Wealth Management

INVESTMENTS, ADVICE & TRUST SERVICES

CEFCU Wealth Management
7900 N. University Street
Peoria, IL 61615
309.633.3836 or
1.800.633.7077, ext. 33836
Fax 309.633.2588

SUMMER 2015

When Is It a Good Time To Sell Investments?

Investing is easier than ever before. With online access and information, investors may be tempted to trade for quick gains rather than invest for their long-term goals. The reality is that selling an investment is a big decision. It requires consideration and thought.

Below are a few examples of circumstances that might prompt you to consider selling investments.

Your Tolerance for Risk Changes

All economies move in and out of growth cycles. That movement impacts the prices of stocks and bonds. When the U.S. economy does well, stock prices typically rise as companies report higher earnings. During a recession, stock prices generally fall as companies struggle to maintain profit margins. As an investor, it's important that no matter what the markets are doing, you maintain a long-term perspective.

However, risk tolerance tends to decrease over time. If market volatility and fluctuations in the value of your portfolio keep you awake at night, then it may make sense to restructure your portfolio by selling some stocks. The goal is to structure a portfolio that has the potential to provide the type of return you seek while allowing you to feel comfortable with its risk level.

Your Portfolio Needs Rebalancing

Your portfolio's allocation among the different asset classes should reflect your goals, risk tolerance, and time horizon. But any significant change in one asset class can throw your porfolio's allocation off balance. When that happens, it may be time to rebalance your portfolio by selling some investments that have increased in value or directing more of your future investment dollars to the asset class(es) that has lost ground. The goal of rebalancing is to keep your portfolio consistent with your risk tolerance and investment objectives. Keep in mind that selling investments

(Continued on page 4)

Are Your Assets at Risk?

Assessing the risks to your assets is key to preserving and enhancing your wealth. Here are three risks to avoid.

Excessive Investment Risk

Concentrating too great a portion of your wealth in a single stock or industry sector can put your wealth at risk. A well-diversified portfolio helps manage investment risk.

Inadequate Insurance Coverage

A serious illness or injury, a lawsuit, or a house fire could quickly drain your assets if you don't have the proper insurance coverage. Make sure you have adequate disability and umbrella insurance. Review your homeowner's policy to ensure it accurately reflects the true value of your home and possessions.

Out-of-Date Estate Plan

Changes in the laws that govern income, estate, and gift taxes occur frequently and could impact your wealth. Review your estate planning documents regularly and after major life events.

Required Minimum Distributions — A Primer

You may have significant assets in a traditional individual retirement account (IRA) as the result of rolling over assets from another retirement plan or making annual IRA contributions over the years. And you may want to keep your money invested in the IRA for as long as possible.

Why? Your investment earnings, along with any tax-deductible or pretax contributions the IRA holds, can continue growing on a tax-deferred basis. Once you start to make withdrawals from your traditional IRA, you'll pay income tax on previously tax-deferred contributions and on investment earnings.

The IRS generally requires that you begin taking annual required minimum distributions (RMDs) from your traditional IRAs when you reach age 70½. However, the first payment can be delayed until April 1 of the year following the year in which you turn 70½. For all subsequent years, including the year in which you were paid the first RMD by April 1, you must take the RMD by December 31 of the year.

An RMD is calculated for each account by dividing the prior December 31 balance of that IRA by an IRS life expectancy factor. If desired, you can take the total RMD amount from one or more of your IRAs. Failure to take an RMD can trigger an additional 50% tax on the amount you should have withdrawn but didn't.

Different Story for Roth IRAs

The tax treatment of Roth IRAs is different from that of traditional IRAs. With a Roth IRA:

- **Contributions are non-deductible**
- **Contributions can be withdrawn anytime without tax consequences**
- **Account earnings accumulate tax deferred**
- **Account earnings may be withdrawn tax free once an owner reaches age 59½ (and in certain other circumstances), provided the withdrawal is made after the five-tax-year period that begins with the first tax year for which the first Roth IRA contribution was made**
- **Owners are not obligated to take RMDs from their accounts during their lifetimes, giving them the option to defer income taxation to the next generation**
- **Beneficiaries must take RMDs**

Equalize Inheritances with Life Insurance

Picture this scenario: You have spent many years building your business. You would love to see the business continue into the next generation. And you think your middle child may be the person to achieve that goal. She spent her summers during high school and college learning the business and now puts her accounting degree to good use in your finance department. You believe the business would be in good hands if she were to take it over.

The only issue is that you have two other children. Neither one has any interest in your business. But you want all of your children to share equally in your estate. How can you ensure they will be taken care of financially, especially since your business constitutes the greatest portion of your net worth?

The Smart Solution

One workable solution to this dilemma: a life insurance policy. In general terms, you would buy a policy with a large enough death benefit to make up for the likely market value of the property you wish to leave to one child. Your other children would benefit from the policy proceeds upon your death. Life insurance can be an effective instrument to equalize inheritances among your heirs.

For example, if the anticipated value of your business is $2.5 million, you could establish an irrevocable life insurance trust (ILIT) and buy a $5 million life insurance policy with the ILIT as the owner and beneficiary of the policy. You could then name your two other children as beneficiaries of the ILIT. When you pass on, your daughter inherits the business and your other children split the insurance policy's proceeds equally.

This approach can also be used if there is a farm, family home, or vacation property you wish to leave to one child.

Municipals Under the Microscope

Minimizing the taxes you pay on investment earnings is probably one of your goals. The tax-exempt status of municipal bonds can make them an appealing investment option if you want to generate a steady stream of income.

Many states do not tax their residents on interest earned from municipal bonds issued by that state or its political subdivisions and agencies. The primary appeal of municipals for investors in higher tax brackets, however, is that the interest on most municipals is exempt from federal income taxes. This tax-exempt aspect of municipals may mean that you can earn a better return on a municipal bond than you would from a higher yielding but taxable bond.

Below is a handy chart that will show you the taxable-equivalent yields. The row on top is the tax-free yield. The first column is the tax bracket. Based on the tax bracket, look at the corresponding taxable-equivalent yield.

Taxable-equivalent Yield Chart

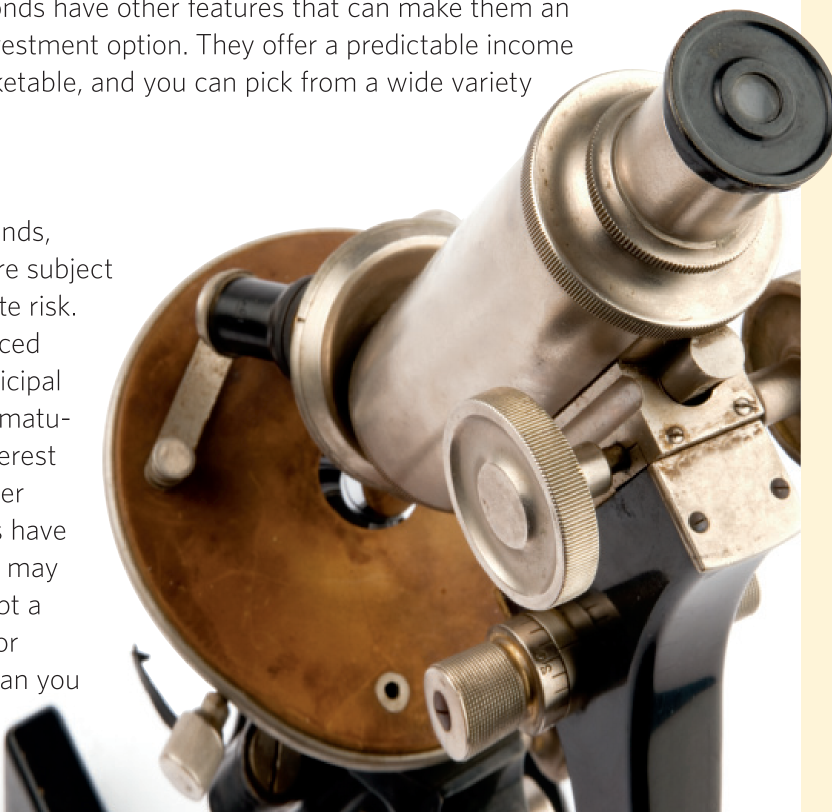
	Yield					
Tax Bracket	2.00%	2.50%	3.00%	3.50%	4.00%	5.00%
10%	2.22%	2.78%	3.33%	3.89%	4.44%	5.56%
15%	2.35%	2.94%	3.53%	4.12%	4.71%	5.88%
25%	2.67%	3.33%	4.00%	4.67%	5.33%	6.67%
28%	2.78%	3.47%	4.17%	4.86%	5.56%	6.94%
33%	2.99%	3.73%	4.48%	5.22%	5.97%	7.46%
35%	3.08%	3.85%	4.62%	5.38%	6.15%	7.69%
39.6%	3.31%	4.14%	4.97%	5.79%	6.62%	8.28%

Source: DST

Municipal bonds have other features that can make them an appealing investment option. They offer a predictable income and are marketable, and you can pick from a wide variety of issuers.

Caveats

Like other bonds, municipals are subject to interest rate risk. If you are forced to sell a municipal bond before maturity when interest rates on newer issued bonds have gone up, you may have to accept a lower price for your bond than you paid for it.



Rate That Company

When you purchase insurance, it's important that you buy from a financially solid company. Ratings from private rating agencies are commonly used to assess the financial health of insurance companies. Although criteria for evaluation can vary, factors such as the insurance company's balance sheet, operating performance, and management can influence the ratings.

The major rating agencies are:

- A.M. Best
- Moody's Investors Service
- Standard and Poor's
- Fitch Ratings

"Looking at the reports of more than one rating agency can provide a more complete picture of a company's financial strength."

The ratings provided are similar to the letter grades used in schools and colleges. However, the different rating agencies use different systems to signify their ratings. For example, A.M. Best uses A++ and Moody's uses Aaa to indicate the highest financial strength rating.

When Is It a Good Time To Sell Investments? *(Continued from page 1)*

in a taxable account, even if it is only to rebalance a portfolio, can have tax consequences.

You Meet Your Goal

You may have bought certain investments with a long-term goal in mind, such as buying a vacation home or funding graduate school for your children or grandchildren. If your investments have appreciated and you've reached your goal, then it may be wise to sell and focus on preserving what you have earned rather than risk losing money by seeking more appreciation out of your assets.

Your Needs Change

It's important you review your investment account and your investment goals periodically — at least once a

year. If your needs have changed — for example, you are close to retirement or about to make college tuition payments — then you may want to sell some investments so that your portfolio reflects your new situation.

This publication involves sophisticated tax and financial planning concepts. Before applying anything you read to your situation, you should consult with your professional advisor.

Copyright © 2015 by DST

Non-deposit investment products available through MEMBERS Trust Company are not deposits of or guaranteed by the trust company, a credit union or credit union affiliate, are not insured or guaranteed by the NCUA, FDIC or any other governmental agency, and are subject to investment risks, including possible loss of the principal amount invested. MEMBERS Trust Company, owned and managed by America's credit unions, is a special purpose federal thrift regulated by the Office of the Comptroller of the Currency.