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# Earnings Season: What Investors Can Take Away from Corporate Reports

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

U.S. companies included in the S&P 500 index suffered year-over-year earnings declines in the first two quarters of 2019.[1] Rising wages and higher material costs (partially due to tariffs imposed on traded goods) had started to cut into profit margins.[2]

Earnings reports are closely watched because they reveal a corporation's bottom line. However, they generally reflect past performance and may have little to do with future results.

## Performance lingo

A quarterly report 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 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 often the figure that 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.

An earnings surprise — whether EPS comes in above or below expectations — can have an immediate effect on a company's stock price.

## Shaping perception

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

Pro-forma (or adjusted) earnings may exclude 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 have leeway to highlight the positive and minimize the negative. There may be a vast difference between pro-forma earnings and those calculated according to GAAP.

Many companies also take steps to manage expectations. Issuing profit warnings or positive revisions to previous forecasts may prompt analysts to adjust their estimates accordingly. Companies may also be able to time certain business moves to help meet quarterly earnings targets.

The media hype surrounding an earnings surprise can sometimes draw attention away from important details that may be revealed in a company's quarterly report. Factors such as sales growth, research and development, new products, consumer trends, government policies, and global economic conditions can all affect a company's longer-term prospects.

*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. The S&P 500 is an unmanaged group of securities that is considered to be representative of the U.S. stock market in general. The performance of an unmanaged index is not indicative of the performance of any specific investment. Individuals cannot invest directly in an index.*

[1] FactSet, August 9, 2019

[2] Reuters, April 9, 2019

## October 2019



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# Balancing 401(k) and HSA Contributions

*For more information on qualified medical expenses, review IRS Publication 502. For help with your specific situation, consult a tax professional.*

*Asset allocation is a method used to help manage investment risk; it does not guarantee a profit or protect against investment loss.*

*All investing involves risk, including the possible loss of principal, and there is no guarantee that any investment strategy will be successful.*

If you have the opportunity to contribute to both a 401(k) and a health savings account (HSA), you may wonder how best to take advantage of them. Determining how much to contribute to each type of plan will require some careful thought and strategic planning.

## Understand the tax benefits

A traditional, non-Roth 401(k) allows you to save for retirement on a pre-tax basis, which means the money is deducted from your paycheck before taxes are assessed. The account then grows on a tax-deferred basis; you don't pay taxes on any contributions or earnings until you withdraw the money. Withdrawals are subject to ordinary income tax and a possible 10% penalty tax if made before you reach age 59½, unless an exception applies.

You can open and contribute to an HSA only if you are enrolled in a qualifying high-deductible health plan (HDHP), are not covered by someone else's plan, and cannot be claimed as a dependent by someone else. Although HDHP premiums are generally lower than other types of health insurance, the out-of-pocket costs could be much higher (until you reach the deductible). That's where HSAs come in. Similar to 401(k)s, they allow you to set aside money on a pre-tax or tax-deductible basis, and the money grows tax deferred.

However, HSAs offer an extra tax advantage: Funds used to pay qualified medical expenses can be withdrawn from the account *tax-free.* And you don't have to wait until a certain age to do so. That may be one reason why 68% of individuals in one survey viewed HSAs as a way to pay current medical bills rather than save for the future.[1] However, a closer look at HSAs reveals why they can add a new dimension to your retirement strategy.

## HSAs: A deeper dive

Following are some of the reasons an HSA could be a good long-term, asset-building tool.

- With an HSA, there is no "use it or lose it" requirement, as there is with a flexible spending account (FSA); you can carry an HSA balance from one year to the next, allowing it to potentially grow over time.
- HSAs are portable. If you leave your employer for any reason, you can roll the money into another HSA.
- You typically have the opportunity to invest your HSA money in a variety of asset classes, similar to a 401(k) plan. (According to the Plan Sponsor Council of America, most HSAs require you to have at least $1,000 in the account before you can invest beyond cash alternatives.[2] )
- HSAs don't impose required minimum distributions at age 70½, unlike 401(k)s.
- You can use your HSA money to pay for certain health insurance costs in retirement, including Medicare premiums and copays, as well as long-term care insurance premiums (subject to certain limits).
- Prior to age 65, withdrawals used for nonqualified expenses are subject to income tax and a 20% penalty tax; however, after age 65, money used for nonqualified expenses will not be subject to the penalty [i.e., HSA dollars used for nonqualified expenses after age 65 receive the same tax treatment as traditional 401(k) withdrawals].

The bottom line is that if you don't need all of your HSA money to cover immediate health-care costs, it may provide an ideal opportunity to build a separate nest egg for your retirement health-care expenses. (It might be wise to keep any money needed to cover immediate or short-term medical expenses in relatively conservative investments.)

## Additional points to consider

If you have the option to save in both a 401(k) and an HSA, ideally you would set aside the maximum amount in each type of account: in 2019, the limits are $19,000 (plus an additional $6,000 if you're 50 or older) in your 401(k) plan; $3,500 for individual coverage (or $7,000 for families, plus an additional $1,000 if you're 55 or older) in your HSA. Realistically, however, those amounts may be unattainable. So here are some important points to consider.

1) Estimate how much you spend out of pocket on your family's health care annually and set aside at least that much in your HSA.

2) If either your 401(k) or HSA — or both — offers an employer match, try to contribute at least enough to take full advantage of it. Not doing so is turning down free money.

3) Understand all HSA rules, both now and down the road. For example, you'll need to save receipts for all your medical expenses. And once you're enrolled in Medicare, you can no longer contribute to an HSA. Nor can you pay Medigap premiums with HSA dollars.

4) Compare investment options in both types of accounts. Examine the objectives, risk/return potential, and fees and expenses of all options before determining amounts to invest.

5) If your 401(k) offers a Roth account, you may want to factor its pros and cons into the equation as well.

*[1] Survey of Adults with Employer-Sponsored Insurance, Kaiser Family Foundation/LA Times, May 2, 2019*

*[2] 2019 HSA Survey, Plan Sponsor Council of America, June 4, 2019*

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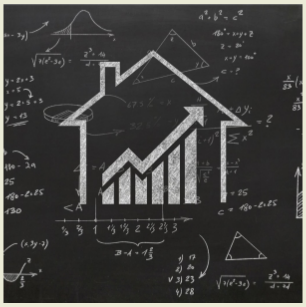

# Real Estate Investing 101

Historically low mortgage interest rates and rising home values are just a couple of reasons why investors may be drawn to real estate investing. Not only does real estate have the potential to provide a steady income stream, but it can help diversify an investment portfolio and act as a hedge against inflation.

If you are new to investing in real estate, there are a number of questions you should ask yourself to choose the best real estate investments for your needs.

## Do you want to be an active or passive owner?

When choosing a real estate investment, you first need to decide how much you want to be involved. Are you interested in investing in a single-family dwelling, multi-unit property, or vacation property for rental income? Buying rental property and managing it yourself will involve time and effort unless you hire someone to manage it for you. If you've never been a landlord, be sure to talk with other landlords to get a sense of the potential rewards and pitfalls.

Other real estate investments, such as real estate limited partnerships and raw/unimproved land, demand less day-to-day involvement. If you're investing simply to diversify an investment portfolio, these types of real estate investments may satisfy your needs without the challenges of managing a property.

## Are you investing for tax benefits?

There are a number of tax benefits associated with investing in certain types of real estate. For example, operating expenses for a rental property are typically tax deductible, and you may be entitled to deductions for depreciation. In addition, any profit from the sale of real estate is generally taxed at favorable capital gains rates. You may also be able to postpone your tax liability with other tax planning strategies, depending on the type of real estate investment.

If tax benefits are your primary reason for investing in real estate, be sure to consult a tax professional to see what specific tax benefits you may be entitled to based on the real estate investment you choose.

## Are you investing for income, capital appreciation, personal use, or a combination?

Real estate investments offer the potential for all three, but there is often a trade-off among them. For example, raw land may have development potential, but it likely will not provide any return until it is fully developed. You may be able to earn income from rental property that has the potential to increase in value over time, but your ability to use the property yourself will be limited if you want to enjoy a rental's tax benefits. Ranking your priorities can be useful.

## Are you looking for a quick return or a long-term investment?

Real estate speculators have been known to earn high profits from buying distressed property, fixing it up, and reselling it at a profit, especially in a buyers' market. However, the real estate market is notoriously cyclical, and there are no guarantees. If you're speculating, hoping for a quick return on your capital, the liquidity of a real estate investment will be important to you; so will making sure you don't overpay to begin with. If you have a longer time frame, you may have a wider range of investing options.

## Is real estate investing going to be a full-time job for you or a hobby?

Some real estate investors find that what they intended as a hobby or retirement diversion quickly becomes more than they can handle. Think about how much time and capital you're prepared to devote to your real estate investments, and how much of a cushion you have in case things don't work out as you expected.

Diversification is a method used to help manage investment risk; it does not guarantee a profit or protect against investment loss. There are inherent risks associated with real estate investments and the real estate industry that could have an adverse effect on the financial performance and value of a real estate investment. Some of these risks include: a deterioration in national, regional, and local economies; tenant defaults; local real estate conditions, such as an oversupply of, or a reduction in demand for, rental space; property mismanagement; changes in operating costs and expenses, including increasing insurance costs, energy prices, real estate taxes, and the costs of compliance with laws, regulations, and government policies. Real estate investments may not be appropriate for all investors.

Limited partnerships are subject to special risks such as illiquidity and the risks inherent in the underlying investments. There are no assurances that the stated investment objectives will be reached. At redemption, the investor may receive back less than the original investment. Individuals must meet specific income and net worth suitability standards, which vary by state. These standards, along with the risks and other information concerning the partnership, are set forth in the prospectus, which can be obtained from your financial professional.

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## What health services aren't covered by Medicare?

Original Medicare — Part A hospital insurance and Part B medical insurance — offers broad coverage, but many services are not covered.

Some may be fully or partially covered by a Part C Medicare Advantage Plan, which replaces Original Medicare, or a Medigap policy, which supplements Original Medicare. Both are offered by Medicare-approved private insurers. (You cannot have both a Medicare Advantage Plan and a Medigap policy.)

Whether you are looking forward to Medicare in the future or are already enrolled, you should consider these potential expenses.

**Deductibles, copays, and coinsurance.** Costs for covered services can add up, and — unlike most private insurance — there is no annual out-of-pocket maximum. Medicare Advantage and Medigap plans may pay all or a percentage of these costs and may include an out-of-pocket maximum.

**Prescription drugs.** For coverage, you need to enroll in a Part D prescription drug plan or a Medicare Advantage plan that includes drug coverage.

**Dental and vision care.** Original Medicare does not cover routine dental or vision care. Some Medicare Advantage and Medigap plans may offer coverage for either or both of these needs. You might also consider private dental and/or vision insurance.

**Hearing care and hearing aids.** Some Medicare Advantage plans may cover hearing aids and exams.

**Medical care outside the United States.** Original Medicare does not offer coverage outside the United States. Some Medicare Advantage and Medigap plans offer coverage for emergency care abroad. You can also purchase a private travel insurance policy.

**Long-term care.** Medicare does not cover "custodial care" in a nursing home or home health care. You may be able to purchase long-term care (LTC) insurance from private insurers.

*A complete statement of coverage, including exclusions, exceptions, and limitations, is found only in the LTC insurance policy. It should be noted that LTC insurance carriers have the discretion to raise their rates and remove their products from the marketplace.*

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If you're interested in diversifying your portfolio with collectible investments, such as coins, stamps, or antiques, you'll want to ask yourself the following questions before doing so.


Remember that all investing involves risk, including the possible loss of principal, and there is no guarantee that any investment strategy will be successful.

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