Spring 2017

CJM Wealth Advisers, Ltd.

In Bloom!

Tracey A. Baker, CFP®

This time of year, everything is in bloom with spring in the air and all the joys of summer just around the corner. Whether you are looking forward to (or possibly dreading) summer vacation from school, a trip or family vacation, or just a bit of warmer weather, May is a time of beauty and anticipation. But May has often been greeted warily by investors as we have all heard the old phrase "Sell in May and walk away."

Historically, it's true that the summer months have experienced some volatility with low trading volume since Wall Street is distracted with the same daydreams and vacations. We do not give any credence to this phrase at CJM because trying to time the markets can be a dangerous and often costly decision. As disciplined investors, we look at the underlying economy as well as other factors that may lead to a downturn either domestically or abroad. While our crystal ball is no brighter than anyone else's, we continue to believe that remaining invested in a diversified portfolio is the best way to build and maintain wealth.

We remain focused on what has moved the markets to where they are today with the S&P 500 up 6.93% and the international stock index MSCI EAFE up 14.12% through May 22nd. Global economies are continuing to grow and U.S. corporate earnings have also greatly improved over the last year, both catalysts for continued market increases. We recognize that there has been some optimism over the possibility of income tax reform and should progress on that front slow or cease there may be some increased volatility.

It is worth noting that in recent months the measure of volatility, which tracks the severity of market swings, has been at historically low levels so it's only realistic to anticipate that to revert back to normal levels. The unseen benefit is that volatility provides an opportunity for fund managers to invest in companies they believe in and at a better price. Plus, for those investors who are systematically investing either in their personal accounts or funding their retirement plans through payroll deductions, volatility means funds are "on sale" and who doesn't like to buy something on sale! For those who are taking income, you should have a plan in place to ride out whatever may come.

So, in the spirit of one of our favorite planners, Tim Jones, we encourage you go outside, take a walk, and enjoy the beauty of springtime. Reflect back on those cold winter days and look forward to the summer to come. Don't get caught up in the weekly market swings or try to time the market because a long-term investment focus is your best asset. ●

Kevin's Corner: Actively and Passively Reaching Your Goals

Kevin E. Donovan, CFA

There has been a lot of talk over the past few years about whether or not active mutual fund portfolio managers really add value compared to passive investment strategies represented by exchange traded funds (ETFs) tied to an index.

The argument for passive stock ETFs, by the firms that sell them, has been compelling: stock indexes such as the S&P 500 have outperformed the average actively managed mutual fund over the past several years. The basic argument is that markets are efficient, pricing in news instantaneously so that no investor can hope to outsmart the market. Thus investing in cheap index funds is the most cost-effective and most successful way to gain exposure to stocks.

Naturally, companies that sell actively-managed funds dispute this. They note that the comparison ETFs use is with the "average" fund, without distinction as to what the strategy of that mutual fund may be. A study by Fidelity Investments purports that the lowest expense funds from the five largest mutual fund companies consistently beat ETFs over time.

Years of reading these studies have shown us that you can make any investment look superior if you pick the right time period for your comparison. Investing styles go in and out of fashion as time goes by. Value stocks may outperform over certain periods of time (as in 2016) while growth stocks outperform at others (this year so far). Depending on what start and end date you pick you can make a compelling case to go all in on value or to load up on growth. Looking over the long term, or better yet, balancing your portfolio between value and growth is the way to ensure you don't get caught on the wrong side of the fence when fortunes change quickly.

We believe the same is true of active and passive funds. It is true that when the S&P 500 is leading the world's stock indexes higher that a passive fund is hard to beat. It is also true that when markets plunge, investments in a passive index fund will be exposed to the full losses suffered by the market.

We pay attention to how the actively managed funds we use perform during periods when markets fall. In the long term, avoiding steep losses is just as valuable to achieving your investment goals as is participating in bull markets. An investment that loses less has a much easier time making up its lost ground once the markets eventually begin to rise again.

We tested different portfolios containing the funds we use against an all-ETF portfolio with the same weights applied to each asset class represented over 1, 3, 5 and 10-year periods. For both a conservative investor with a 50% stock/50% bond portfolio and an aggressive investor with an 80/20 portfolio, the portfolio containing our actively managed funds outperformed the ETF portfolio in most time periods as shown in the tables below:

	1-Year	3-Year	5-Year	10-Year
CJM 50-50 Model	10.45%	6.26%	8.29%	6.60%
ETF Only Model	9.21%	5.57%	7.44%	5.75%

	1-Year	3-Year	5-Year	10-Year
CJM 80-20 Model	13.21%	7.77%	10.70%	7.24%
ETF Only Model	13.95%	7.43%	9.80%	6.46%

The ETF only model only outperformed for the one year period in the aggressive 80/20 model, while the actively-managed portfolios outperformed in all other time periods and also on a risk-adjusted basis (not shown) because of the active management of volatility and downside market risk.

It's important to note that even 10 years of data is not enough to decide one way or the other. Thirty years or more would give us a better idea, but ETFs have been around for a comparatively brief period which makes any certain statement one way or the other extremely premature.

Active and passive funds have their place in our portfolios, and we use both to provide cost-effective exposure to a variety of asset classes in order to participate in market gains while keeping volatility in check and guarding against severe losses.

Top Estate Planning Mistakes

Parker G. Trasborg, CFP®

Estate planning is an important piece of the financial planning puzzle because it allows you to dictate what will happen to your assets when you are not able to express your wishes due to incapacity or death. From our oldest client who is close to 100 years old, to our youngest clients in their 20s, estate planning is imperative regardless of wealth because there are various factors to consider at any age. The following are some of the most common estate planning mistakes that we see:

- **Failing to have any estate planning documents**

Not having documents in place can have consequences not only at your death, but also when you are still living. If you become incapacitated, an Advanced Medical Directive (in Virginia) outlines your wishes in regards to medical treatments and procedures, and can name a person to make health care decisions for you. If you do not have documents in place, a court may assign a person for you and decisions may be fought in court similar to the Terri Schiavo case in the early 2000s. At death, not having documents in place can have additional consequences including potentially unnecessary expenses for probate or having assets distributed to your heirs according to the intestacy laws of your state rather than your wishes.

- **Not having accounts titled correctly**

So you had estate documents prepared; (great work!), but this isn't necessarily the last step. You now have to implement the plan and the first step is usually updating the ownership (title) of your assets according to the estate documents. For example, you may have a Trust created to hold your son's inheritance until age 30 to prevent him from spending his entire inheritance if you were to die while he is still young. In this case, if you do not update your account titling to put the assets in the Trust, then the assets would pass according to your Will and he might receive all of the assets outright. The expense of creating the Trust and all of that hard work would be for naught. At CJM, we ask for a copy of your documents after they are created so we can help to make sure that your estate plan is implemented.

- **Having beneficiary designations that are out of date**

There are certain accounts that pass to stated beneficiaries regardless of what the estate documents specify. They include retirement accounts, life insurance policies, and can include bank or investment accounts that are titled as transfer/payable on death (TOD/POD). These accounts pass to the beneficiaries that were specified in the paperwork for that particular account. Beneficiary designations should be updated at each life event such as the birth of a child, death of a family member, and divorce. There are horror stories of an ex-spouse erroneously inheriting a 401(k) or life insurance policy, and a child accidentally disinherited because the beneficiary designation was not updated. This is why we include a beneficiary designation page in each annual review presentation, every year.

- **Having estate planning documents that are too old**

Picture this: Your documents were written 20 years ago in 1997 when the federal exemption was $600,000 and the top estate tax rate was 55%, and HIPPA didn't exist. The current federal exemption level is $5,490,000 with a top tax rate of 40%. As you can see, the planning that was done to protect assets from federal taxation back in 1997 may no longer make sense and actually unnecessarily complicate the process or have other unintended consequences (such as missing basis step-up) in 2017. Other issues of having documents that are "too old" could include your power of attorney being rejected by financial institutions and your advanced medical directive being rejected by a health care provider because it lacks the necessary HIPPA language. If these two documents are more than 7 or 10 years old, institutions will often not accept them. Similar to beneficiary designations, you should review and possibly update your documents at any major life event, in addition to having them reviewed at least every 7 to 10 years.

Learn more about the importance of estate planning from our estate planning two-part video series featuring CJM CEO, David Greene, and attorneys Daniel Vaughan and Martha Sotelo, from Vaughan Fincher & Sotelo, PC. The videos can be found on our website under the 'Resources' tab on our website. ●

Qualified Charitable Distributions (QCDs) from IRAs

Courtesy of David J. Marotta, Forbes Magazine

In December 2015, Congress passed a law allowing you to give up to $100,000 to charity directly from your individual retirement account (IRA) when you are over 70 1/2 years old without counting the distribution as taxable income. This type of charitable gift is called a Qualified Charitable Distribution (QCD).

Normally, when you take money out of your IRA it is a taxable event. The withdrawal adds to your taxable income and inflates your adjusted gross income (AGI). Then, if you give the same amount to charity, the charitable gift reduces your taxable income by the amount of the gift but it does not reduce your AGI.

Meanwhile, because a QCD is not taxable income in the first place, it has no effect on your AGI. This is important because itemized deduction phase-outs, exemption phase-outs, Roth contribution eligibility, the net investment income Medicare surtax, Medicare premium costs, the taxability of Social Security income, and some credit phase-outs all factor off your AGI.

Furthermore, giving a QCD directly from your IRA can allow you to benefit from charitable giving even if you don't normally itemize your deductions. Giving directly from your IRA allows you to ignore your QCD IRA distribution when calculating your taxable income and also take the standard deduction.

Normally, charitable giving can only be deducted if it is less than 50% of your AGI. Giving directly from your IRA allows you to effectively reduce your AGI even if the gift amount would otherwise be greater than 50% of your AGI.

Qualified Charitable Distributions count as IRA distributions and can be used to satisfy all or part of your required minimum distribution (RMD). This makes them particularly useful for senior citizens who are still working, have a large pension, or, in general, find themselves in a higher tax bracket.

To fully count as a QCD, there are three factors that must be satisfied.

1. A QCD must come from a Traditional IRA or an Inherited IRA where the beneficiary is over 70 1/2. QCDs cannot be made from employer-sponsored retirement accounts, like a Simple IRA or SEP IRA. These accounts must be first rolled over into an IRA Rollover before they can qualify.

2. The distribution must transfer directly to a qualified charity. "Qualified charity" is an official IRS designation. The list of qualified charities includes all 501(c)(3) organizations. Sadly, the list explicitly does not include donor-advised funds, foundations, or other grant-making organizations.

3. You must receive a confirmation letter from the charity. The letter must include the statement that no goods or services were received in exchange for the gift. This is the same requirement as is normally placed on the charitable deduction.

There are a few groups of people who might benefit from QCDs.

Qualified charitable distributions are particularly beneficial to charitably-inclined families whose IRA distributions would push them into the 15% federal capital gains bracket. By making a QCD instead, they are able to exclude the charitable IRA distribution from taxable income and benefit from 0% federal capital gains tax instead.

QCDs are also beneficial for people with most of their net worth in Traditional IRAs, retirees who do not need all of their money, and the charitably-inclined who do not itemize.

That being said, most charitably-inclined investors can experience more tax savings by making donations from appreciated stock in their taxable accounts than by QCD donations. Such stock donations experience double tax savings. Not only does the gift count as a deduction, reducing taxable income, but also the donation avoids paying the state and federal capital gains tax you would have owed had you sold the stock.

According to the IRS FAQ, "To report a qualified charitable distribution on your Form 1040 tax return, you generally report the full amount of the charitable distribution on the line for IRA distributions. On the line for the taxable amount, enter zero if the full amount was a qualified charitable distribution. Enter 'QCD' next to this line."

As with any complicated tax saving strategy, there is a chance that, even if you follow these instructions perfectly, you may receive a paper audit from the IRS asking you to justify your return. If you choose to make a QCD, we suggest saving as much documentation as possible. ●

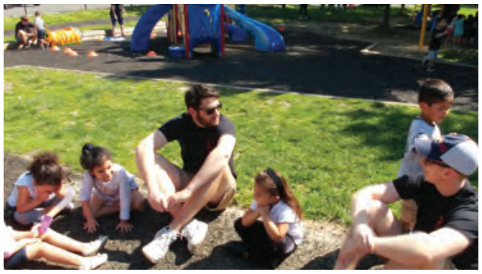
Giving Back with Our Day of Service

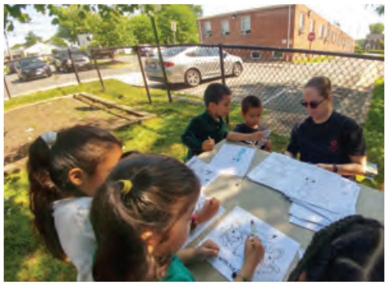
Jessica R. Ness, CFP®

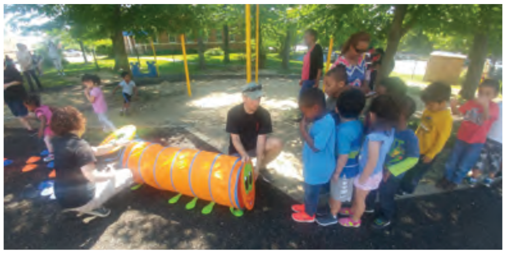
Earlier this month, we returned to the local Northern Virginia Family Service (NVFS) Head Start preschool in Arlington, VA for the second year in a row to volunteer for on of our Days of Service. NVFS ensures everyone, at every life stage, maximizes their potential and fully contributes to a thriving community. The organization provides the essential building blocks for social, emotional and physical well-being and serves as a leader and innovator for the Northern Virginia community. Head Start promotes school readiness in low-income children ages 3 to 5, who may otherwise find themselves behind their peers in kindergarten. The program enhances the social and cognitive development of children through educational, health, nutritional, social and other services.

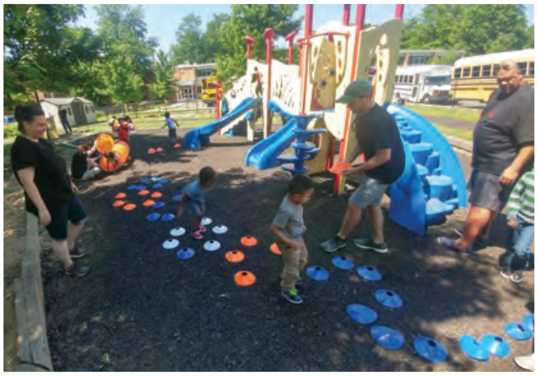
At NVFS, about 65% of their clients live below the poverty line. That means a family of four lives on less than $25,000 per year in the Arlington area. Our time is spent interacting with the children to reinforce the messages they are being taught in the classroom such as safety, consideration for others, and that people truly care about them. Hopefully our donations of time and school supplies will reinforce this message long after we left.

Our day was filled with smiles, laughter and squeals of joy as we tried to corral about 200 children between the ages of three to five for a little over two hours. The sunny day was perfect for the various events on the school playground: bubbles galore, coloring zone, bead necklace craft stations and an obstacle course. Needless to say, the kids had a ball…even the big kids who work at CJM! ●









DID YOU KNOW?

Clients can use two different websites to track their CJM portfolio and obtain necessary information? The links to both sites can be found on the Client Access page on our website (www.cjmltd.com). Having trouble logging in? We are here to help! ●

NETXinvestor

Pershing's client website where you can find monthly statements, tax documents, and update your electronic delivery settings. https://advisor.netxinvestor.com

CJM Client Portal

Our client website where you can view portfolio performance, quarterly performance reports, and securely exchange documents with us.

https://login.orionadvisor.com/

Since 1978, CJM Wealth Advisers, Ltd. has been working with affluent individuals, families and business owners to address financial concerns no matter how acute or broad they may be. With a collective focus on helping our clients live the life they want, we understand that financial planning needs to be done with a purpose in mind. Otherwise, what is the use of planning at all?

What is your purpose? Is it to…

…create a retirement income stream to last a lifetime?

…minimize investment risk and maximize return?

…prudently plan a legacy for your heirs?

…carefully position a business for a future sale?

We offer our clients real solutions by being objective and approachable while delivering excellent client service.

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