BEYOND THE HORIZON

HORIZON FINANCIAL ADVISORS NEWSLETTER

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MARKET OUTLOOK

With this being an election year, many investors are trying to anticipate what the outcome of the presidential race might mean for the stock market and their portfolios. But research has shown that the outcome can vary widely on whether your focus is on the pre-election year, election year, post-election year or mid-term year. As a general rule of thumb, election years in particular have historically been good for stock market returns.

In the long run investment results depend more on the strength of the U.S. economy than which candidate or party holds office. For example, the election of George W. Bush in 2000 coincided with one of the worst periods in American history, both geopolitically and economically. He arrived right after the dot.com stock market bubble had burst and just a few months before 9/11. He also had to deal with a recession in his first year as President. So the stock market during his first term didn't have a chance. Conversely, Barrack Obama started his first term after the financial crisis of 2008. Shortly after his inauguration, the market found its bottom in March of 2009. Over the next eight months, the market went up dramatically to give him one of the biggest wins of any President.

If investment results depend upon the strength of the U.S. economy more than politics, what is the current outlook for our economy? There are a number of factors that affect the U.S. economic outlook, such as housing, business spending, inflation, GDP, and employment. Currently, none of these factors are at adequate levels to have a stimulating effect on the economy. The housing market has rebounded and new construction is up. But overall GDP growth has been stagnant. The U.S. economy is still growing but at a slower pace than desired. Lastly, unemployment remains low but very few new jobs are being added. In May the Bureau of Labor Statistics announced that only 38,000 jobs were added to the economy, the lowest growth since 2010.

This is why many are keeping their eyes on actions the Fed might take regarding interest rates. Changing interest rates is a tool used by the Federal Reserve and other countries to control their economies. Rates are lowered to stimulate growth or increased to control growth and inflation. Last December, the Fed had raised rates for the first time in a decade citing job growth as the key reason for finally raising rates. As reported by CNN Money at that time, America had added 12 million jobs since the recession ended in June 2009. Unemployment had fallen from a peak of 10% down to 5%. But as a result of the weak job report this May, the Federal Reserve voted at its June 15th meeting to defer any further interest rate hikes.

As for the rest of the world, central banks in Europe and Japan, seeking to boost inflation and economic growth, recently moved to cut their deposit rates to put them in negative territory. In January of this year the Bank of Japan surprised markets by reducing its deposit rate on excess reserves to -0.10%. A negative interest rate policy is now being used primarily by European countries, including Germany, France, Italy and the Netherlands.

But how can negative interest rates exist and how do they work? The goal of negative rates is fairly simple – to discourage commercial banks from stockpiling large amounts of cash. By imposing what is essentially a tax on deposits, central banks are prodding commercial banks to increase their lending and investment activities. The approach, in theory, should boost inflation and economic growth as the money is ultimately put to use by businesses and consumers. But some believe that central banks are pushing the outer limits of monetary policy and raising questions about the potentially dangerous consequences.

When compared to Europe, Japan and some emerging markets , the U.S. economy remains relatively healthy — which makes it less likely that negative rates would be employed by the Fed. The U.S. remains one of the few major central banks signaling that it could hike rates this year, should we see an improvement in our economy. However, it is important to note that even in the U.S., where negative rates have not materialized, they are having a significant impact by putting pressure on global bond yields. Negative yields on global bonds are making U.S. Treasuries look quite attractive. As a result, the increasing demand for U.S. government bonds is helping to keep interest rates low.

Until the health of the U.S. and global economies improves, we encourage clients to expect modest and limited investment returns moving forward. Nonetheless, investment opportunities can still exist during difficult and challenging economic conditions. With low inflation and tax-favored treatment on many investments, returns don't have to be significant in order to provide positive growth. Also bear in mind that the U.S. economy is fundamentally in better shape than other developed markets. That is why, for the time being, we continue to allocate client portfolios to a more U.S.-based allocation of stocks and bonds.

Sources: Seeking Alpha; American Funds; Bureau of Labor Statistics.

TRANSFERING WEALTH BY GIFTING

Gifting is a financial planning strategy often discussed with clients, especially those in the later stages of life. Currently, each person is entitled to gift up to **$14,000 per recipient each calendar year** without having to report it or file a gift tax return. Neither party of the gift in this case claims the gift or pays a gift tax. Like any financial transaction, there are advantages and disadvantages to gifting, as well as effective and ineffective ways to do so. Below we will discuss when it makes sense to gift, the advantages and disadvantages of gifting, effective and ineffective assets to use, and how gifts can be made.

First and foremost, gifting can make sense as a financial planning strategy when a client has more assets than they will ever need during their lifetime. But how much a client should keep and how much they can afford to gift depends on the client's needs and circumstances.

Other than to help family members who are in need of assistance, one common advantage of gifting is to potentially reduce future inheritance taxes. For Pennsylvania residents, assets that are passed along after death are subject to the Pennsylvania inheritance (state death) tax. The tax rate is 4.50% on transfers to direct descendants or lineal heirs (i.e. children and grandchildren), 12.0% on transfers to siblings, and 15.0% on transfers to others (i.e. nieces and nephews). There is no Pennsylvania state inheritance tax to pass assets to a spouse or to charities. But assets that are gifted at least one year prior to death will avoid being subject to the Pennsylvania inheritance tax.

Another advantage to and common motivation for gifting is to protect assets from potential nursing home expenses in the event of a long-term illness. However, in order for an asset to be excluded for Medicaid spend down purposes, it must have satisfied the five-year look back period. In other words, gifts must have been made at least five years prior to spend down in order to be excluded for Medicaid eligibility. This makes gifting very difficult to use as a planning tool in protecting assets from future nursing home expenses.

There can also be disadvantages of gifting and ineffective ways to do so. Giving up control and use of an asset is an obvious disadvantage of gifting. There could also be income tax consequences of gifting, depending on the type of asset used to make the gift, such as IRAs. Also, transferring ownership of or gifting an appreciated asset such as a home, stock or mutual fund could ultimately result in a capital gains tax for the recipient when that asset is later sold. In the long run, using excess cash in checking accounts, savings accounts or CDs are often the most logical first choice to use when gifting because there is no income tax consequence for doing so.

There are several ways a gift can be executed. For example, it can be done outright by means of writing a personal check. For those who are not comfortable with making outright gifts of cash, a gift can be made by establishing an account in another person's name. Bear in mind that by doing so, that person becomes the owner and has control of the money. The same goes for adding an individual's name to an existing account you might own. By adding a joint owner, you are not only gifting half of that account but you are possibly giving the other person control of the entire account, which may not have been your intention.

As you can see, there are several issues to consider to determine whether gifting is a suitable financial planning strategy. The decision should be predicated upon the client's needs, goals, tax bracket, family dynamic, etc. If you would like to further discuss gifting and how it may or may not benefit you and your family, please call our office or your estate planning attorney.

THE U.K. VOTES TO LEAVE THE EUROPEAN UNION

On June 23rd, Britain voted that the U.K. should leave the European Union. The vote to leave came in by a narrow margin of 51.9% for "leave" to 48.1% for "remain". Scotland and the cosmopolitan precincts in London voted to stay. Those voting to leave were the British working class and those heavily concentrated in rural areas. The vote came about because of changes the U.K. citizens have seen as a result of globalization and technological innovation which has caused structural changes in the developed world. Over the past two decades, the foreign-born population of the U.K. has more than doubled. Free movement of workers within the EU has been a big bone of contention. Proponents of a British exit believe it would free Britain from rules that are adverse to job creation and allow the country to choose its own laws and trading partners. Advocates contend that staying would help sustain the country's global influence and military and economic security.

So what happens next? Talks will begin between the British government and the European Commission to define their new relationship. This will take quite some time, perhaps years, to accomplish. In the meantime, it's understandable to expect an increase in market volatility around the world, especially in Europe. As mentioned under "Market Outlook", we currently have a reduced exposure to international holdings in our clients' portfolios. We will continue to closely monitor the effects of this news and further adjust client portfolios, if necessary. As a reminder, history has proven that knee-jerk reactions to news such as this never benefit any investor.

Source: Marketwatch.

IRS ALERT – PHONE SCAMS CONTINUE TO BE A SERIOUS THREAT

We felt it important to remind clients that phone scams by individuals posing to be agents of the IRS or U.S. Treasury continue to be a serious threat. As reported by the IRS this January, the Treasury Inspector General for Tax Administration (TIGTA) announced they have received reports of roughly 896,000 contacts since October 2013. These criminals are making aggressive and threatening phone calls to individuals in order to fool them into making payments for a bogus tax bill. They con people into sending cash, usually through a prepaid debit card or wire transfer. They may also leave urgent callback requests. Scammers often alter caller ID numbers to make it look like the IRS or another agency is calling. The callers also use IRS titles and fake badge numbers to appear legitimate. They may use the victim's name, address and other personal information to make the call sound official. They often threaten if payment isn't made, a constable or other law enforcement officer would come to the individual's home. Recently, students have become the latest target of these calls. Scammers are telling the students they owe a "student tax" and must pay quickly.

Don't be fooled by these callers. As outlined on the IRS website, please be advised that the IRS will never:

- Call to demand immediate payment nor call about taxes owed without first having mailed you a notice
- Demand that you pay taxes without giving you the opportunity to appeal the amount they say you owe
- Require you to use a specific payment method such as a prepaid debit card
- Ask for credit or debit card numbers over the phone
- Threaten to bring in local police or other law enforcement groups to have you arrested for not paying

If you receive such calls DO NOT GIVE OUT ANY INFORMATION to the caller. The IRS instructs anyone who receives such calls to record the person's name, badge number and call back number and caller ID if available. Then call (800) 366-4484 to determine if the caller is an IRS employee. You can also report the incident to the TIGTA, the IRS, and the Federal Trade Commission. For more information, you can visit the IRS website at www.irs.gov.

Source: Internal Revenue Service.

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