a thorough understanding of the company and its products. Read the company's annual report to review its performance and its business plans. While not an exciting read, a prospectus of the investment offering will provide valuable information. Also, spend time on the company's website, read press releases, and look for articles.

### **A Time Frame That Is Too Short** —

If you begin investing for specific goals with a short time frame, then your asset allocation will need to reflect that. If you begin saving for your daughter's education when she's in the sixth grade, you'll only have about six years to fund her education, and your investments will need to align with that time frame. The bottom line is that you need to begin investing as soon as possible so that you have reasonable time frames to meet your goals.

### **Too Much Noise** —

There is no shortage of financial news shows, pundits, and information, and it is wise to be well-informed. But don't let it take you off track from your investment plan. Use the information to learn about investing, various strategies, and companies that you are interested in investing in, but don't let it turn your plan upside down.

### **Not Rebalancing Your Portfolio** —

Rebalancing is the process of realigning the weighting of your portfolio to the original asset allocation that you defined in your plan. Rebalancing is not easy to do because it may force you to sell investments that are performing well and buy more investments that are not performing as well. If you allow your portfolio to coast along with market returns, you will at some point be overweighted at market peaks and underweighted during market lows. Rebalancing will help you reap the long-term gains you are looking for.

### **Investing Isn't Gambling** —

While some people may feel that way because there is no guarantee on return, investing is a discipline. If you are jumping on hot stock tips or just picking stocks without truly understanding the compa-

## Reevaluate Life Insurance at Retirement

**A**s retirement age approaches, reassess your life insurance policies to see if your needs have changed. Before cancelling, however, make sure there aren't other uses for your life insurance policy, such as:

✓ **To leave a legacy to heirs** — Even if the money isn't needed for your children's support after your death, many people like the thought of leaving a large inheritance to their children or grandchildren. With an insurance policy in place, you can feel free to spend your retirement assets, knowing the insurance policy proceeds will be paid to your beneficiaries after your death.

✓ **To pay your grandchildren's college expenses** — With the rapidly increasing costs of college making it more and more difficult for parents to cover, you might want to use an insurance policy as a college fund for your grandchildren. If you're still alive when they start college, you might be able to borrow some of the cash surrender value to pay these costs.

✓ **To support adult children** — There are a variety of reasons why you might want to provide financial help to an adult child. Perhaps your child is a doctor, but has significant debt from college. Or your child might work at a job that doesn't pay a significant amount of money.

✓ **To provide a large charitable contribution** — A life insurance policy can serve a couple of purposes when making a large charitable contribution. You can name the charity as the beneficiary of the policy. Or you can leave other assets to the charity that would have been included in your estate and possibly subject to estate taxes. The proceeds of the life insurance policy, if properly structured, can then be paid to your heirs estate and income tax free.

✓ **To help deal with long-term-care costs** — Many individuals don't purchase long-term-care insurance, believing their spouse will take care of them. However, when one spouse dies, there may not be anyone to take care of the surviving spouse. The proceeds of a life insurance policy can be used to provide long-term care for the surviving spouse.

✓ **To optimize pension benefits** — When retiring, irrevocable decisions about pension plan benefit payments must typically be made. An individual life income option will pay higher benefits than a joint and survivor benefit, but then your spouse will not have pension benefits if you predecease him/her. You could use the proceeds from a life insurance policy as a source of income for your spouse after your death. ○○○

ny, you are not investing, you are gambling. Investing is about making decisions based on an investment plan that addresses all of the important factors and sticking to it, then reviewing it appropriately on a regular basis.

**Chasing Performance** — There are investors who chase the next best thing, which can lead to bad investment decisions and sizable losses. Again, it is best to have an investment plan that you stick to and rebalance it when necessary.

**Watch Out for Bargain Buys** — Have you ever bought a piece of furniture or an article of clothing because it was a real bargain, only to have it fall apart a short time later? The same thing applies to stocks. Don't buy a stock just

because it's cheap, because cheap doesn't necessarily mean it's a good investment. The key is finding good value. You want to purchase the best possible stock at the best possible price. A high-priced stock could provide more value than a low-priced stock in terms of the return it will bring in the long run.

**Not Considering Taxes** — You'll want to think about the tax consequences of your investments before investing. Take the time to figure out what your return will be after adjusting for taxes. You should consider investing a portion of your investments in tax-advantaged or tax-deferred instruments to help offset taxes on your taxable investments. ○○○

# Retirement Withdrawal Rates

**W**hen planning for retirement, most people are focused on how much they need to save today. They tend to spend less time thinking about how they'll make their nest egg last once they stop working. After all, with total savings in the hundreds of thousands or even millions of dollars, it may seem that your money will last forever. Unfortunately, it's just not that simple.

Few people are wealthy enough that they don't need to worry about how much money they withdraw from their savings every year. Below, we cover some of the most important things you need to know about retirement withdrawal rates and how to make your savings last a lifetime.

## The 4% Rule

To avoiding the danger of draining your savings, you need a plan. That means knowing how much you can withdraw from your portfolio every year.

This is called your retirement withdrawal rate. There's actually a pretty simple rule of thumb you can use to estimate how much you can safely take from your savings. It's called the 4% rule.

The 4% rule says that you can withdraw roughly 4% of your portfolio every year and have enough

money to last for a 30-year retirement (assuming you are invested in a 60-40 mix of large-cap stocks and intermediate-term government bonds).

So, if you had a total retirement portfolio of \$1 million, you could withdraw about \$40,000 every year and probably have enough money to last until you turned 95.

Combined with Social Security and pension income, your 4% withdrawal rate could provide you with a respectable, though not necessarily lavish, income. If you wanted to enjoy an annual income in the six figures in retirement, you'd have to save quite a bit more.

## Does the 4% Rule Matter?

There's a lot to be said for the 4% rule, but it's not the be all and end all of retirement planning. In fact, some retirement experts have said that today's retirees should forget about the 4% rule, or at least apply it with caution.

Low interest rates are one reason, because they mean that retirees aren't earning as much on their relatively safe investments (like government bonds) as they would if they'd retired a couple of decades ago (when the 4% rule was first proposed).

Another problem is what is called sequence of returns risk. Basically, the 4% rule assumes that you earn relatively stable average returns throughout your retirement. Unfortunately, that's not how the real world works. Returns fluctuate, sometimes wildly, from year to year. If you are unlucky enough to hit a bad patch in the early years of retirement, the value of your portfolio may fall, and you may never be able to make up the loss.

Finally, there is something called the sequence of consumption risk. The 4% guideline assumes that your spending is relatively steady throughout retirement. But recent studies indicate that's not the case for most retirees.

You're likely to spend more money in the early years of retirement (when you're still relatively young and active and eager to do all the things you couldn't do while working), less in the middle years of retirement, and more in the final years of your life (when healthcare costs often pile up). Spend too much in the early years and you could find yourself running out of money in the later years.

## A Guideline, Not a Rule

Rather than treating a 4% retirement withdrawal rate as a hard-and-fast rule, it's better to think of it as a starting point. Thinking about living on 4% of your portfolio every year is a good way to get a rough idea of how far your retirement dollars will go. But by itself, it won't be enough.

To really determine how much you can withdraw from your savings every year, please call to discuss this in more detail. ○○○





# Why You Should Not Hate Your Brokerage 1099 Form

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municipal bonds should be included in your portfolio.

**Realized Gains/Losses** — Before year end, we review taxable accounts for capital gains realized during the year. “Tax loss harvesting” is a standard practice that we use when possible, selling securities with a loss in order to offset these taxable gains. We provide significant gain or loss information directly to client accountants, if applicable.

**Foreign Taxes Withheld** — Some non-US companies pay dividends but withhold a portion for taxes. This withholding is shown on 1099s as foreign taxes paid. If the investment is held in a taxable account rather than in a retirement account, the investor/taxpayer can get reimbursed for some or all of the withheld amount with their tax filing. When building a portfolio, we try to put international stocks in taxable accounts so you can get the benefit of reported foreign tax withholding.

**Required Minimum Distributions (RMD)** — Beginning at age 72, IRS regulations generally require a minimum withdrawal amount each year from tax-deferred retirement accounts, such as traditional IRAs and 401(k) plans. Steep penalties are assessed on required amounts not withdrawn. If an account owner fails to withdraw the RMD, fails to withdraw the full amount of the RMD or fails to withdraw the RMD by the applicable deadline, the amount not withdrawn is taxed at 50%. IRA distributions are included as income on 1099-R.

**Beneficiary IRA distributions** — For those accounts inherited before 2020, annual minimum distributions are required. But those who inherit accounts after December 31, 2019 have 10 years to withdraw the entire balance, and are not subject to annual minimum distributions. We can review distribution plans with clients, to determine their impact on income taxes, Medicare premiums, and the taxability of Social Security.

**529 Plan Distributions** — Form 1099-Q and Form 1098-T will list the amount of the 529 plan distribution and how much was used to pay for college tuition and fees, but it is up to the 529 plan account owner to calculate the taxable portion, if applicable. 529 plan distributions used to pay for non-qualified expenses are subject to income tax and a 10% penalty on the earnings portion of the withdrawal.

**Tax Prep Software** — Raymond James has partnered with tax prepara-

tion software companies H&R Block, Tax ACT and TurboTax, to provide tools that will enable you to easily import tax form data. Be sure to use this download tool to accurately and efficiently report your investment activities.

While we review investment portfolios throughout the year, the year-end offers us and our clients an opportunity to impact the 1099 before it is issued to minimize income taxes and maximize the use of various benefits. Shown below are the more significant year-end planning issues. Please review to see what may apply to you, and let us know.

**New Jersey Pension Exclusion** — Since 2000, New Jersey has provided taxpayers a pension and retirement income exclusion. The retirement exclusion allows qualifying New Jersey retirees to avoid state income tax on a portion of their retirement income. Taxpayers with gross income of \$150,000 or less may qualify to exclude some or all of the retirement income. However, a taxpayer with gross income of \$150,001 or more will lose their entire exclusion.

**Maximize 401(k) Contributions** — Employees can contribute up to the lesser of \$19,500 or participant’s compensation, and an additional catch-up contribution of \$6,500 if age 50 or older. If not maxing out, consider increasing the percentage of your 401(k) contribution in order to maximize the contribution in the future.

**Estimated Income Tax Payments** — The self-employed and retirees should discuss with their accountant whether they need to make estimated tax payments. Fourth quarter Federal estimated payments are due by January 15, 2022. State estimated payments also have a January 15th due date, unless a taxpayer is subject to the Alternative Minimum Tax in the future. Then an accountant might recommend prepaying by December 31st. In the event that a client has an unusually large capital gain in a given year, we will communicate this information to the client and/or the accountant so that an appropriate estimated payment can be made.

**Charitable Donations** — If you itemize, consider making charitable donations before the end of the year. Donations are generally deductible to those that itemize. Consider gifting highly appreciated stock if held for more than a year. These deductions are set at the current market value, and no tax is due on the capital gain. If you wish to donate stock that has declined in value,

sell the stock and donate the proceeds. Not only will you get the write off but you will also be able to take advantage of the capital loss generated from the sale.

**Individual Retirement Accounts (IRAs)** — The deadline for 2021 Roth or Traditional IRA contributions is April 15, 2022. Even though the deadline is April 15th, consider making contributions earlier. The maximum contribution is \$6,000 (\$7,000 if you are 50 or older by the end of year) or 100% of earned income, whichever is less.

**Roth IRA Conversion** — Unlike Roth IRAs which have contribution and income limits, any taxpayer can now convert a traditional IRA to a Roth IRA regardless of income. When you convert to a Roth IRA, the converted amount of your traditional IRA will be taxed as ordinary income in the conversion year at the income tax rates in effect on the conversion date. A year with unusually low taxable income can be ideal for a conversion before year end. A Roth IRA offers tax-free growth of assets, tax-free distributions and no required minimum distributions (RMDs) during the original account holder’s lifetime. Review with your accountant whether a Roth IRA Conversion makes sense.

In between the year-end parties, work deadlines and many other tasks, take the time to consider the issues we identify above. We’ll do the same. Happy holidays to you and your family.

As always if you have any questions, please give us a call.

Sincerely,  
*John G. Kaiser*

John G. Kaiser, CFP®

*Raymond James and its advisors do not offer tax, accounting or legal advice.*

*Investments in municipal securities may not be appropriate for all investors, particularly those who do not stand to benefit from the tax status of the investment. Municipal bond interest is not subject to federal income tax but may be subject to AMT, state or local taxes. Unless certain criteria are met, Roth IRA owners must be 59½ or older and have held the IRA for five years before tax-free withdrawals are permitted. Additionally, each converted amount may be subject to its own five-year holding period. Converting a traditional IRA into a Roth IRA has tax implications. Investors should consult a tax advisor before deciding to do a conversion.*

*The foregoing information has been obtained from sources considered to be reliable, but we do not guarantee that it is accurate or complete, it is not a statement of all available data necessary for making an investment decision, and it does not constitute a recommendation. Any opinions are those of John G. Kaiser and not necessarily those of Raymond James. Prior to making an investment decision, please consult with your financial advisor about your individual situation.*