

# Financial Focus

SPECIALIZING IN WEALTH MANAGEMENT AND RETIREMENT INCOME PLANNING

ANDY DRIGGERS, Financial Advisor

November 2014



## Notable Quote

*"You cannot legislate the poor into freedom by legislating the wealthy out of freedom. What one person receives without working for, another person must work for without receiving. The gov't cannot give to anybody anything that the government does not first take from somebody else. When half of the people get the idea that they do not have to*

*work because the other half is going to take care of them, and when the other half gets the idea that it does no good to work because somebody else is going to get what they work for, that my dear friend, is about the end of any nation. You cannot multiply wealth by dividing it." ~ The late Dr. Adrian Rogers*

## The Market's Wild Swings

Recently, volatility ruled Wall Street. In fact, stocks either fell or rose 1.5% or more on three consecutive trading days. That had happened only 54 times since 1928.<sup>1</sup>

**What prompted these ups & downs?** Several factors. The International Monetary Fund just cut its global and Asia growth forecasts for 2015 and stated that the eurozone could soon slide into another recession. European Central Bank president Mario Draghi wants easing to stimulate the eurozone economy, yet German finance minister Wolfgang Schäuble doesn't. The DAX and CAC 40 (the benchmark indices of Germany and France) have both corrected since spring.<sup>2</sup>

So has the Russell 2000, which wrapped up last week down 13% from its peak in early March. Oil entered a bear market Thursday. Finally, the end of the month will presumably see the end of the Federal Reserve's quantitative easing effort – which has played a big role in the market's bull run. The S&P 500 ended Friday down more than 5% from its September 18 record close, and

Friday actually saw a rare 100-point drop for the Nasdaq Composite (102.10, to be precise).<sup>2,3</sup>

**Where might things go from here?** Stocks could fall further – keep in mind that the S&P has gone more than two years without a correction, definitely an abnormality. On the other hand, fall earnings seasons have tended to give stocks a lift throughout history, so let's hope history repeats. Bespoke Investments cites some encouraging data: in instances where the market sees 1.5% or greater swings on three straight trading days, the S&P has averaged a gain of 0.55% on the next trading day and 1.13% during the following trading week.<sup>1</sup>

How big a drag will Europe continue to exert on the market? Agreement between EU finance ministers would give domestic and foreign stocks a lift. If that isn't there, perhaps earnings – the "mother's milk" of stocks – will help guide the market back to equilibrium and gains.<sup>2</sup>

Perhaps the wisest words came from Cornerstone Wealth Management CIO Alan Skrainka, who told *USA TODAY* Friday: "The market was overdue for a correction. Not every correction develops into a bear market. Every economic slowdown is not a recession. Look for opportunities and maintain a long-term perspective."<sup>3</sup>

1 - [tinyurl.com/k9nfbxc](http://tinyurl.com/k9nfbxc) [10/10/14]

2 - [bloomberg.com/news/2014-10-09/index-futures-slip-as-stocks-slump-while-oil-extends-drop.html](http://bloomberg.com/news/2014-10-09/index-futures-slip-as-stocks-slump-while-oil-extends-drop.html) [10/10/14]

3 - [usatoday.com/story/money/markets/2014/10/10/stocks-friday/17022819/](http://usatoday.com/story/money/markets/2014/10/10/stocks-friday/17022819/) [10/10/14]

## DONATING APPRECIATED STOCK

**Why sell shares when you can gift them?** If you have appreciated stocks in your portfolio (and you hold them in a non-qualified account that doesn't get special tax treatment), then you

might want to consider donating those shares to charity rather than selling them someday.

Why, exactly? Donating appreciated securities to a tax-exempt charity can result in a pair of tax breaks. If you have held the stock for more than a year, you can deduct the fair market value of the stock in the year that you make the donation. If the charity is tax-exempt, it won't face capital gains tax on the stock if it sells it in the future. Again, this is all provided you donate the shares to the charity out of a non-retirement account (and not out of a qualified retirement plan such as an IRA).<sup>1</sup>

**When is donating stock a better choice than gifting cash or just selling the shares?** Two reasons may motivate you to donate highly appreciated stock to a tax-exempt charity. One, if you own too much company stock or your portfolio isn't very diverse, it can give you a chance to reduce overweighting in one stock or sector. Two, it might be a smart tax move if you own a number of low-basis stocks.

If you just hand some cash to the tax-exempt charity, the tax benefit is certainly significant. Cash gifts are deductible up to 50% of AGI, and that lowers their net cost for a donor. As an example, if a donor in the 35% tax bracket gives a 501(c)(3) non-profit organization a gift of \$5,000, the net cost can work out to just \$3,250 with \$1,750 realized in tax savings.<sup>2</sup>

If you donate highly appreciated securities that you have owned for at least one year, the tax benefit can be even more significant. You can deduct the full fair market value of the securities (up to 30% of your AGI) and the unrealized gains won't be taxed either. So the more the stock appreciates, the greater the potential capital gains tax break down the road.<sup>2</sup>

If you sell shares of appreciated stock from a taxable account and subsequently donate the

proceeds from the sale to charity, then you face capital gains tax on the gain you realize, which effectively trims the tax benefit of a cash donation.<sup>3</sup>

If you donate shares of *depreciated* stock from a taxable account to a charity, you can only deduct their current value, not the value they had when you originally bought them – so there is far less merit in doing that.<sup>3</sup>

**Remember the federal tax rules for charitable donations.** If you donate highly appreciated stock to a charity, make sure to abide by the rules set down in IRS Publication 526, *Charitable Contributions*. Double-check to see that the charity has legitimate non-profit status under federal tax law, and be sure to record the deduction on a Schedule A that you attach to your 1040.<sup>4,5</sup>

If your contribution totals \$250 or more, the donation(s) must be recorded – that is, the charity needs to give you a written statement describing the donation and its value and whether it is providing you with goods or services in exchange for it. (A bank record or even payroll deduction records can also denote the contribution.) If your total deduction for all noncash contributions in a tax year exceeds \$500, then complete and attach Form 8283 (Noncash Charitable Contributions) to your 1040 when filing. If you donate more than \$5,000 of property to a charity, you will need to provide a letter from a qualified appraiser to the charity (and by extension, the IRS) stating the monetary value of the gift(s).<sup>4,5</sup>

---

1 - [raymondjames.com/thorsenwealthmanagement/pdfs/charity\\_article.pdf](http://raymondjames.com/thorsenwealthmanagement/pdfs/charity_article.pdf) [10/12/12]

2 - [purdue.edu/giving/fed\\_tax.html](http://purdue.edu/giving/fed_tax.html) [6/10/14]

3 - [money.usnews.com/money/blogs/the-smarter-mutual-fund-investor/2013/09/26/how-to-give-stock-to-charity-2](http://money.usnews.com/money/blogs/the-smarter-mutual-fund-investor/2013/09/26/how-to-give-stock-to-charity-2) [9/26/13]

4 - [today.com/money/charitable-giving-how-you-can-donate-cause-benefit-tax-time-2D79751463](http://today.com/money/charitable-giving-how-you-can-donate-cause-benefit-tax-time-2D79751463) [6/3/14]

5 - [irs.gov/uac/Eight-Tips-for-Deducting-Charitable-Contributions](http://irs.gov/uac/Eight-Tips-for-Deducting-Charitable-Contributions) [11/4/13]