



# REBY ADVISORS

## WEALTH REDEFINED

### President's Letter



**I wanted to take this opportunity, the start of a new year, to revisit our financial planning, investment philosophy and overall belief system since it is critical to your success in the future. It is goal-focused, and planning-driven, as sharply distinguished from an approach that is market-focused and current-events-driven.**

Every successful investor I've ever known was acting continuously on a plan; failed investors, in my experience, by reacting to current events in the economy and the markets.

We prefer not to forecast the economy, nor attempt to time the markets, nor predict which market sectors will outperform which others over the next block of time. We are financial planners, not prognosticators. Once we have your plan in place, and have it funded with a well thought out mix of appropriate investments, the ongoing recommendations are designed to tweak or adjust the plan to take advantage of other people's mistakes. Of course, adjustments will be made if your long-term goals change. We have found that the more often investors change their portfolios (in response to the market fears or fads of the moment), the worse their long-term results. Let's take a moment to review our four essential principals of portfolio management:

1. The performance of a portfolio relative to a benchmark is largely irrelevant to long-term financial success.
2. The only benchmark we should care about is the one that indicates whether you are on track to accomplish yours goals.
3. Risk should be measured as a probability that you won't achieve your goals.
4. Investing should have the exclusive objective of minimizing that risk.

Last year was perhaps one of the strangest years I've experienced in my career as a CFP®. Most importantly, it was one of the truly great years in the history of the American economy. Oddly, it was also a year where the equity market could not get out of its own way.

It is almost impossible to site all the major metrics of the economy which blazed ahead in 2018. Worker productivity, which is the long-run key to economic growth and a higher standard of living, surged. Wage growth accelerated in response to a rapidly falling unemployment rate. Household net worth rose above \$100 trillion for the first time. Household debt relative to net worth remained historically low. Finally, and this could sum up the entire year, for the first time in American history, the number of open job listings exceeded the number of people unemployed.

Earnings of the S&P 500 companies, paced by robust GDP growth and significant corporate tax reform, leaped upward by more than 20%. Cash dividends set a new record; indeed, total cash return to shareholders from dividends and share repurchases since the trough of The Great Panic reached \$7 trillion.

But the equity market had other things on its mind. With all that positive economic and business news, the S&P 500 retreated approximately 6% in 2018 (not including dividends).

As we enter 2019, the major uncertainty is trade policy. In addition, Fed policy and an aging expansion, approaching one decade in length, were weighing heavily on investor psychology as 2018 came to a close. History and experience tell us that negative investor sentiment have usually presented the patient, disciplined, long-term investor who has a purposeful plan, with enhanced opportunity. As Warren Buffett wrote in his 1994 shareholder letter, "Fear is the foe of the faddist, but the friend of the fundamentalist." Thank you for your time.

All the best,

*Bob*

## Qualified Charitable Distributions for Clients Age 70<sup>1</sup>/<sub>2</sub>+

**Qualified Charitable Distributions (QCDs) are a means to get a deduction for your cash donations to qualified charities. They come directly from an IRA so rather than taking a deduction, the distribution is income tax free.**

However, we need to exercise care in how we take advantage of this strategy. The rules to qualify as a Qualified Charitable Distribution are as follows:

### 1. AGE 70 <sup>1</sup>/<sub>2</sub>

IRA owners who are age 70<sup>1</sup>/<sub>2</sub> and over are eligible to do a QCD. A QCD is only allowed if the distribution is made on or after the date the you actually attain age 70 <sup>1</sup>/<sub>2</sub>. It is not enough that you will attain that age later in the year.

QCDs are not limited to IRA owners. If you are an IRA beneficiary, you may also do a QCD. All the same rules apply, including the requirement that you must be age 70<sup>1</sup>/<sub>2</sub> or older at the time the QCD is done.

### 2. ELIGIBLE FUNDS

You may take a QCD from your traditional IRAs or Roth IRAs. QCDs are also permitted from inherited IRA's; and SEP and SIMPLE IRAs that are not ongoing. An ongoing SEP and SIMPLE plan is defined as one where an employer contribution is made for the plan year ending with or

within the IRA owner's tax year in which the charitable contributions would be made. You may not take a QCD from your employer plan.

QCDs apply only to taxable amounts. You may not transfer your basis (nondeductible IRA contributions or after-tax rollover funds) to charity as a QCD. QCDs are an exception to the pro-rata rule which usually applies to IRA distributions.

Because QCDs apply only to taxable amounts, it is unlikely that a QCD would be done with Roth IRA funds. The only Roth funds that you could use would be earnings in a Roth IRA when you have not held any Roth IRA for more than five years.

### 3. \$100,000 ANNUAL LIMIT

QCDs are capped at \$100,000 per person, per year. If you are married, you and your spouse can each contribute up to \$100,000 from your own IRAs.

If you withdraw more than \$100,000 from your IRA to contribute to a charity,

you may not carry over the excess to a future year. You can do a QCD with the first \$100,000 of the distribution and the remaining amount will be treated as a taxable distribution. You can take a charitable deduction for the amount over \$100,000, if you itemize deductions and otherwise qualify for the deduction.

### 4. SATISFY YOUR RMD

Here is good news if you are charitably inclined and must take a required minimum distribution (RMD). You can use a QCD to satisfy your RMD for the year. A QCD can exceed your RMD amount for the year as long as it does not exceed the \$100,000 annual limit.

### 5. DIRECT TRANSFER IS REQUIRED

If you want to do a QCD, you must make a direct IRA transfer from the IRA to the charity. You should instruct the IRA custodian to make the distribution check payable to the charity of your choice. If a check that is payable to a charity is sent to you for delivery to the charity, it will be treated as a direct payment. Be careful! If you receive a check payable to you from your IRA and then later give those funds to charity, that is not considered a QCD.

Ed Slott, 11/30/16

## ASK A FINANCIAL PLANNER

### Q What is the process for preparing my annual Qualified Charitable Distributions (QCDs)?

**A** We recommend that you contact us in the 1st quarter of 2019 to prepare for your annual QCDs. It would be prudent to process most of the distributions no later than April 30th in order to avoid taking more income from your IRA than the QCD strategy can offset. If you choose to withhold some QCDs until later in the year, we recommend reserving those funds so there is remaining RMD.

Finally, to avoid confusion when employing the QCD strategy,

it would be efficient to complete it in one or no more than two requests.

**The outcome:** We will prepare the Schwab paperwork for your signature. Schwab will make the check payable to the charity and send it to you for delivery to the charity. Please note that Schwab will not provide the IRS with the tax-free portion on your 1099-R. It is your responsibility to provide your tax preparer with that information, so we recommend you retain the check stub.

## Beware of Schemes During Tax Season

**It's tax season! Every year, around this time, the Internal Revenue Service (IRS) publishes its dirty dozen – a list of scams criminals use to try and ferret out personal information and/or steal money.<sup>1</sup>**

For example, if you received an email from a top executive in your company or organization requesting data from IRS form W2 for the 2016 tax year, what would you do?<sup>2</sup>

The right answer is: Don't respond.

Disguising an email to look like it's from your boss or someone higher up in your firm is called spoofing. Criminals have been spoofing corporate employees for years, and now they're turning their attention to school districts, tribal organizations, restaurants, hospitals, and non-profits, according to a February 2017 IRS press release.<sup>3</sup> If you receive a suspicious email, contact your Human Resources department.

Spoofing is just one scheme among many. Here are some of the other scams you should guard against:

### PHISHING

Merriam-Webster explains phishing like this, "...A common phishing scam involves sending emails that appear to come from banks requesting recipients to verify their accounts by typing personal details, such as credit card information, into a Web site that has been disguised to look like the real thing. Such scams can be thought of as 'fishing' for naive recipients."<sup>4</sup>

If you receive an email purporting to be from the IRS, remember this: The IRS does not contact taxpayers about refunds or tax

bills using email, text, or social media. In fact, the agency cautions Americans not to click on a link in an email claiming to be from the IRS.<sup>1</sup>

In addition, banks and financial institutions typically won't ask for confidential personal information (user names, passwords, personal identification numbers, and so on) through text message, email, or social media. Instead of clicking on a link in a suspicious email or text, call your local bank branch or IRS office to ask whether they sent the request.

### PHONE SCAMS

Be wary if you receive a call and the person says they are from the IRS – even if caller ID says it's the IRS and the person on the other end of the line offers a badge number and official sounding title – because it's likely a scammer.<sup>6</sup>

Criminals have been impersonating IRS agents and demanding immediate payment of taxes without giving the taxpayer an opportunity to question or appeal the amount owed. They may threaten the taxpayer with arrest, deportation, or another punishment. The IRS does not do this. Scammers may also require a specific payment method, such as a prepaid debit card, or insist taxpayers provide credit or debit card numbers over the phone. Don't do it.<sup>6</sup>

Instead of engaging, take the caller's information, refrain from giving out any of your information, and tell them you will call back. Then, look up the number for your local IRS office. Call them to confirm if the caller is an actual IRS employee or not. Don't call the number provided by the caller.<sup>6</sup>

### IDENTITY THEFT

Criminals have been using other people's personal information (Social Security

numbers, names, addresses, birth dates, etc.) to obtain money or credit for many years. Recently, scammers have also been filing false tax returns. The IRS has implemented measures that appear to be effective.<sup>1</sup> At the end of 2016, USA Today reported, "An unprecedented public-private crackdown has helped cut taxpayer identity theft reports in half and prevented millions of dollars in fraudulent refunds."<sup>7</sup>

Regardless of the progress that has been made, the IRS cautioned, "Taxpayers need to watch out for identity theft especially around tax time. The IRS continues to aggressively pursue the criminals that file fraudulent returns using someone else's Social Security number. Though the agency is making progress on this front, taxpayers still need to be extremely cautious and do everything they can to avoid being victimized."<sup>1</sup>

If you discover someone has filed a tax return using your personal data, Intuit.com advises you complete IRS Form 14039 and mail it to the IRS.<sup>8</sup>

Being wary can help protect against scammers, but criminals may find a way to capture your personal information regardless of any precautions you take. If you worry your data may have been comprised, the Federal Trade Commission suggests considering a credit freeze, which lets you restrict access to your credit report and makes it more difficult for identity thieves to open new accounts in your name. You'll still be able to open new accounts or allow credit checks by prospective employers or landlords, but you'll need to specifically unfreeze your account for that purpose. To learn more, contact one of the credit bureaus: Experian, Equifax, or TransUnion.<sup>9</sup>

Sources:

<sup>1</sup> <https://www.irs.gov/uac/newsroom/irs-summarizes-dirty-dozen-list-of-tax-scams-for-2017>

<sup>2</sup> <https://www.edsurge.com/news/2017-02-07-phishing-season-widespread-email-scam-targets-schools-edtech-companies>

<sup>3</sup> <https://www.irs.gov/uac/dangerous-w-2-phishing-scam-evolving-targeting-schools-restaurants-hospitals-tribal-groups-and-others>

<sup>4</sup> <https://www.merriam-webster.com/dictionary/phishing>

<sup>5</sup> <https://www.chase.com/digital/resources/privacy-security/security/suspicious-emails>

<sup>6</sup> <https://www.irs.gov/uac/newsroom/phone-scams-continue-to-be-a-serious-threat-remain-on-irs-dirty-dozen-list-of-tax-scams-for-the-2016-filing-season>

<sup>7</sup> <http://www.usatoday.com/story/money/2016/11/03/irs-says-2016-crackdown-helped-slow-identity-theft-tax-refund-fraud/93234624/>

<sup>8</sup> <https://turbotax.intuit.com/tax-tools/tax-tips/General-Tax-Tips/Identity-Theft-What-to-Do-if-Someone-Has-Already-Filed-Taxes-Using-Your-Social-Security-Number/INF23035.html>

<sup>9</sup> <https://www.consumer.ftc.gov/articles/0497-credit-freeze-faqs>

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## Team Potluck Lunch and Secret Santa

On December 20th, our team held our annual potluck lunch and had fun with our Secret Santa gift exchange. Everyone brought a dish to share including chicken cutlet sandwiches, meatballs, pigs-in-a-blanket, stuffed sausage bread, pizza, shrimp, spinach dip ... and more .... everyone's favorite munchies. Not health food, but hey it was the holidays! The piece de resistance, however, was the cake, cookies and pastries baked by Laurie Ham. Not only were they gorgeous to look at, they were absolutely delicious.

As a footnote to the holidays, we are all eating salads now!



We are proud to recognize our employees celebrating anniversaries:



**Beth Campbell**  
Executive Assistant

January 31st  
14 years



**George Koeltl**  
CFP®

January 3rd  
14 years



**Gregg Ruais**  
Marketing

March 18th  
5 years



**Rudy Weiss**  
CFP®

March 1st  
4 years



**Chris Gatty**  
Associate

March 1st  
4 years

### CYBERSECURITY TIPS

According to the 2019 Official Annual Cybercrime Report by Cybersecurity Ventures, cyber crime will cost the world \$6 trillion annually by 2021. It's the fastest growing crime in the United States. Here at Reby Advisors, data security for our clients and our firm is a top priority.

It's also critical for everyone to understand how to protect themselves from cyber thieves in everyday life. Our website now includes a dedicated Cyber-

security page, which is accessible from the main navigation menu, that includes valuable information on the precautions you can take to protect your investments, your credit and your identity. You'll find video of nationally recognized cyber experts, presentations, checklists and tips to remain safe.

If you ever need additional resources or advice on cybersecurity, please do not hesitate to reach out.

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