FALL 2016 | ALTFEST.COM

THE ALTFEST ADVISORY LETTER

Altfest
Personal Wealth Management

BEFORE WE SAY GOODBYE TO 2016, A FEW IDEAS TO CONSIDER

BY DAVID KRESSNER, CFA, CFP®

With the end of the year quickly approaching, it is a great time to revisit your tax planning – particularly in regard to charitable contributions and investments.

Proper planning can enable you to satisfy your philanthropic goals and enhance your own financial security. While we present a few ideas here, we urge you to reach out to your wealth management team at Altfest for advice if you are planning a donation.

Choosing the right assets to donate can

CONTINUED ON PAGE 2

RECENTLY IN THE NEWS

CONTINUED ON PAGE 4

MANAGING WEALTH IN A WORLD OF RISING WEALTH GAP

BY LEWIS J. ALTFEST, PH.D., CFP®, CPA, CFA, MAYUKH PODDAR & SUSH PODDAR

The world's wealth gap is bigger than many think … and it's growing. How did this happen? What does it mean for investors?

Many around the world feel left out of the post-2007 to 2008 recovery. And for good reason. The wealth gap, defined as the difference in wealth held by the top 20% and the rest of the population, has increased following the Global Financial Crisis despite a slew of monetary and fiscal stimuli targeted at promoting economic growth. However, the extent of this "wealth gap" is greater than many think.

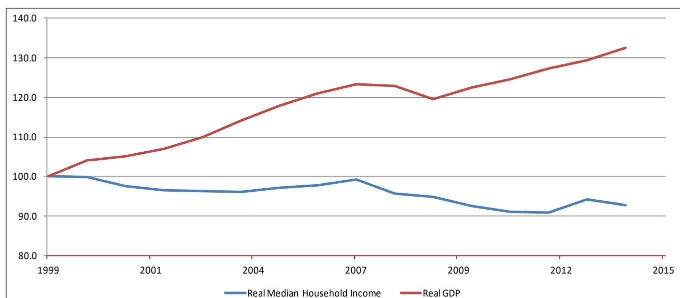

Fig. 1. Growth in US Real GDP and Real Median Household Income (1999-2014) scaled to respective 1999 values[3]

According to a study conducted by Michael Norton of the Harvard Business School and Dan Ariely of Duke University[1], Americans underestimate the wealth gap by as much as one-third. The Norton/Ariely study, (2011) participants believe the top 20% of households control about 60% of wealth, while, in fact, the top 20% own about 80% of wealth. Furthermore, the survey group believe an equitable distribution would imply the top 20% owning 30% of the wealth. The divergence between the perception of an equitable world and the reality is, among other things, a source of social unrest and a general shift in sentiment over establishment politics across the globe.

How did this happen? A large part of the population holds real assets (e.g. housing and land), as opposed to financial assets. An estimated 19% increase in inflation adjusted prices of single-family homes in the U.S. from 2001 to 2007[2] was accompanied by a generous expansion of mortgage credit, including subprime and other lower credit products, increasing real asset ownership among lower and middle income families. The

CONTINUED ON PAGE 3

[1]Norton, M.I., Ariely, D. (2011) Building a Better America—One Wealth Quintile at a Time
[2]Wolff, E.N. (2012) The Asset Price Meltdown and the Wealth of the Middle Class
[3]Data: Federal Reserve Bank of St. Louis

BEFORE WE SAY GOODBYE TO 2016, A FEW IDEAS TO CONSIDER

CONTINUED FROM PAGE 1

greatly enhance your tax benefit. For example, gifting appreciated securities provides a twofold benefit. In addition to being able to deduct the market value of your contribution (to the limit the IRS allows), you also avoid the capital gains tax that would result from selling the asset. The charity receives your gift and you get a double-barreled tax benefit; now that is a win-win.

In order to get even more flexibility from your gifting strategy, you may consider a donor advised fund (DAF). A DAF is a philanthropic vehicle established at a public charity; you can think of a DAF as a charitable investment account. To establish a DAF, you make an irrevocable contribution to the fund (preferably with appreciated securities, to avoid the capital gains tax), take the deduction for that year, and then recommend charitable grants any time afterwards. Meanwhile, your contributed assets grow tax free over time. Such front-loading of the tax deduction can be especially helpful if for some reason you are in a higher-than-usual tax bracket. With these advantages, it is no wonder that the popularity of DAFs has grown rapidly in recent years. If you think a DAF might be right for you, please let us know and we are happy to help you with this opportunity.

For those who are taking required IRA distributions and give to charity, another option to consider is a qualified charitable distribution (QCD). The law allowing QCDs was made permanent beginning this year. (You must be older than 70 ½ to qualify.) When given directly from an IRA to charity, those funds are not included in the IRA owner's adjusted gross income (AGI). A lower AGI can provide many potential tax benefits – for example, lowering your marginal tax bracket, decreasing taxes on Social Security benefits, and avoiding the phase out of itemized deductions that happen at higher AGI levels. It can also reduce Medicare premiums. A qualified charitable distribution cannot be made to a donor advised fund, so we'll want to work with your tax professional to help you determine which, if either, better suits you.

Regarding investments, in an appropriately diversified portfolio, at any given time, you may well have investments trading below what you paid. While at first read that may not sound like an opportunity, if that loss is realized, it can be deducted from income for tax purposes (up to $3,000) or used to offset other capital gains. Particularly at year-end, we look for opportunities to harvest such losses. For those in the lowest tax brackets, where the capital gains tax rate is zero, we may look for opportunities to do just the opposite and harvest gains.

With that said, we strongly advocate that, in general, taxes not override traditional investment judgment. People can easily overestimate the cost of capital gains.

For example, imagine you bought a stock for $8,000 and sold it a year and a day later for $10,000 in order to pursue a more attractive opportunity. Assuming you were subject to the highest capital gains tax rate of 20 percent, you would owe $400 of federal capital gains tax. But it's important to keep in mind that this is not an additional cost to you -- because unless you died while holding the stock you would eventually have to pay $400 anyway. The only additional cost would be the amount that that $400 would earn had it remained invested, which of course is a small fraction of that. In this case, the new investment would have to perform only modestly better to justify the decision.

Please reach out to your Altfest wealth management team to learn more about these items or other ways to manage your taxes as we finish the year.

David Kressner is a Senior Financial Advisor at Altfest, advising clients on all aspects of their financial lives. Dave has earned the Chartered Financial Analyst (CFA) and Certified Financial Planner (CFP®) designations. He is a member of the New York Society of Securities Analysts and the CFA Institute.

Managing Wealth in a World of Rising Wealth Gap

CONTINUED FROM PAGE 1

housing bust that ensued (estimated 24% drop in real prices for houses[2]), disproportionately affected the wealth of these lower income families.

Since the housing crisis' slow employment growth and lack of wage growth meant income for lower-to-middle-income households did not keep pace with economic growth (see Fig. 1.). Lower interest rates and large asset purchases orchestrated by central banks worldwide reflated financial asset prices, further increasing the wealth gap between the top 20% who own financial assets and the rest of the population.

As the population feeling left out, and being left out, of the post-crisis economic recovery continues to grow, there is an associated surge in popular discontent with economic policies. The recent vote in Britain to leave the European Union (also known as Brexit), the rise of anti-establishment politics in the U.S., and the Five Star Movement in Italy are fueled by a common desire for change. These socio-political developments also have deep economic ramifications. On one hand, it is becoming clear that the monetary policy channel, while proving potent in reflating asset prices, has not led to the expected boost in investments in the real economy. So while asset prices have surged and the cost of capital (required returns on investment) has fallen, businesses have not increased investment in growth by an equal proportion. On the other hand, the shift of income mix from labor income to returns earned by asset owners have led to a lowering of inflation expectations. This occurs because additional income accruing to labor is more likely to be spent, while that to asset owners is more likely to be saved. In addition, disinflationary expectations lower economic activity further worsening the economic quagmire – a fair description of the current economic conditions worldwide.

Policy makers are increasingly faced with the necessity of considering mechanisms, other than monetary policy, to stimulate more equitable growth in the economy. One idea that is gaining currency is the fiscal (government) spending channel. Fiscal stimulus, executed properly, can stimulate growth and get more disposable income in the hands of workers, while creating infrastructure that has enduring economic value. Japan and the UK already have committed to more fiscal spending. China has been using fiscal stimulus as a policy tool for a while. President-Elect Trump has also made infrastructure spending a cornerstone of his policy positions. We expect to see a continued policy shift in this direction across developed economies.

The past seven years have seen a steady period of high returns for financial asset holders – including holders of stocks and bonds. In part, this was aided by easy monetary policy stance by central banks across the globe, as well as a valuation tailwind for stocks. As policy gradually shifts away from monetary stimulus towards more targeted fiscal spending, the ensuing years will likely experience more moderate returns. Current valuations in stocks as well as bonds are high relative to historic measures. Inflation, which has been on a hiatus for some time, may make a return if spending picks up.

A more nuanced approach towards investing is called for now. We continue to actively monitor the developments and to position our client portfolios in areas where we feel that the opportunities for risk-adjusted returns are better as we move forward.

Lewis Altfest is the Founder, President and Chief Investment Officer of Altfest Personal Wealth Managment. He leads the Altfest investment committee and plays a key role in our Dental Practice Group.

UPCOMING EVENTS

BE ON THE LOOKOUT FOR THESE UPCOMING EVENTS

Lunch with Lew
Conference Call
January, 2017

Women's Financial Salon®
March, 2017

Life After Loss: Financial and Practical Advice for Widows/Widowers
3 Session Seminar at Hunter College
April 5, 12, 19, 2017

Invite an Altfest Professional to speak to your organization:

Altfest professionals are often asked to speak on wealth management topics. If you know of a company, an organization, or a group of friends who might benefit from our educational sessions, please contact Reza Rezvi at (212) 406-0850 or rrezvi@altfest.com

Recent topics include:

- 6 Tips for Achieving a Secure Retirement
- Portfolio Strategies for 2016
- Loss of a Loved One
- Millennials: Jumpstart Your Financial Future

U.S. Postage
PAID
Albany, NY
Permit #370

Altfest®

Personal Wealth Management

445 Park Avenue, 6th Floor
New York, NY 10022
Phone: (212) 406-0850
Fax: (212)406-0867
www.altfest.com

BARRON'S
Top 100
Independent
Financial Advisors
in the Nation
2013 - 2016

THE ALTFEST ADVISORY LETTER

In This Issue:

email rrezvi@altfest.com to receive the next Altfest Advisory newsletter via email.

ALTFEST PERSONAL WEALTH MANAGEMENT: IN THE NEWS

1. Lew Altfest was again named to the *Barron's* list of the "Top 100 Independent Advisors" in the Nation. He also remains one of *Barron's* "Top 1,200 Financial Advisors" for 2016 by Barron's.

2. Altfest Personal Wealth Management has been named a "Top Rated Advisors in New York" by AdvisoryHQ and Karen Altfest was selected for the "New York SmartCEO Family Business Award" for 2016.

3. Karen Altfest was interviewed for an *Investor's Business Daily* article, "Giving Back...And Getting Much, Much More In Return," which looks at the value of volunteering after retirement.

4. The New York Observer spoke with Michael Prendergast about the value of selecting a financial advisor with the appropriate credentials and who has a legally required fiduciary responsibility to clients, in the article, "Should You Fire Your Financial Advisor?"

5. Both the *Wall Street Journal* and *Money* magazine sought the expertise of Lewis Altfest for their reporting on "Brexit," Britain's decision to leave the European Union.

6. Dawn Brown's comments were included in the *U.S. News* article, "7 Common Misconceptions About 529 College Savings Plans."

7. Karen Altfest authored the article "After a Loss: 6 Smart Steps For Coping with Widowhood," which was published by the AAII (American Association of Individual Investors).

8. Andrew Altfest was quoted in the NAPFA Advisor industry publication, for the article "Your Clients' Most Important Capital."

STAY UP TO DATE WITH
ALTFEST PERSONAL WEALTH MANAGEMENT
AT WWW.ALTFEST.COM