Johnston Investment Counsel
Gregory A. Johnston, CFA, CFP, QPFC, AIF
President & Chief Investment Officer
2714 N. Knoxville
Peoria, IL 61604
309-674-3330
gjohnston@jicinvest.com
www.jicinvest.com

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LIFE THE WAY YOU PLANNED IT.

Six Potential 401(k) Rollover Pitfalls

You're about to receive a distribution from your 401(k) plan, and you're considering a rollover to a traditional IRA. While these transactions are normally straightforward and trouble free, there are some pitfalls you'll want to avoid.

1. Consider the pros and cons of a rollover. The first mistake some people make is failing to consider the pros and cons of a rollover to an IRA in the first place. You can leave your money in the 401(k) plan if your balance is over $5,000. And if you're changing jobs, you may also be able to roll your distribution over to your new employer's 401(k) plan.

- Though IRAs typically offer significantly more investment opportunities and withdrawal flexibility, your 401(k) plan may offer investments that can't be replicated in an IRA (or can't be replicated at an equivalent cost).
- 401(k) plans offer virtually unlimited protection from your creditors under federal law (assuming the plan is covered by ERISA; solo 401(k)s are not), whereas federal law protects your IRAs from creditors only if you declare bankruptcy. Any IRA creditor protection outside of bankruptcy depends on your particular state's law.
- 401(k) plans may allow employee loans.
- And most 401(k) plans don't provide an annuity payout option, while some IRAs do.

2. Not every distribution can be rolled over to an IRA. For example, required minimum distributions can't be rolled over. Neither can hardship withdrawals or certain periodic payments. Do so and you may have an excess contribution to deal with.

3. Use direct rollovers and avoid 60-day rollovers. While it may be tempting to give yourself a free 60-day loan, it's generally a mistake to use 60-day rollovers rather than direct (trustee to trustee) rollovers. If the plan sends the money to you, it's required to withhold 20% of the taxable amount. If you later want to roll the entire amount of the original distribution over to an IRA, you'll need to use other sources to make up the 20% the plan withheld. In addition, there's no need to taunt the rollover gods by risking inadvertent violation of the 60-day limit.

4. Remember the 10% penalty tax. Taxable distributions you receive from a 401(k) plan before age 59½ are normally subject to a 10% early distribution penalty, but a special rule lets you avoid the tax if you receive your distribution as a result of leaving your job during or after the year you turn age 55 (age 50 for qualified public safety employees). But this special rule doesn't carry over to IRAs. If you roll your distribution over to an IRA, you'll need to wait until age 59½ before you can withdraw those dollars from the IRA without the 10% penalty (unless another exception applies). So if you think you may need to use the funds before age 59½, a rollover to an IRA could be a costly mistake.

5. Learn about net unrealized appreciation (NUA). If your 401(k) plan distribution includes employer stock that's appreciated over the years, rolling that stock over into an IRA could be a serious mistake. Normally, distributions from 401(k) plans are subject to ordinary income taxes. But a special rule applies when you receive a distribution of employer stock from your plan: You pay ordinary income tax only on the cost of the stock at the time it was purchased for you by the plan. Any *appreciation* in the stock generally receives more favorable long-term capital gains treatment, regardless of how long you've owned the stock. (Any additional appreciation after the stock is distributed to you is either long-term or short-term capital gains, depending on your holding period.) These special NUA rules don't apply if you roll the stock over to an IRA.

6. And if you're rolling over Roth 401(k) dollars to a Roth IRA... If your Roth 401(k) distribution isn't qualified (tax-free) because you haven't yet satisfied the five-year holding period, be aware that when you roll those dollars into your Roth IRA, they'll now be subject to the Roth IRA's five-year holding period, no matter how long those dollars were in the 401(k) plan. So, for example, if you establish your first Roth IRA to accept your rollover, you'll have to wait five more years until your distribution from the Roth IRA will be qualified and tax-free.

When Disaster Strikes: Deducting Casualty Losses

A list of federally declared disaster areas can be found at the Federal Emergency Management Agency (FEMA) website at fema.gov/disasters. Major disaster and emergency declarations in 2015 included areas in 30 states.

Wildfires, tornadoes, storms, landslides, and flooding.... It's almost as if you can't turn on the news without seeing images of a disaster striking somewhere. If you've suffered property loss as the result of these events or other circumstances, you may be able to claim a casualty loss deduction on your federal income tax return.

What's a casualty loss?

A casualty is the destruction, damage, or loss of property caused by an unusual, sudden, or unexpected event. You can experience a casualty loss as the result of something as sweeping as a natural disaster, or as limited in scope as an act of vandalism. You probably don't have a deductible casualty loss, however, if your property is damaged as the result of gradual deterioration (e.g., a long-term termite infestation).

Calculating your loss

The rules for calculating loss can be different for business property, or property that's used to produce income (think rental property). To calculate a casualty loss on personal-use property, like your home, that's been damaged or destroyed, you first need two important pieces of data:

- The decrease in the fair market value (FMV) of the property; that's the difference between the FMV of the property immediately before and after the casualty
- Your adjusted basis in the property before the casualty; your adjusted basis is usually your cost if you bought the property (different rules apply if you inherited the property or received it as a gift), increased for things like permanent improvements and decreased for items such as depreciation

Starting with the lower of the two amounts above, subtract any insurance or other reimbursement that you have received or that you expect to receive. The result is generally the amount of your loss. If you receive insurance payments or other reimbursement that is more than your adjusted basis in the destroyed or damaged property, you may actually have a gain. There are special rules for reporting such gain, postponing the gain, excluding gain on a main home, and purchasing replacement property.

The $100 and 10% rules

After you determine your casualty loss on personal-use property, you have to reduce the loss by $100. The $100 reduction applies per casualty, not per individual item of property. Two or more events that are closely related may be considered a single casualty. For example, wind and flood damage from the same storm would typically be considered a single casualty event, subject to only one $100 reduction. If both your home and automobile were damaged by the storm, the damage is also considered part of a single casualty event--you do not have to subtract $100 for each piece of property.

You must also reduce the total of all your casualty and theft losses on personal property by 10% of your adjusted gross income (AGI) after each loss is reduced by the $100 rule, above.

If you are married and file a joint return, you are treated as one individual in applying both the $100 rule and the 10% rule. It does not matter whether you own the property jointly or separately. If you file separately, you are each subject to both rules. If only one spouse owns the property, usually only that spouse can claim the associated loss on a separate return.

Reporting a casualty loss

Generally, you report and deduct the loss in the year in which the casualty occurred. Special rules, however, apply for casualty losses resulting from an event that's declared a federal disaster area by the president.

If you have a casualty loss from a federally declared disaster area, you can choose to report and deduct the loss in the tax year in which the loss occurred, or in the tax year immediately preceding the tax year in which the disaster happened. If you elect to report in the preceding year, the loss is treated as if it occurred in the preceding tax year. Reporting the loss in the preceding year may reduce the tax for that year, producing a refund. You generally have to make a decision to report the loss in the preceding year by the federal income tax return due date (without any extension) for the year in which the disaster actually occurred.

Casualty losses are reported on IRS Form 4684, Casualties and Thefts. Any losses relating to personal-use property are carried over to Form 1040, Schedule A, Itemized Deductions.

Getting help

The rules relating to casualty losses can be complicated. Additional information can be found in the instructions to Form 4684 and in IRS Publication 547, Casualties, Disasters, and Thefts. If you have suffered a casualty loss, though, you should consider discussing your individual circumstances with a tax professional.

Americans on the move

Americans are picking up and moving again as the recession fades, personal finances improve, and housing markets recover. Counties in Florida, Nevada, and Arizona had larger influxes of people, while some counties in Illinois, Virginia, New York, and California saw more people moving out. (Source: The Pew Charitable Trusts, Americans Are on the Move--Again, June 25, 2015, www.pewtrusts.org)

Cost of Living: Where You Live Can Affect How Rich You Feel

Do you find yourself treading water financially even with a relatively healthy household income? Even with your new higher-paying job and your spouse's promotion, do you still find it difficult to get ahead, despite carefully counting your pennies? Does your friend or relative halfway across the country have a better quality of life on less income? If so, the cost of living might be to blame.

The cost of living refers to the cost of various items necessary in everyday life. It includes things like housing, transportation, food, utilities, health care, and taxes.

Single or family of six?

Singles, couples, and families typically have many of the same expenses--for example, everyone needs shelter, food, and clothing--but families with children typically pay more in each category and have the added expenses of child care and college. The Economic Policy Institute (epi.org) has a family budget calculator that lets you enter your household size (up to two adults and four children) along with your Zip code to see how much you would need to earn to have an "adequate but modest" standard of living in that geographic area.

What areas have the highest cost of living? It's no secret that the East and West Coasts have some of the highest costs. According to the Council for Community and Economic Research, the 10 most expensive U.S. urban areas to live in Q3 2015 were:

Rank	Location
1	New York, New York
2	Honolulu, Hawaii
3	San Francisco, California
4	Brooklyn, New York
5	Orange County, California
6	Oakland, California
7	Metro Washington D.C./Virginia
8	San Diego, California
9	Hilo, Hawaii
10	Stamford, Connecticut

Factors that influence the cost of living

Let's look in more detail at some of the common factors that make up the cost of living.

Housing. When an area is described as having "a high cost of living," it usually means housing costs. Looking to relocate to Silicon Valley from the Midwest? You better hope for a big raise; the mortgage you're paying now on your modest three-bedroom home might get you a walk-in closet in this technology hub, where prices last spring climbed to a record-high $905,000 in Santa Clara County, $1,194,500 in San Mateo County, and $690,000 in Alameda County. (Source: *San Jose Mercury News,* Silicon Valley Home Prices Hit Record Highs, Again, May 21, 2015)

Related to housing affordability is student loan debt. Student debt--both for young adults and those in their 30s, 40s, and 50s who either took out their own loans, or co-signed or borrowed on behalf of their children--is increasingly affecting housing choices and living situations. For some borrowers, monthly student loan payments can approximate a second mortgage.

Transportation. Do you have access to reliable public transportation or do you need a car? Younger adults often favor public transportation and supplement with ride-sharing services like Uber, Lyft, and Zipcar. But for others, a car (or two or three), along with the cost of gas and maintenance, is a necessity. How far is your work commute? Do you drive 100 miles round trip each day or do you telecommute? Having to buy a new (or used) car every few years can significantly impact your bottom line.

Utilities. The cost of utilities can vary by location, weather, usage, and infrastructure. For example, residents of colder climates might find it more expensive to heat their homes in the winter than residents of warmer climates do cooling their homes in the summer.

Taxes. Your tax bite will vary by state. Seven states have no income tax--Alaska, Florida, Nevada, South Dakota, Texas, Washington, and Wyoming. In addition, property taxes and sales taxes can vary significantly by state and even by county, and states have different rules for taxing Social Security and pension income.

Miscellaneous. If you have children, other things that can affect your bottom line are the costs of child care, extracurricular activities, and tuition at your flagship state university.

To move or not to move

Remember The Clash song "Should I Stay or Should I Go?" Well, there's no question your money will go further in some places than in others. If you're thinking of moving to a new location, cost-of-living information can make your decision more grounded in financial reality.

There are several online cost-of-living calculators that let you compare your current location to a new location. The U.S. State Department has compiled a list of resources on its website at state.gov.

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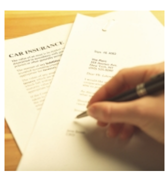
What information will I need before shopping for an auto insurance policy?

Shopping for auto insurance might sound like a drag, but it's important for you to have appropriate coverage in the event of an accident. Following are some guidelines to consider when purchasing your auto insurance policy.

- **Gather information.** Before you start shopping, compile key information about each vehicle you want to insure. This list should include the year, make, and model of each vehicle. Knowing your Vehicle Identification Number (VIN) may help you get a more accurate quote. Be prepared to answer questions about vehicle usage or special after-market equipment installed in your vehicle.
- **Decide what you need.** Whether you're purchasing auto insurance for a new vehicle or making changes to your existing policy, it's important to be familiar with the different coverages available to you. Maybe what you currently have doesn't meet your needs, or perhaps your premium seems to high. Bear in mind that there may be a gap between how much coverage your state requires you to have and how much you may actually need.
- **Shop around.** When selecting an insurer, ask questions. How long has the company been selling auto insurance? Does it have a good reputation? How is the company's customer service and claims handling? Is it able to provide the coverage you need at a price you can afford? Answering these questions could make it easier for you to shop for the policy that's right for you.
- **Ask about discounts.** You could be eligible for several discounts. These vary by state and company but may include discounts for multiple vehicles, anti-theft devices, and low annual mileage.
- **Compare quotes.** Once you have a collection of quotes, you need to compare them. Review each quote for information such as coverage levels, policy length, and price. This will help you attain the best overall value for your money as well as sufficient protection for your vehicle.



What do I need to know about the deductible on my auto insurance?

An auto insurance deductible is more than just a number. It represents the financial responsibility you have agreed to accept in the event of a covered loss. You and your insurance provider agree to share the risk, up to policy limits.

Say you're in an accident and there is $2,500 worth of damage to your vehicle. You have a $500 deductible. This means you pay $500, while your auto insurance company pays the remaining $2,000. Note that deductibles may not apply in all situations.

You might consider raising your deductible in order to lower your auto insurance premium. Generally, the higher the deductible you choose, the lower your premium cost. Be careful, though--the higher your deductible, the more you'll need to pay out of pocket toward repairs when you have a claim. You'll want your deductible to match with your budget so you will not have to worry about covering more than you can afford in the event of an accident.

Besides your budget, you should also think about your vehicle's overall value when choosing your deductible. Typically, auto policies have separate deductibles for collision and comprehensive coverages. For example, if your vehicle is damaged due to an accident or an event other than a collision (fire, vandalism, theft, or natural disaster), then you pay the corresponding deductible you chose for comprehensive coverage. But if your vehicle is older, it might not be worth repairing damage. In this case, you might decide to choose higher deductibles or even reduce or eliminate collision and/or comprehensive coverage.

You should feel comfortable with the financial risk represented by the deductible on your auto insurance and understand how to balance the risk with the cost of your premium. Take time to review your deductible amount, typically located on the declarations (front) page of your auto insurance policy. Choosing an appropriate deductible could help you cope with the stressful aftermath of an accident.

What's Riskier Than the Riskiest Stocks?

Any seasoned investor will tell you that buying one stock is riskier than buying a basket of stocks. The underlying concept is diversification—the idea that the movement of the shares of many different companies, taken together, will be smoother than the trajectory of any one of them.

But the ETF market has managed to create composite securities that are even more volatile than individual stocks.

A recent article in Investment News looks at the most volatile individual stock in the S&P 500—First Solar—which has a standard deviation of 66.0%. That means its jumps up or down tend to be almost exactly 6 times higher than the S&P 500.

That's pretty wild, but not as wild as the ProShares Ultra VIX Short-term Futures Fund, an ETF with a 3-year standard deviation that is twice as high as First Solar's: 132.9. Imagine that the markets go up or down 2% in one day, and you're looking at 24% price movements.

Those wild swings are not serving you. If the markets go down 24% (gloom!) and then rise 24% the next day (euphoria!), you're looking at a 5.76% loss for the two day period. Why? It takes a 31.6% return to recover from a 24% loss.

The ProShares fund is not the only leveraged ETF that threatens to multiply your portfolio volatility. The Direxion Daily Gold Miners Bear 3x ETF sports a 3-year standard deviation of 125.4%. A more popular investment, which Bloomberg recently listed as one of the top 10 traded funds by Millennials in 2015, is the triply-leveraged VelocityShares Daily 3x Long Crude ETN. It has a three year standard deviation of "just" 85.9%, still higher than the most volatile S&P 500 stock, still nearly eight times higher than the index itself. The crude oil fund has lost an average of 82.7% a year in the last three years, turning a $10,000 investment into $52.01.

The lesson? ETFs were created originally as less expensive, more easily traded alternatives to index mutual funds, providing diversification with low drag on returns. But the concept has been used—some would say misused—to create exotic instruments that are even more dangerous to your financial health than betting all your money on a single, volatile stock. The SEC is mulling whether to shut down the most highly-leveraged ETFs, which would have prevented Millennials from experiencing losses by betting on energy prices. Most of us can just regulate ourselves, and steer clear of the most volatile investments ever dreamed up by creative marketers.

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The Most Complicated Part of Your Estate

In recent years, a new category of assets has appeared on the scene, which can be more complicated to pass on at someone's death than stocks, bonds and cash. The list includes such valuable property as digital domain names, social media accounts, websites and blogs that you manage, and pretty much anything stored on the cloud. In addition, if you were to die tomorrow, would your heirs know the passcodes to access your iPad or smartphone? Or, for that matter, your email account or the Amazon.com or iTunes shopping accounts you've set up? Would they know how to shut down your Facebook account, or would it live on after your death?

A service called Everplans has created a listing of these and other digital assets that you might consider in your estate plan, and recommends that you share your logins and passwords with a digital executor or heirs. If the account or asset has value (airline miles or hotel rewards programs, domain names) these should be transferred to specific heirs—and you can include these bequests in your will. Other assets should probably be shut down or discontinued, which means your digital executor should probably be a detail-oriented person with some technical familiarity.

The site also provides a guide to how to shut down accounts; click on "F," select "Facebook," and you're taken to a site (https://www.everplans.com/articles/how-to-close-a-facebook-account-when-someone-dies) which tells you how to deactivate or delete the account. Note that each option requires the digital executor to be able to log into the site first; otherwise that person would have to submit your birth and death certificates and proof of authority under local law that he/she is your lawful representative. (The executor can also "memorialize" your account, which means freezing it from outside participation.)

The point here is that even if you know who's would get your house and retirement assets if you were hit by a bus tomorrow, you could still be leaving a mess to your heirs unless you clean up your digital assets as well.

Source:

- https://www.everplans.com/articles/a-helpful-overview-of-all-your-digital-property-and-digital-assets
- https://www.everplans.com/articles/how-to-close-online-accounts-and-services-when-someone-dies
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Estate Tax Complexities

Years ago, the way to most efficiently save on estate taxes was to set up credit shelter trusts that would pour assets from one spouse to another when death occurred, so that both spouses would get the maximum estate tax exemption. In those simpler days, people who didn't have to pay estate taxes didn't have to file an estate tax return.

Today, we live in a very different world. No longer is a credit shelter trust necessary; the surviving spouse gets to keep the unused portion of the deceased spouse's estate tax exemption regardless of who owns which assets at the time of death. And with the exemption up to $5.43 million per spouse, you would think that fewer people would have to file estate tax returns.

This last assumption would be wrong. In order to claim the portable exemption of the deceased spouse, the estate has to file Estate Tax Form 706 on behalf of the survivor. This form can be complicated; it requires the executor to report the value of the assets that don't need to be reported for tax purposes, and to subtract that amount from the exemption—in order to calculate the exemption amount that the survivor can keep and use when he or she dies and passes on assets to heirs. So you still have to do an estate valuation.

If you know for sure that your future estate won't exceed $5.43 million indexed for inflation, then there is no need to file an estate tax return. But when people factor in the (hopefully) appreciating value of their house, in addition to their retirement assets over the years they expect to live, a surprising number of people should opt to file the tax form.

There's one other complication: although the surviving spouse's exemption will keep rising with inflation, the portable amount stays fixed until it's eventually used.

And one more: people who die with assets in their name get a step-up in cost basis on their investments—which basically means that the capital gains taxes that would otherwise be owed when those investments are sold will go away. So although it no longer matters, from an estate tax perspective, who owns which assets, it is beneficial for the deceased spouse to own assets that have a low cost basis—things like a home purchased many years ago, or stocks acquired before a large run-up in value, or shares of a small business that started with zero value. But beware transfers on a spouse's deathbed; if the deceased dies less than a year after the transfer, the tax code treats it as if the transfer were never made.

What? You expected the government to simplify your estate taxes?

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