Raymond James & Associates, Inc.
Craigen S. Schoen, CFP®
Managing Director
112 Haywood Road
Greenville, SC 29607
864-289-2164
craigen.schoen@raymondjames.com

OnWealth
Financial Advice from Wealth Management Services

Earnings Call: A Closer Look at Financial Reports

The second quarter of 2016 marked the fifth quarter in a row of declining U.S. corporate earnings. Low oil prices and a strong dollar were largely to blame for lackluster financial results.[1]

Publicly traded companies are required to report quarterly financial results to regulators and shareholders. Earnings season is the often-turbulent period when most companies must disclose their successes and failures.

An earnings surprise--whether profits come in above or below the stock market's expectations--can have an immediate effect on a company's stock price, so it's easy to understand why executives may go to great lengths to impress their investors. Earnings do represent a corporation's bottom line and are generally a key driver of the stock price over time. Still, an earnings surprise may not be a reliable indicator of a company's longer-term outlook, partly because earnings figures generally reflect past performance.

Earnings are just one factor to consider when evaluating a company's outlook. Sales performance, research and development, new products, consumer trends, and global economic conditions can all affect future results.

Performance watchwords

A quarterly report typically includes unaudited financial statements, a discussion of the business conditions that affected financial results, and some guidance about how the company expects to perform in the following quarters. Financial statements reveal the quarter's profit or net income, which must be calculated according to generally accepted accounting principles (GAAP). This typically involves subtracting operating expenses (including depreciation, taxes, and other expenses) from net income.

Earnings per share (EPS) represents the portion of total profit that applies to each outstanding share of company stock. EPS is the figure that often makes headlines, because the financial media tend to focus on whether companies meet, beat, or fall short of the consensus estimate of Wall Street analysts. A company can beat the market by losing less money than expected, or can log billions in profits and still disappoint investors who were counting on more.

To help avoid surprises, many companies take steps to manage the market's expectations. For example, they may issue profit warnings or revise previous forecasts, prompting analysts to adjust their estimates accordingly. Companies may also be able to time certain business moves to help meet earnings targets.

Shaping perception

In addition to filing regulatory paperwork, many companies announce their results through press releases, conference calls, and/or webinars so they can try to influence how the information is judged by investors, analysts, financial media, and the general public.

Pro-forma (or adjusted) earnings may present an alternative view of financial performance by excluding nonrecurring expenses such as restructuring costs, interest payments, taxes, and other unique events. Although the Securities and Exchange Commission has rules governing pro-forma financial statements, companies still have a great deal of leeway to highlight the positive and minimize the negative in these reports. There may be a vast difference between pro-forma earnings and those calculated according to GAAP.

The media hype surrounding earnings that come in stronger or weaker than expected could distract from other important details that may be included in a company's quarterly report. Understanding the reporting process may help you ignore short-term market swings and remain focused on your long-term investing strategy.

Note: *The return and principal value of stocks fluctuate with changes in market conditions. Shares, when sold, may be worth more or less than their original cost.*

[1] FactSet, 2016

October 2016

Ten Year-End Tax Tips for 2016

Deductions may be limited for those with high incomes

If your adjusted gross income (AGI) is more than $259,400 ($311,300 if married filing jointly, $155,650 if married filing separately, $285,350 if filing as head of household), your personal and dependent exemptions may be phased out, and your itemized deductions may be limited. If your 2016 AGI puts you in this range, consider any potential limitation on itemized deductions as you weigh any moves relating to timing deductions.

IRA and retirement plan contributions

For 2016, you can contribute up to $18,000 to a 401(k) plan ($24,000 if you're age 50 or older) and up to $5,500 to a traditional or Roth IRA ($6,500 if you're age 50 or older). The window to make 2016 contributions to an employer plan generally closes at the end of the year, while you typically have until the due date of your federal income tax return to make 2016 IRA contributions.

Here are 10 things to consider as you weigh potential tax moves between now and the end of the year.

1. Set aside time to plan

Effective planning requires that you have a good understanding of your current tax situation, as well as a reasonable estimate of how your circumstances might change next year. There's a real opportunity for tax savings if you'll be paying taxes at a lower rate in one year than in the other. However, the window for most tax-saving moves closes on December 31, so don't procrastinate.

2. Defer income to next year

Consider opportunities to defer income to 2017, particularly if you think you may be in a lower tax bracket then. For example, you may be able to defer a year-end bonus or delay the collection of business debts, rents, and payments for services. Doing so may enable you to postpone payment of tax on the income until next year.

3. Accelerate deductions

You might also look for opportunities to accelerate deductions into the current tax year. If you itemize deductions, making payments for deductible expenses such as medical expenses, qualifying interest, and state taxes before the end of the year, instead of paying them in early 2017, could make a difference on your 2016 return.

4. Factor in the AMT

If you're subject to the alternative minimum tax (AMT), traditional year-end maneuvers such as deferring income and accelerating deductions can have a negative effect. Essentially a separate federal income tax system with its own rates and rules, the AMT effectively disallows a number of itemized deductions. For example, if you're subject to the AMT in 2016, prepaying 2017 state and local taxes probably won't help your 2016 tax situation, but could hurt your 2017 bottom line. Taking the time to determine whether you may be subject to the AMT before you make any year-end moves could help save you from making a costly mistake.

5. Bump up withholding to cover a tax shortfall

If it looks as though you're going to owe federal income tax for the year, especially if you think you may be subject to an estimated tax penalty, consider asking your employer (via Form W-4) to increase your withholding for the remainder of the year to cover the shortfall. The biggest advantage in doing so is that withholding is considered as having been paid evenly through the year instead of when the dollars are actually taken from your paycheck. This strategy can also be used to make up for low or missing quarterly estimated tax payments.

6. Maximize retirement savings

Deductible contributions to a traditional IRA and pretax contributions to an employer-sponsored retirement plan such as a 401(k) can reduce your 2016 taxable income. If you haven't already contributed up to the maximum amount allowed, consider doing so by year-end.

7. Take any required distributions

Once you reach age 70½, you generally must start taking required minimum distributions (RMDs) from traditional IRAs and employer-sponsored retirement plans (an exception may apply if you're still working and participating in an employer-sponsored plan). Take any distributions by the date required--the end of the year for most individuals. The penalty for failing to do so is substantial: 50% of any amount that you failed to distribute as required.

8. Weigh year-end investment moves

You shouldn't let tax considerations drive your investment decisions. However, it's worth considering the tax implications of any year-end investment moves that you make. For example, if you have realized net capital gains from selling securities at a profit, you might avoid being taxed on some or all of those gains by selling losing positions. Any losses over and above the amount of your gains can be used to offset up to $3,000 of ordinary income ($1,500 if your filing status is married filing separately) or carried forward to reduce your taxes in future years.

9. Beware the net investment income tax

Don't forget to account for the 3.8% net investment income tax. This additional tax may apply to some or all of your net investment income if your modified AGI exceeds $200,000 ($250,000 if married filing jointly, $125,000 if married filing separately, $200,000 if head of household).

10. Get help if you need it

There's a lot to think about when it comes to tax planning. That's why it often makes sense to talk to a tax professional who is able to evaluate your situation and help you determine if any year-end moves make sense for you.

SCHOEN
CAPITAL GROUP OF
RAYMOND JAMES®

A portion of the permanent life insurance premium goes into a cash value account, which accumulates on a tax-deferred basis throughout the life of the policy. Withdrawals of the accumulated cash value, up to the amount of the premiums paid, are not subject to income tax. Loans are also free of income tax as long as they are repaid. Loans and withdrawals from a permanent life insurance policy will reduce the policy's cash value and death benefit. Any guarantees are contingent on the claims-paying ability and financial strength of the issuing insurance company.

There are expenses associated with the purchase of life insurance, including mortality and expense charges. If a policy is surrendered prematurely, there may also be surrender charges and income tax implications. The cost and availability of life insurance depend on factors such as age, health, and the type and amount of insurance purchased. Before implementing a strategy involving life insurance, it would be prudent to make sure that you are insurable.

Retain and Reward Key Employees with an Executive Bonus Plan

The success of a business, especially a small business, is often predicated on the performance and retention of a few key employees. The financial impact and stress resulting from the departure of an important employee can be significant. One way business owners can try to retain and reward their key employees is by offering extra compensation in the form of a nonqualified executive bonus (IRC Section 162) plan. These types of plans often use permanent life insurance as the funding vehicle.

What is it?

An executive bonus arrangement is an addition to regular salary or compensation that business owners can provide to key employees or executives of their choice. The bonus may be used by the employee to purchase permanent life insurance.

There are no legal requirements for anything to be filed with the government or for the plan to be in writing. However, a written plan is often desirable because it can outline the conditions that must be met in order for the employee to qualify for the bonus, and it can state the obligations of the business to pay the bonus.

How does it work?

The business provides extra compensation to the key employee in the form of a bonus. If life insurance is used as the funding vehicle, the employer may make the bonus payment directly to the insurance company, or the employee can make the premium payments.

In some instances, the employer will pay a "double bonus" to the employee to pay for any income taxes owed by the employee that are attributable to the bonus. To cover premium payments and to maintain the tax advantages of cash accumulation for the employee, the employer should plan on making ongoing bonus payments instead of a one-time bonus so the policy isn't classified as a modified endowment contract.

The employee is the insured and owner of the life insurance policy and may name the policy beneficiaries. The life insurance policy may accumulate cash value, which can be accessed by the employee during his or her lifetime. Generally, any cash accumulation within the policy will grow tax deferred. Policy death benefits are paid to the employee's beneficiaries named in the policy.

What are the tax considerations?

Bonuses are generally deductible by an employer according to the same rules as other forms of cash compensation. A bonus cannot be deducted unless it constitutes a reasonable allowance for services actually rendered.

A bonus is taxed to the employee as ordinary taxable income. Because employees generally file taxes according to the cash method (rather than the accrual method), the bonus is taxable to the employee when it is received.

Considerations for the employer

- Extra compensation in the form of a bonus can attract, motivate, and retain key employees.
- The plan is generally simple to implement and easy to administer, with no formalities or funding requirements.
- The employer has complete discretion in selecting which employees to reward.
- The employer may be able to deduct the bonus as a reasonable business expense.
- The employer can set terms and conditions that must be met by the employee to qualify for the bonus.

Considerations for the employee

- The employee receives life insurance protection for his or her family at little or no cost (assuming the employer also covers the tax obligation of the employee attributable to the bonus).
- The employee owns the policy and names the policy beneficiaries.
- Permanent life insurance may accumulate tax-deferred cash value over time, which the employee can access to supplement retirement or to meet other needs or expenses.
- The bonus may be contingent on continued employment or performance goals.
- The employee must be insurable in order for life insurance to work as the plan funding vehicle.

A way to retain and reward employees

A principal challenge to employers is figuring out how to retain and reward key employees. These goals can be promoted by providing executive bonuses to key employees, who can use the bonuses to fund a life insurance policy. Life insurance may be a useful funding vehicle because it can provide a tax-free benefit to the employee's chosen beneficiaries and it may accumulate tax-deferred cash value.

SCHOEN
CAPITAL GROUP OF
RAYMOND JAMES®

Raymond James & Associates, Inc.
Craigen S. Schoen, CFP®
Managing Director
112 Haywood Road
Greenville, SC 29607
864-289-2164
craigen.schoen@raymondjames.com

What are my health-care options if I retire early?

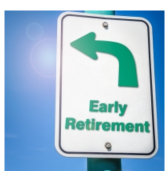
If you're eligible for an early-retirement package from your employer, determine whether post-retirement medical coverage is included. These packages sometimes provide medical coverage until you reach age 65 and become eligible for Medicare. Given the high cost of medical care, you might find it hard to turn down an early-retirement package that includes such coverage.

If your package doesn't include post-retirement medical coverage, or you're not eligible for an early-retirement package at all, you'll need to look into alternative sources of health insurance, such as COBRA continuation coverage or an individual health insurance policy, to carry you through to Medicare eligibility.

Under the Consolidated Omnibus Budget Reconciliation Act (COBRA), most employer-provided health plans (typically employers with 20 or more employees) must offer temporary continuation coverage for employees (and their dependents) upon termination of employment. Coverage can last for up to 18 months, or 36 months in some cases. You'll generally have to pay the full cost of coverage--employers aren't required to continue their contribution toward coverage, and most do not. Employers can also charge an additional 2% administrative fee.

Individual health insurance is available directly from various insurance carriers or, as a result of the Affordable Care Act, through state-based or federal health insurance marketplaces. One advantage of purchasing coverage through a marketplace plan is that you may be entitled to a premium tax credit if your post-retirement income falls between 100% and 400% of the federal poverty level (additional income-based subsidies may also be available).

Some factors to consider when comparing various health options are (1) the total cost of coverage, taking into account premiums, deductibles, copayments, out-of-pocket maximums, and (for marketplace plans) tax credits and subsidies; (2) the ability to continue using your existing health-care providers (and whether those providers will be in-network or out-of-network); and (3) the benefits provided under each option and whether you're likely to need and use those benefits.



Should I accept my employer's early-retirement offer?

The right answer for you will depend on your situation. First of all, don't underestimate the psychological impact of early retirement. The adjustment from full-time work to a more leisurely pace may be difficult. So consider whether you're ready to retire yet. Next, look at what you're being offered. Most early-retirement offers share certain basic features that need to be evaluated. To determine whether your employer's offer is worth taking, you'll want to break it down.

Does the offer include a severance package? If so, how does the package compare with your projected job earnings (including future salary increases and bonuses) if you remain employed? Can you live on that amount (and for how long) without tapping into your retirement savings? If not, is your retirement fund large enough that you can start drawing it down early? Will you be penalized for withdrawing from your retirement savings?

Does the offer include post-retirement medical insurance? If so, make sure it's affordable and provides adequate coverage. Also, since Medicare doesn't start until you're 65, make sure your employer's coverage lasts until you reach that age. If your employer's offer doesn't include medical insurance , you may have to look into COBRA or a private individual policy.

How will accepting the offer affect your retirement plan benefits? If your employer has a traditional pension plan, leaving the company before normal retirement age (usually 65) may greatly reduce the final payout you receive from the plan. If you participate in a 401(k) plan, what price will you pay for retiring early? You could end up forfeiting employer contributions if you're not fully vested. You'll also be missing out on the opportunity to make additional contributions to the plan.

Finally, will you need to start Social Security benefits early if you accept the offer? For example, at age 62 each monthly benefit check will be 25% to 30% less than it would be at full retirement age (66 to 67 , depending on your year of birth). Conversely, you receive a higher payout by delaying the start of benefits past your full retirement age--your benefit would increase by about 8% for each year you delay benefits, up to age 70.