BEYOND THE HORIZON

HORIZON FINANCIAL ADVISORS NEWSLETTER

January 2016 Issue

IN THE NEWS

The following are the tax rules and limits for the UPCOMING 2016 tax year. Many of the limits remain unchanged from last year.

- The limits for contributions into company-sponsored retirement plans remain UNCHANGED for 2016. The 401(k) and 403(b) contribution limits hold at $18,000 (plus a $6,000 "catch-up" for those age 50 or older). The limit for contributions to a Simple IRA also holds at $12,500 (plus a $3,000 "catch-up").

- The maximum contribution limit for Traditional or Roth IRAs HOLDS for 2016 at $5,500 plus an additional $1,000 for individuals age 50 or older. As always, you or your spouse must have earned income to make a Traditional or Roth contribution.

- Taking the deduction for Traditional IRA contributions may be limited for those who participate in an employer-sponsored retirement plan. The AGI income phase-out remains the same at $98,000-$118,000 for marrieds and $61,000-$71,000 for singles. Where only one spouse is active in a plan, the phase-out increases slightly to $184,000-$194,000.

- The income limit for making Roth IRA contributions also increases slightly with the phase-out at $184,000-$194,000 for married filers and $117,000-$132,000 for single filers.

- A reminder that the 0% tax rate on capital gains and qualified dividends was made permanent for filers who fall in the 15% or lower tax bracket. For 2016, that would apply to taxable income below $75,300 for married filers and below $37,650 for single filers.

- The Social Security wage base for this payroll tax holds at $118,500 in 2016.

- Those collecting Social Security who are between the ages of 62 and 66 (the Full Retirement Age) can earn $15,720 in 2016 without losing benefits. Individuals who reach their Full Retirement Age during 2016 can earn up to $41,880 in the months before reaching FRA without losing benefits. These are the same limits that were in place for 2015.

- The personal exemption increases to $4,050 per person.

- The standard deductions remain the same at $12,600 for married filers (plus $1,250 for each spouse age 65 or older) and $6,300 for single filers (plus $1,550 if age 65). However, the deduction increases slightly to $9,300 for heads of household (plus $1,550 if age 65).

- The annual gift tax exclusion REMAINS at $14,000 per recipient. For 2016 estates valued at $5,450,000 or less will be exempt from the Federal estate tax.

- The contribution limit to Health Savings Accounts ("HSAs") remains unchanged at $3,350 for single coverage but increases to $6,750 for family coverage. HSA owners born before 1962 can contribute an additional $1,000. As always, you can make the contribution only if you have a high-deductible health plan.

- The Lifetime Learning education credit phases out at AGI levels between $111,000-$131,000 for married filers and between $55,000-$65,000 for single filers.

- The standard mileage rate decreases in 2016 to 54 cents per mile for business driving and to 19 cents per mile for medical purposes. However, the rate holds at 14 cents per mile for charitable driving.

Sources: Internal Revenue Service; Social Security Administration; Kiplinger.

MARKET OUTLOOK

Both stocks and bonds struggled last year to show positive returns. Bond prices fell during the first half of the year due to the likelihood the Federal Reserve would finally raise interest rates. Stocks suffered a pullback in August over concerns about the slowdown in China's economy and the devaluation of their currency. By the end of last year, the Dow Industrials and S&P 500 barely finished in the black with a gain of +0.2% and +1.4%, respectively, while the Nasdaq finished up +7.0%. Bonds, on the other hand, ended the year down roughly -3% to -4%. As for the sectors of the economy, the winners were consumer, healthcare, and technology stocks with the losers being energy, materials, industrials, utilities and financials. Despite poor performance in U.S. stocks and bonds, they again fared better in 2015 than their international counterparts.

As we enter into 2016, the U.S. economy faces "an uncomfortable balancing act" as described by American Funds economist, Darrell Spence. The U.S. is experiencing healthy domestic activity but weak exports due to the strong U.S. dollar. Fortunately, exports make up about 13% of U.S. GDP whereas consumer spending contributes to about 70% of GDP. But the primary driver of consumer spending is labor. For now, employment remains stable and is creating solid consumer spending. Additionally, cheaper gas prices are also helping to put more money into consumers' pockets. But how might issues such as rising interest rates, the slowdown in China, and the U.S. Presidential election impact our economy and the markets?

In December of last year, the Federal Reserve moved to increase interest rates a quarter of a point, the first change since 2008. The move was an effort to control inflation as a result of continued economic growth in the U.S. economy. Kiplinger is forecasting GDP growth of 2.7% for the U.S. in 2016, which would be slightly higher than last year. Since U.S. inflation is expected to remain low, two more rate hikes by the Fed this year for another quarter percentage point each are anticipated in 2016. These modest increases should not have a significant impact on the markets. Though rate hikes could put pressure on bonds, it could have a positive impact on stocks. In looking back at the average of the 13 increases in the Federal Funds rate from 1954 to the present, the S&P 500 index increased within the first 24 months after an initial rate increase. This tends to occur because this period is considered one of healthy economic activity. But with stock valuations currently full and modest earnings growth forecasted, we should expect any gains in U.S. stocks to be limited over the next year or two.

Recent policy changes made in China to stabilize and transform their economy will need time to take root. But as the world's largest economy, their economic struggles are bound to be felt around the world, especially in Asia. Though many are forecasting a continued slowdown for China, they are not predicting a meltdown. Kiplinger and Goldman Sachs both are forecasting 2016 GDP growth in China to be slightly above 6.0%. As for the rest of the world, we expect Europe to continue experiencing low growth and low inflation as they continue their recovery with GDP growth coming next year even lower than the U.S.

As for the Presidential election, research has shown that the U.S. stock market tends to go up during a presidential election year. According to a report by U.S. News and World Report in 2012, the market has been up eight times and down twice in the last ten presidential election years. Additionally, neither Republicans nor Democrats have proved to be better or worse for the stock market. Research by Federated Investors of the Post-World War II era reveals the S&P 500 on average has gained 6.6% during election years.

With modest gains forecasted this year, we should also expect more volatility. The year is already off to a rocky start in reaction to volatility in the Chinese stock market. The Chinese stock market is a strange beast and not as sophisticated as our markets. Though it's the world's fifth largest exchange, the Shanghai is still not entirely open to foreign investors due to controls by the Chinese authorities. It attempts to run like a capitalist system but does so in a communist environment, manipulated by the Central Government. As for U.S. stocks, we don't foresee a major correction or, more importantly, a recession in the near future. But with this expansion now headed into its seventh year (when most average 60 months in duration), how much longer can it continue? It's important to remind ourselves that recessions occur not because of time but because of imbalances. For now, we don't have the excesses or imbalances in the system that would cause a recession. In the meantime, our biggest challenge is to avoid making the common investor mistake of letting emotions control our investment decisions.

Sources: Hays Advisory; Marketwatch.com; Federal Reserve Bank of New York; American Funds; U.S. News and World Report; Kiplinger; Federated Investors; Goldman Sachs.

PROTECTING YOUR IDENTITY

This past year, we received a number of calls from clients who were the target of suspicious and fraudulent activities. For example, individuals posing as the IRS were calling clients and threatening them to make payments for overdue taxes. That is why we felt the need to offer some advice to help you protect your identity.

- Be aware that the IRS will never call you if they dispute your tax return. They will send a letter, assigned with CP Notice number, to contact you regarding any discrepancies they find.
- Never give out personal information over the phone to someone you don't know. As a general rule of thumb, companies will not call you to verify account information they have on file for you. Additionally, the fact that someone might have basic information about you, such as your name and address, is insignificant. It does not guarantee they are who they say they are.

- Use a credit card versus debit card when making online purchases. Credit cards offer more protection by the financial institutions, because purchases using debit cards deduct funds directly from your bank account. You might also consider using a separate credit card to be used exclusively for online purchases.
- If you're contacted about an award or prize you've won and are asked to pay a fee to receive it, it's most likely a scam.
- Consider purchasing identity theft insurance. Many of the insurance carriers offer this as an affordable rider on a homeowner's policy.
- Be wary of emails asking you to open an attachment or click on a link to redirect you to another website which asks you to enter personal or account information.
- Monitor your bank account and credit card account activity on a regular basis.
- Review your credit score and history each year. Federal law mandates that everyone is entitled to receive a free credit report on an annual basis from one of the credit reporting agencies, such as Experian or Equifax.
- Shred any discarded files that contain Social Security numbers.

We, too, take steps to protect your privacy and your identity and are always looking for new ways to improve on that. That is why, effective immediately, we will no longer have Social Security numbers on any paperwork or applications when they are mailed to you and/or returned to our office. We will wait to complete that information before submitting it to the investment firm. In addition, we currently:

- Employ a computer technology services firm to administer and monitor our secure network
- Use password protection on all our software programs and individual computer workstations
- Store all client files in locked file cabinets located in a locked file room
- Send any emails that contain personal information securely with password protection
- Shred any client documents or files that are no longer needed or active
- Do not release information regarding your accounts to anyone without your permission

WE VALUE YOUR OPINION

Because your opinion is of great value to us, we are asking you take a few minutes to complete and return the brief survey that is enclosed. The survey is anonymous to encourage you to be open with your responses.

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