Shannon & Associates, LLP | 1851 Central Place S, Suite 225 | Kent, WA 98030 | 253.852.8500
SA-KG Advisors, LP 6500 River Place Blvd., Building 7, Suite 250, Austin, TX 78730 800.542.4916 info@kgadvisors.com

4th Quarter 2015

SA-KG Advisors Quarterly

10 Steps To Take On The Path To Early Retirement

The new American dream is to retire early, perhaps in your 50s or even your 40s. But how do you make this dream a reality? These steps could help:

1. **Map out a plan.** Retiring early requires starting early with very deliberate planning. Design a road map of how you will get there, including an analysis of your investments and how much income you anticipate getting from other sources, such as Social Security (which won't kick in until your 60s at the earliest), and spell out the details in writing. To accumulate enough to retire early, you'll likely need to take a fairly aggressive approach to investing while working full time. You'll also need continued growth during a phase-down period and a plan for how you'll manage assets when you're completely retired.

2. **Get going now.** Immediate action also is called for if you're going to meet this ambitious goal. Put your plan into motion today instead of waiting for a tomorrow that might never come.

3. **Control your debt.** One of the biggest impediments to early retirement is spending too much while you're working, especially if you build up substantial debt. The more you borrow, the harder it will be save enough to call it quits. Not only do debt payments siphon away money that you could use more productively, you're also paying extra in interest charges. You're bound to have a mortgage and perhaps a car payment, but if you eliminate luxury purchases now you'll be more likely to have the money later to support yourself without working.

4. **Educate yourself.** Knowledge is power, and learning about investing and other financial matters can help you make good choices on the way to early retirement. Understanding the more complex assets you may hold—bonds, exchange-traded funds, annuities, etc.—should enable you to avoid mistakes that could disrupt your progress. Take the time to learn everything you need to know.

5. **Make the process automatic.** Human nature being what it is, it may be difficult for you to remain diligent about saving more and spending less. But you could do yourself a favor by automating some things that can help steer you toward early retirement. Increasing your 401(k) plan contributions—perhaps by directing part of a salary increase into your account—can make a big difference. You also might take a systematic approach to prepaying mortgages or car loans.

6. **Don't ignore taxes.** It's not only how much you earn that makes a difference; it also matters how much

(Continued on page 4)

Can You Skip Over The Special Tax For Generation-Skipping?

You may already know about the potential tax consequences of transferring part of your estate to your children, either through a gift while you're alive or a provision in your will. But there's also a special rule for gifts that skip a generation—for instance, if you give cash or property to your grandchildren. That can trigger a special "generation-skipping transfer" (GST) tax. The GST tax is subject to the same tax rates that apply to other gifts.

The GST tax was designed to ensure that the wealthiest families wouldn't sidestep estate and gift taxes by moving assets to someone two or more generations younger. It applies to most direct transfers and to certain indirect transfers, such as those made to a trust that designates your grandchildren or great-grandchildren as beneficiaries.

This tax has been around since 1987. But many people don't know it exists until they find out they must pay it. In most cases, however, a generous GST exemption can help you avoid this tax.

For 2015, the GST exemption is $5.43 million, the same amount that's exempt from estate taxes. As a result, it's often still possible to create a "dynasty trust" spanning multiple generations without any dire tax consequences by using the estate tax and GST tax exemptions. Such a trust may go on indefinitely.

Does this affect your personal situation? More information about the GST tax is available upon request.

When Can You Reconvert To A Roth?

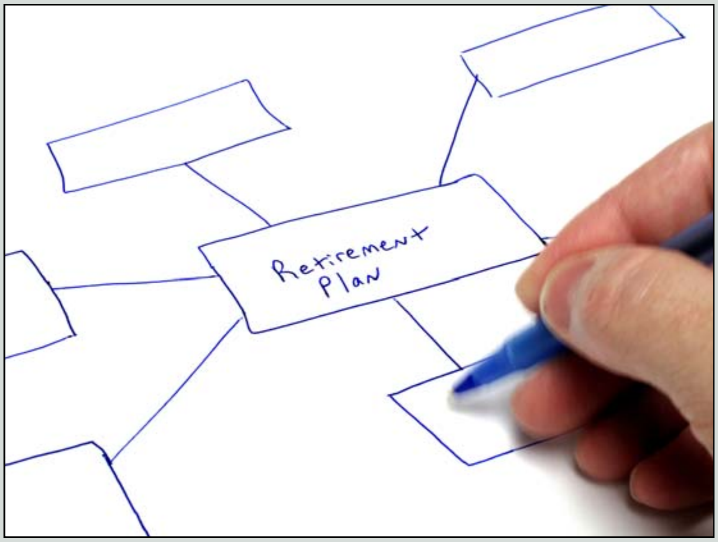
Suppose you converted a traditional IRA to a Roth IRA only to see the value of the assets decline significantly. So you "recharacterized" the Roth into a traditional IRA before the tax return deadline. But now the market has shifted again and the assets are making a comeback. Can you pull another switcheroo and shift back to the Roth?

The short answer is "yes," as long as you meet the timing requirements for the change—a "reconversion" in tax parlance.

Don't confuse a reconversion with a recharacterization. The latter is the process of redesignating a Roth IRA as a traditional IRA following a conversion. It's as if the conversion never occurred. The deadline for a recharacterization is your tax return due date for the year of the conversion plus any extensions.

For instance, assume you converted assets in a traditional IRA to a Roth early in 2015. That means you have until October 15, 2016—the extended due date for filing 2015 returns—to recharacterize. And there's no restriction on how soon after the conversion that a recharacterization can occur. It might even be the next day if you suddenly change your mind.

But there's not as much flexibility with a reconversion. The earliest date you can reconvert is the latter of (1) the beginning of the tax year following the tax year of the conversion and (2) the end of a 30-day period beginning on the day of the recharacterization. After that date, you can reconvert at any time, and the event will be treated like a first-time conversion.



Let's say you converted stock in a traditional IRA that was valued at $100,000 to a Roth on May 1, 2015. But then the stock lost 25% of its value. When you file your 2015 return, you'll have to pay tax on the full $100,000. In a 39.6% bracket, that will cost you $39,600 (a lot more than the $29,700 you would owe based on its current $75,000 value).

Because of the decline, you recharacterized your Roth as a traditional IRA on July 1, 2015—and thus avoided any tax on the conversion. But then the stock started to rebound and now it's worth $110,000. Under the rules for reconversions, the earliest date you can reconvert to a Roth is January 1, 2016 (which is later than the end of the 30-day period after the recharacterization).

Due to these timing restrictions, you might choose to wait until late in the year to recharacterize a Roth that has declined in value. That will give you greater flexibility over the earliest reconversion date.

Finally, note that these rules apply only to amounts that actually were converted. If you don't convert an entire IRA, you'll have more control over any recharacterization or reconversion. ●

How A Financial Advisor Can Help

What are your hopes and dreams for the future? They probably begin with being able to provide for yourself and your family. But you also might aspire to a bigger home, an exotic vacation or another luxury, savings for your children's education, and a nest egg for retirement.

While you may be able to achieve all of those things, you can't just snap your fingers and make them happen. You'll need hard work and financial discipline, and you'll need to make a long-term commitment to work toward your goals. Enlisting the services of a financial advisor could help guide you along the way.

Of course, you still would be the one calling the shots, but an advisor can provide valuable assistance in many respects. An advisor can help you:

- Assess your current financial status, including your income, investments, assets, liabilities, insurance coverage, tax situation, and estate plan;
- Set goals that are both ambitious and reasonable;
- Account for changes in your personal circumstances (births, deaths, marriage, or divorce);
- Address weaknesses in your current investment and retirement planning;
- Develop a comprehensive plan to suit your current needs and future desires.

Couldn't you do all of this on your own? If you're sufficiently savvy about financial matters you could, but few people have the time, expertise, and inclination to do all that's required. And even if you're determined to tackle your financial objectives by yourself, you could need a push to get you started. What's more, an objective third party such as a professional financial advisor may add a valuable new perspective to your own outlook.

After Five Great Years, What's Next?

Once again, investors have been taught about the power of investing in stocks for the long run. The lesson is illustrated in this chart of returns of a diverse array of 13 investments, including European stocks, commodities, and bonds as well as U.S. stocks. It is a lesson investors have been taught many times before but remains difficult to learn. The chart spans a five-year period, which is a long time, and it covers investments that in the past behaved differently from one another.

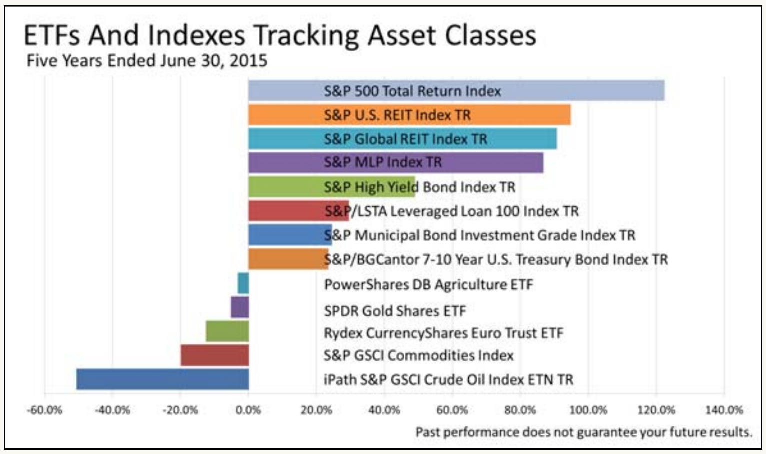
Atop the chart, the best investments by far, were America's blue-chip publicly held companies. Also among the best-performing asset classes for the five years were real estate investment trusts (REITs), both U.S. and foreign, and master limited partnerships.

The worst asset class on the list for the past five years was crude oil and other commodities, along with the euro currency. The euro lost 13% versus the U.S. dollar over the five years.

As for the bond total return indices, U.S. Treasuries returned 23%, or 4.6% per year. Municipal bonds gained 25%, or about 5% per year. Leveraged loans gained 30%, or about 6% annually, while high-yield "junk" bonds gained 49%, about 9.8% per year.

An ounce of gold, in this five-year period, shot from approximately $1,200 to $1,800 before losing luster, recently settling at $1,120. Gold bulls had counted on the Fed's liquidity program going too far, triggering inflation and "debasing" the U.S. dollar. It never happened. Inflation and bond yields are lower than investors, including the Federal Open Market Committee, the central bankers who make up the Federal Reserve, had expected.

But the most important takeaway from this accompanying chart is not the returns on specific asset classes over these last five years, but the unpredictable nature of investments. At the end of 2009, Time magazine declared the two biggest news stories of the year were the "non-recovery" of the economy and the war in Afghanistan. Who would have thought the U.S. recovery would go so well and that oil prices and commodities would plunge in the years ahead? Who would have known in 2009, amid the global slowdown, that the U.S. was leading the world from recession and the stock market had just started one of the biggest bull markets of the last century? Such things are unpredictable, which is why our investment approach is guided by long-term wisdom about markets and human nature.



With the outperformance of U.S. stocks over this five-year period, today's markets are different than they were five years ago. Stock prices have tripled, and only three bull markets have lasted as long as this one since the advent of the modern securities markets in the 1920s. The longer the bull market goes on, the more likely it will be interrupted by a period of sharp losses. However, bull markets have continued longer than expected many times in the past and this one could go on. It would be folly to abandon stocks now as though we can predict what will happen over the coming five years.

While investors must be realistic about the possibility of a bear market, stock valuations by historic standards were not out of line in the third quarter of 2015. Corporate earnings were in line with analysts' predictions, and the U.S. economy was continuing to grow. You never should expect past performance to predict your investment results reliably, you should expect the next five years to be totally different from the last five years. But enduring truths about how asset classes historically behave and the power of stocks over the long run remain paramount. ●

You might benefit from having someone review key decisions about your financial future.

Even if you don't feel you need the help of a financial planner now, something could happen to trigger a call for help. For instance, maybe you've inherited a large sum of money or property and you're not sure how to handle it. Perhaps you, or your spouse, have been laid off from a job and suddenly money is tight and you're forced to make financial trade-offs. Or you may require assistance on other financial fronts ranging from elder-care planning to paying higher-than-expected college costs for your kids or resolving a shortfall in your retirement savings.

If you do decide to use a professional financial advisor, you'll still need to find one who is experienced and has experience helping clients in your situation. We would be glad to show you the high level of services that we provide. ●

KG ADVISORS

Shannon & Associates, LLP
1851 Central Place S
Suite 225
Kent, WA 98030
253.852.8500

SA-KG Advisors, LP
6500 River Place Blvd.
Building 7, Suite 250
Austin, TX 78730
800.542.4916

info@kgadvisors.com

The Path To Early Retirement

(Continued from page 1)

you keep after taxes, and it's smart to make taxes a prime consideration in most of your investment and financial dealings. Tax-deferred growth inside a 401(k) and IRAs or investing in tax-free municipal bonds in taxable accounts could have a big impact, especially if you're in a high tax bracket. Savvy tax bracket management over time can save you tens or even hundreds of thousands of dollars.

7. **Go "all in."** Retiring early almost certainly will require an all-out effort over many years. It may help to work toward this goal as if you were running a business by keeping a steady eye on building toward the future. Try not to be unrealistic about the returns you expect to get from your investments and retirement plans, and follow through on the saving and spending objectives you've outlined in your early-retirement plan.

8. **Assume full responsibility.** Assuming you don't hit the jackpot in a lottery or receive a big, unexpected inheritance, you can succeed financially only if you take charge of all aspects of your life. That means correcting mistakes, making necessary adjustments, and striving for sound financial decisions. Part of taking responsibility can involve getting guidance from a knowledgeable professional advisor.

9. **Manage your risk.** Avoiding substantial investment losses can be just as important as generating big gains. That's why it makes sense to emphasize risk reduction as you formulate your investment strategy. Keep in mind that financial markets go up and down. And while that doesn't mean you should sink all of your money into U.S. Treasury bills and other traditionally safe investments, you probably will need to include such holdings in your overall portfolio mix to minimize the inherent volatility that can work against your goal of retiring early.

10. **Use common sense.** Finally, be as logical and rational as you can be in pursuing your goal. In particular, try to avoid panicking during inevitable market downturns. If you save diligently and stay the course with a well-diversified portfolio, early retirement might not be a pipe dream. It could happen to you! ●