First Fiduciary Investment Counsel, Inc.

Investment INSIGHTS

June 2017 | *Building Wealth Through Disciplined Investing*

Mary F. Anderson, CFA
President
Portfolio Manager
mary@firstfiduciary.com

William S. Henry
Chief Operating Officer
Portfolio Manager
bill@firstfiduciary.com

Andrew J. Givens, CFA
Senior Analyst
andrew@firstfiduciary.com

Stocks For Rent: Holding Periods At 60-Year Lows

Thanks to advances in smart phone technology and the ubiquity of internet connections, investors are able to buy and sell shares of companies from anywhere in the world at the swipe of a finger. As a consequence of this convenience, the average holding period of a stock is at all-time lows. Today, the average investor will hold an individual stock for only four months, a far cry from the 1960s, when the average holding period was over eight years. Why is over-trading so potentially damaging to investors' long-term performance? A few reasons:

Difficult and costly to time the market

A recent study from Index Fund Advisors shows that over the last twenty years, being out of the market on the five days with the biggest daily gains would have cost an investor over 2% per year of performance. Without the benefit of hindsight, identifying those five days is an impossibility that underscores the need to remain invested in all periods.

Trading costs

All else being equal, an investor with an average holding period of four months would spend over 15x as much money on trading as an investor with an average holding period of five years. Even with the benefit of the low trading costs offered by discount brokers, over-trading can eat away at investment returns.

Taxes

For taxable investors, there is a significant advantage to holding on to your stocks longer. Holding a stock for greater than 12 months triggers long-term gain status, which results in a 20% tax rate for those in the highest tax bracket. If the same investors hold a stock for less than 12 months before selling, the tax rate on the gain would be 39.6%. As a result, short-term investors need a 1.3x higher pre-tax return to keep pace with long-term investors.

At First Fiduciary, having a long time horizon is a key piece of our investment process. While it may be tempting to change investment strategies based on short-term market movements, we've achieved success by sticking to our knitting. We invest in high-quality companies trading at attractive prices. Then, we let these industry-leading companies compound shareholder value over a period of three to five years or longer. We would consider selling when a stock becomes expensive, the thesis has negatively changed, or we find better opportunities. Throughout First Fiduciary's history, our disciplined commitment to long-term investing has allowed our clients to efficiently generate good performance on a risk-adjusted basis.

First Fiduciary Investment Counsel

Throughout our history, First Fiduciary has successfully pursued one goal: to provide our clients with peace of mind while generating superior long-term growth of their assets.

Founded in 1975, First Fiduciary was established on the same principles that remain at the core of our strategy today. By building portfolios designed to achieve the best balance between risk and opportunity, we deliver disciplined asset management solutions to our clients.

First Fiduciary's Form ADV Part 2 is available upon request.

Substantiating Your Charitable Gifts

When you claim a federal income tax deduction for charitable contributions, you must substantiate the contributions by maintaining certain records. The records must establish the charity to whom the gift was made, the amount of cash or the type and value of other property donated to charity, whether anything was received in consideration for the contribution, and certain other requirements. The records needed generally depend on the type and value of the property donated; there may be some overlap in requirements. In general, do not attach the records to your income tax return. Keep the records so that you can provide them to the IRS if requested to do so.

Cash contributions

In order to claim a charitable deduction for any contribution of cash, a check, or other monetary gift, you must maintain a record of such contributions through a bank record (such as a cancelled check, a bank or credit union statement, or a credit card statement) or a written communication (such as a receipt or letter) from the charity showing the name of the charity, the date of the contribution, and the amount of the contribution. If you make charitable contributions through payroll deductions, you generally may substantiate the charitable deduction using the charity's pledge card along with either a pay stub, a Form W-2, or some other employer-furnished document showing the amount withheld and paid to charity. If you make a single contribution of $250 or more by payroll deduction, the pledge card or a document from the charity must state that no goods or services were provided in return for the payroll deduction.

All contributions of $250 or more

If you claim a charitable deduction for any contribution of $250 or more, you must substantiate the contribution with a contemporaneous written acknowledgment of the contribution from the charity. The acknowledgment must contain the name of the charity, the amount of any cash contribution, and a reasonably detailed description of any non-cash contribution. The acknowledgment must also include either (1) a statement that no goods and services were provided by the charity in return for the contribution, (2) a good-faith estimate of the value of such goods and services received (these reduce the amount of the charitable deduction), or (3) a statement that the goods and services were token benefits or consisted entirely of insubstantial membership benefits or intangible religious benefits. The acknowledgment is considered contemporaneous if you receive it by the earlier of the date on which you file your tax return for the year of the contribution or the due date (including extensions) of the return.

Noncash contributions

If you make any noncash contributions, you must generally get a receipt from the charitable organization with the name of the charitable organization, the date and location of the contribution, and a reasonably detailed description of the property. You must also keep a reliable written record showing the name and address of the charitable organization, the date and location of the contribution, a reasonable detailed description of the property, the fair market value of the property (and how it was determined), the adjusted basis of the property, the amount claimed as a deduction, and the terms of any conditions attached to contribution of the property.

There are some additional considerations depending on the value of the noncash contribution, including the following detailed below:

$250 or more: You must also substantiate the contribution with a contemporaneous written acknowledgment of the contribution from the charity as described previously.

$500 or more: Your records must also include how you got the property (e.g., purchase, gift, inheritance, or exchange), when you got the property, and the cost or other basis of the property (including any adjustments).

$5,000 or more: For a noncash charitable contribution of one item or a group of similar items valued above $5,000, you must also obtain a qualified written appraisal of the donated property from a qualified appraiser.

Will I Owe Taxes When I Sell My Home?

In general, when you sell your home, any amount you receive over your cost basis (what you paid for the home, plus capital improvements, plus the costs of selling the home) is subject to capital gains taxes. However, if you owned and used the home as your principal residence for a total of two out of the five years before the sale (the two years do not have to be consecutive), you may be able to exclude from federal income tax up to $250,000 (up to $500,000 if you're married and file a joint return) of the capital gain when you sell your home. You can use this exclusion only once every two years, and the exclusion does not apply to vacation homes and pure investment properties.

For example, Mr. and Mrs. Jones bought a home 20 years ago for $80,000. They've used it as their principal residence ever since. This year, they sell the house for $765,000, realizing a capital gain of $613,000 ($765,000 selling price minus a $42,000 broker's fee, minus the original $80,000 purchase price, minus $30,000 worth of capital improvements they've made over the years). The Joneses, who file jointly and are in the 39.6% marginal tax bracket, can exclude $500,000 of capital gain realized on the sale of their home. Thus, their tax on the sale is only $22,600 ($613,000 gain minus the $500,000 exemption, multiplied by the 20% long-term capital gains tax rate).

What if you don't meet the two-out-of-five-years requirement? Or you used the capital gain exclusion within the past two years for a different principal residence? You may still qualify for a partial exemption, assuming that your home sale was due to a change in place of employment, health reasons, or certain other unforeseen circumstances.

Special rules may apply in certain cases, including the following:

- You sell vacant land adjacent to your residence
- Your residence is owned by a trust
- Your residence contained a home office or was otherwise used for business purposes
- You rented part of your residence to tenants
- You owned your residence jointly with an unmarried taxpayer
- You sell your residence within two years of your spouse's death
- You're a member of the uniformed services

What Happens To My Property If I Die Without A Will?

If you die without a will, your property will generally pass according to state law (under the rules for intestate succession). When this happens, the state essentially makes a will for you. State laws specify how your property will pass, typically in certain proportions to various persons related to you. The specifics, however, vary from state to state.

Most state laws favor spouses and children first. For example, a typical state law might specify that your property pass one-half or one-third to your surviving spouse, with the remainder passing equally to all your children. If you don't have children, in many states your spouse might inherit all of your property; in other states, your spouse might have to share the property with your brothers and sisters or parents.

But not all property is transferred by will or intestate succession. Regardless of whether you have a will, some property passes automatically to a joint owner or to a designated beneficiary. For example, you can transfer property such as IRAs, retirement plan benefits, and life insurance by naming a beneficiary. Property that you own jointly with right of survivorship will pass automatically to the surviving owners at your death. Property held in trust will pass to your beneficiaries according to the terms you set out in the trust.

Only property that is not transferred by beneficiary designation, joint ownership, will, or trust passes according to intestate succession. You should generally use beneficiary designations, joint ownership, wills, and trusts to control the disposition of your property so that you, rather than the state, determine who receives the benefit of your property.

Even if it seems that all your property will be transferred by beneficiary designation, joint ownership, or trust, you should still generally have a will. You can designate in the will who will receive any property that slips through the cracks.

And, of course, you can do other things in a will as well, such as name the executor of your estate to carry out your wishes as specified in the will, or name a guardian for your minor children.

Quiz: How Much Do You Know About Social Security Retirement Benefits

Social Security is an important source of retirement income for millions of Americans, but how much do you know about this program? Test your knowledge, and learn more about your retirement benefits, by answering the following questions.

Questions

1. Do you have to be retired to collect Social Security retirement benefits?

a. Yes

b. No

2. How much is the average monthly Social Security benefit for a retired worker?

a. $1,360

b. $1,993

c. $2,585

d. $723

3. For each year you wait past your full retirement age to collect Social Security, how much will your retirement benefit increase?

a. 5%

b. 6%

c. 7%

d. 8%

4. How far in advance should you apply for Social Security retirement benefits?

a. One month before you want your benefits to start.

b. Two months before you want your benefits to start.

c. Three months before you want your benefits to start.

5. Is it possible for your retirement benefit to increase once you start receiving Social Security?

a. Yes

b. No

Answers

1. b. You don't need to stop working in order to claim Social Security retirement benefits. However, if you plan to continue working and you have not yet reached full retirement age (66 to 67, depending on your year of birth), your Social Security retirement benefit may be reduced if you earn more than a certain annual amount. In 2017, $1 in benefits will be deducted for every $2 you earn above $16,920. In the calendar year in which you reach your full retirement age, a higher limit applies. In 2017, $1 in benefits will be deducted for every $3 you earn above $44,880. Once you reach full retirement age, your earnings will not affect your Social Security benefit.

2. a. Your benefit will depend on your earnings history and other factors, but according to the Social Security Administration, the average estimated monthly Social Security benefit for a retired worker is $1,360.[1]

3. d. Starting at full retirement age, you will earn delayed retirement credits that will increase your benefit by 8% per year up to age 70. For example, if your full retirement age is 66, you can earn credits for a maximum of four years. At age 70, your benefit will then be 32% higher than it would have been at full retirement age.

4. c. According to the Social Security Administration, you should ideally apply three months before you want your benefits to start. You can generally apply online.

5. a. There are several reasons why your benefit might increase after you begin receiving it. First, you'll generally receive annual cost-of-living adjustments (COLAs). Second, your benefit is recalculated every year to account for new earnings, so it might increase if you continue working. Your benefit might also be adjusted if you qualify for a higher spousal benefit once your spouse files for Social Security.

For more information, visit the Social Security Administration website, ssa.gov.

[1]Social Security Fact Sheet, 2017 Social Security Changes