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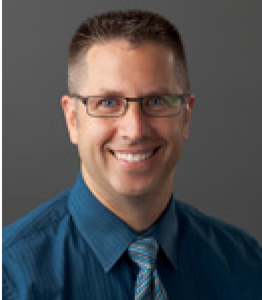
SECOND QUARTER 2017 NEWSLETTER

Your Guide to Retirement and Personal Planning

April 2017



I hope you find these articles to be of interest. If you have questions regarding your account, please feel free to give me a call or send me an email.

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In This Issue

Growth Investing -- A Core Part of Your Long-Term Strategy

Growth investments are key to a long-term investment strategy. Learn more about using them in your portfolio.

Choosing a Cause With Care

With so many charities competing for your philanthropic dollars, the better armed you are with information, the better able you will be to make a wise charitable choice.

Never Too Soon: Rule #1 of Responsible Financial Parenting

Like most life lessons, the ins and outs of money management is best when practiced from an early age.

Talking Finances With Aging Parents

Don't Forget These Parent-Friendly Tax Breaks

Growth Investing -- A Core Part of Your Long-Term Strategy

Growth investing is a strategy in which an investor selects stocks based on strong track records of earnings growth.

Long-term investment goals are as unique as the people who set them. Some investors set their sights on building a dream home; others may be looking to launch a new business. Still others seek the more traditional long-term goals of a comfortable retirement or funding a child's education.

No matter how they differ, all long-term investment goals have one thing in common -- the need to accumulate wealth. One way to pursue long-term goals is to build a portfolio around a core of growth-oriented stocks.[1]

The Potential Power of Growth

Growth investing is a strategy in which an investor selects stocks based on strong track records of earnings growth. These stocks generally don't pay high dividends, but instead reinvest their earnings for the future. Such companies typically are well-established, serve growing markets, lead their industries with consistent market share gains and technological innovations, and produce strong financial returns.

Growth stocks are generally differentiated from other stocks, such as value stocks, based on their higher price-to-earnings (P/E) ratios. These measurements reflect how much investors may be willing to pay for a stake in a company's present and future success. The higher the ratio, the more investors are likely to spend.

While growth stocks tend to be more expensive, history suggests that they have often rewarded those willing to pay the price. While past performance cannot guarantee future results, for the 30 years ended December 31, 2016, growth stocks returned an average of 10.25% per year.[2]

Manage Risk Intelligently

All stocks involve a certain level of risk. That's one reason why growth stocks are generally considered by investors with long-term time horizons. The longer you hold on to these investments, the lower the risk may be that short-term losses will significantly affect your bottom line.

Another way to manage risk is to diversify your portfolio with other types of investments.[3] For instance, you might consider dividing your stock allocation among large-cap, midcap, and/or small-cap stocks, and possibly think about adding bonds and cash instruments as well.[4,5]

A well-crafted investment strategy built around a core group of growth stocks may help get you well on your way toward your long-term goals -- whatever they may be. For information specific to your situation, consider meeting with a financial advisor.

[1]*Investing in stocks involves risks, including loss of principal. Because the prices of most growth stocks are based on future expectations, these stocks tend to be more sensitive than value stocks to bad economic news and negative earnings surprises. While the prices of any type of stock may rise and fall rapidly, growth stocks in particular may underperform during periods when the market favors value stocks.*

[2]*DST Systems, Inc. For the 30-year period ended December 31, 2016. Growth stocks represented by a composite of the S&P 500/BARRA Growth and Value indexes and the S&P/Citi Growth and Value indexes.*

[3]*There is no guarantee that a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio. Diversification does not ensure against market risk.*

[4]*Securities of smaller companies may be more volatile than those of larger companies. The illiquidity of the small-cap market may adversely affect the value of these investments. Midcap companies often have greater price volatility, lower trading volume, and less liquidity than larger, more established companies. For these and other reasons, investments in small-cap and midcap companies carry more risk than investments in large-cap companies.*

[5]*Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise and are subject to availability and change in price. CDs are FDIC insured and offer a fixed rate of return if held to maturity.*

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Choosing a Cause With Care

For many nonprofits, the best way to evaluate their operations is to simply ask representatives about their mission, programs, financials, and board of trustees.

Prospective donors can find a suitable charity just about anywhere they look. However by doing some homework, you can better distinguish among the many giving opportunities available to you.

What Makes a Charity a Charity?

Generally, a charity is a tax-exempt organization that can receive tax-deductible contributions. To be recognized as a charity, most organizations must file an application with the IRS. Once approved, the IRS generally issues a determination letter confirming that the organization is tax exempt and that contributions to it are tax deductible for federal income tax purposes.

Mission Critical

While the IRS designation recognizes an organization's intent to operate in the best interest of a cause, it does not evaluate the effectiveness with which the organization pursues its mission. To be successful, a charity needs:

- A mission statement/strategic plan: Does the organization's mission statement clearly state whom or what it serves and what it hopes to achieve -- and how it will execute its plan?
- Financial statement/Form 990: This form provides a financial snapshot of the charity's fiscal strength. The IRS requires most tax-exempt organizations to file a Form 990 annually, although there are many exceptions. Individuals can request copies of a charity's Form 990 directly from the charity or view them online at Foundation Center and other websites.
- Board of Trustees: The board oversees an organization's financial and legal responsibilities, manages its executives, and guides the vision that promotes the organization's cause.

Choose Carefully

While independent groups such as the BBB Wise Giving Alliance and GuideStar provide helpful information, it is ultimately up to you to judge whether a particular charity matches your giving objectives. Before choosing a charity, consider the organization's programs and whether they reflect its stated mission. Request copies of the organization's financial documents, including its annual report and a list of its board members. These should provide a clear view of the charity's operations and its management team. Also, spend some time browsing the charity's website to learn more about its activities, capital campaigns, and other unique features.

Most importantly -- Ask questions! For many nonprofits, the best way to evaluate their operations is to simply ask representatives about their mission, programs, financials, and board of trustees.

In charitable giving, information is critical. By taking time to research your choices, you can rest assured that your generosity will be put to good use.

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Learning how to balance a checkbook, create a budget, respect the role of credit and debt, and develop strategies for funding important goals such as a college education helps teens make the important transition from child to adult.

Never Too Soon: Rule #1 of Responsible Financial Parenting

Affluent families might well be concerned about the potentially adverse effect of wealth on the financial values of the younger generations. Case in point: Multi-billionaires Bill and Melinda Gates and Warren Buffet have vowed to leave the lion's share of their fortunes to charity, reasoning that a large inheritance could do their children more harm than good.

Certainly it is possible that kids who are exposed to wealth without rules or guiding principles -- such as a strong work ethic, financial independence, or the desire to give something back -- could develop negative attitudes and habits around managing money that follow them into adulthood.

To counter these potential negative effects, parents, grandparents, or other adult family members might become positive financial role models by educating the children in the family about finances from an early age. Start by explaining the meaning and purpose of employment, the importance of managing credit and paying bills, and the best way to handle cash through banks and ATM machines. Let children practice what they have learned about earning, saving, spending, and giving money through their own experiences with allowances and after-school jobs.

As a child matures, his or her financial education might become more rigorous. Learning how to balance a checkbook, create a budget, respect the role of credit and debt, and develop strategies for funding important goals such as a college education helps teens make the important transition from child to adult.

While parents generally can serve as a child's most important educator and role model about money, schools could also play a more proactive role in teaching, motivating, and creating a greater awareness of both the benefits of money management and the short- and long-term impact of poor financial decisions. According to Jump$tart Coalition for Personal Finance, while standards are inconsistent and vary from state to state, "[a] few states require all students to take and pass a standalone one-semester course in personal finance to graduate (high school). Other states require students to receive personal finance instruction as part of another course or require schools to offer personal finance as an elective."[1]

Set a Charitable Example

As billionaire Michael Bloomberg has said, "I've always respected those who tried to change the world for the better, rather than just complain about it." Indeed, if we want to ensure future generations of volunteers and donors, we must teach our children how to give of their time, skills, and money. Adult family members can set an example by pursuing their own philanthropic and volunteer activities, or by encouraging the whole family to get involved in charitable activities based around a shared interest.

Ensure Your Legacy Through Incentive Planning

Affluent individuals often worry that the important values they pass on to heirs during their lifetime will be lost once they are gone. For these individuals, creating incentive trusts that allow you to reward your children's desired behaviors or discourage undesirable activities can be a meaningful addition to an estate plan.

For instance, a trust may reward educational achievement or withhold benefits from heirs who engage in destructive or illegal activities.

Financial advisors play an important role in the creation and success of a legacy by helping you articulate the values, beliefs, and priorities you want to pass on to children and the methods to achieve your goals.

[1] *Jump$tart.org, "Jump$tart Coalition Frequently Asked Questions."*

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Talking Finances With Aging Parents

Regardless of whether you and your parents have always talked freely about money or have never discussed the subject, there are several considerations you may want to address with them as they grow older. These six questions may help you think about -- and plan for -- that conversation.

1. Have you planned what you will say? When you do decide to touch base, tactfully make clear what you'd like to discuss, but also let your parents know you respect their privacy.
2. Are you confident that they are staying on top of things? Are bills getting paid on time? Are investments being monitored? Maybe you have already raised these topics with your parents, but it has been a while sense you checked in. If you think they might appreciate a follow-up, then it might be a good idea to talk to them again.
3. Are they taking advantage of banking conveniences, such as direct deposit and online bill payment, to simplify their financial life? If your parents aren't comfortable with the computer, offer to assist.
4. Do your parents have an estate plan, and is it up to date? At a minimum, they should have a will. An effective will should do a few basic things. It should name an executor (or personal representative) -- the individual who will administer your estate after death. It should also spell out how you want your property distributed as specifically as possible. If you die without a will, your estate will be divided according to the laws of your state -- not your wishes. Besides a will, there are other planning mechanisms that may be appropriate for their needs. Be sure they consult with a qualified legal professional to discuss the specifics of their situation.
5. Do you and your parents understand the potential benefits of a durable power-of-attorney document? A durable power-of-attorney is a legal document that designates an individual to make financial or legal decisions on behalf of another individual. This document can become very important should an aging senior become ill or incapacitated.
6. Should they consider a long-term care insurance policy? With the average cost of a private room in a nursing home now exceeding $92,300 per year depending on where you live, you can see how such expenses could put a tremendous financial strain on a family.[1] That is why many people consider long-term care insurance to be a sensible addition to a financial plan. For the most part, nursing home and assisted-living costs have limited coverage under Medicare. And, for most people, qualifying for Medicaid requires individuals to first exhaust their own assets. For more information about long-term care insurance, speak with your financial advisor.

[1]*Genworth 2016 Cost of Care Survey, April 2016.*

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Don't Forget These Parent-Friendly Tax Breaks

President Trump has pledged to make child care expenses a key element of his tax reform plan. Until such new legislation is passed into law, be sure to take advantage of the child-related tax benefits that are currently available to parents. Here is a brief rundown from the IRS as you prepare to file your 2016 tax return.

Child tax credit -- Generally, taxpayers can claim the Child Tax Credit for each qualifying child under the age of 17 on their federal tax return. The maximum credit per child is currently $1,000. See IRS Publication 972 for more on this credit.

Child and dependent care credit -- If you paid someone to care for your child or another dependent last year you may be able to claim this credit. To qualify, a child must be under age 13. Additionally, a spouse or certain other dependent individual who is physically or mentally incapable of self-care may also qualify. Note that the care must have been provided so that you -- or you and your spouse if you file a joint tax return -- could work or look for employment. See IRS Publication 503 for more on this credit.

Adoption credit -- It is possible to claim a tax credit for certain costs paid to adopt a child. For details, see Form 8839, Qualified Adoption Expenses.

Education tax breaks -- There are several attractive tax breaks and incentives available to help lessen the financial burden of paying for a child's education. Make sure to determine which ones will apply to you when it's time to file your tax return. In each case below, income restrictions apply.

- The Coverdell Education Savings Accounts, which used to be known as "education IRAs," offer tax-deferred earnings growth and tax-free qualified withdrawals. Contributions are nondeductible and limited to $2,000 annually per beneficiary. In addition to college expenses, certain K-12 expenses are considered "qualified" when using a Coverdell ESA.
- The American Opportunity Tax Credit (formerly the HOPE Scholarship Credit) has now been made permanent. It covers up to $2,500 of qualified expenses per year, per eligible child during the first four years of postsecondary education.
- The Lifetime Learning Credit covers up to $2,000 of undergraduate, graduate, and job-related studies. The American Opportunity Tax Credit and a Lifetime Learning Credit can't be claimed in the same tax year for any one student, but you can use either of them with a Coverdell account - just not for the same expenses.
- Student loan interest. Depending on your income, you may be able to deduct up to $2,500 of the interest you paid on student loans last year.

To learn more about tax benefits for parents, visit the IRS website.

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