YOUR FINANCIAL FUTURE

Your Guide to Life Planning

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Michael Majhanovich & Doran James
Wyoming Wealth Management
2620 Commercial Way Ste 100
Rock Springs, WY 82901
307-382-1177
Fax: 307-382-1133
kathy.hickman@lpl.com
wyomingwealthmanagement.org

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In Volatile Markets, Investors May Find Comfort in Dividends

Dividend payouts are often seen as a sign of a company's financial health and management's confidence in future cash flow.

As uncertainty at home and abroad roils the financial markets, income-minded investors seeking protection from the bumpy road ahead may find dividend-paying stocks offer an attractive mix of features and warrant a place in their equity portfolios.

The appeal is simple: Dividend-paying stocks can provide investors with tangible returns on a regular basis regardless of market conditions.

The Benefits of Dividend-Paying Stocks

If you own stock in a company that has announced it will be issuing a dividend, or if you are proactively considering adding an allocation to dividend-paying stocks, history provides compelling evidence of the long-term benefits of dividends and their reinvestment.

- **A sign of corporate financial health.** Dividend payouts are often seen as a sign of a company's financial health and management's confidence in future cash flow. Dividends also communicate a positive message to investors who perceive a long-term dividend as a sign of corporate maturity and strength.
- **A key driver of total return.** There are several factors that may contribute to the superior total return of dividend-paying stocks over the long term. One of them is dividend reinvestment. The longer the period in which dividends are reinvested, the greater the spread between price return and dividend reinvested total return.
- **Potentially stronger returns, lower volatility.** Dividends may help to mitigate portfolio losses when stock prices decline, and over long time horizons, stocks with a history of increasing their dividend each year have also produced higher returns with considerably less risk than non-dividend-paying stocks. For instance, over the past 10 years, the S&P 500 Dividend Aristocrats -- those stocks within the S&P 500 that have increased their dividends each year for the past 25 years -- produced annualized returns of 10.25% vs. 7.31% for the S&P 500 overall, with less volatility (13.99% vs. 15.06%, respectively).[1]

The Growth of Dividend-Paying Stocks, 1986-2015[2]

If you are considering adding dividend-paying stocks to your investment mix, keep the following thoughts in mind.

- **Dividend-paying stocks may help diversify an income-generating portfolio.** Income-oriented investors may want to diversify potential sources of income within their portfolios. Given current realities present in the bond market, stocks with above-average dividend yields may compare favorably with bonds and may act as a buffer should conditions turn negative within the bond market.
- **Dividends benefit from continued favorable tax treatment.** The extension of the Bush-era tax cuts helps to reinforce the current case for dividend stocks. The tax bill that passed in early 2013 made the 15% top tax rate on qualifying dividends and other forms of investment income permanent for most investors, though it did raise the top rate to 20% for certain high-income investors. However, this is still lower than the 39.6% top rate on ordinary income.

Note that dividends can be increased, decreased, and/or eliminated at any time without prior notice.

[1]Return and standard deviation cover the 10 year period ended December 31, 2015. Volatility is measured by standard deviation. Past performance is no guarantee of future results.
[2]Source: ChartSource®, DST Systems, Inc. For the period from January 1, 1986, through December 31, 2015. Stocks are represented by the S&P 500 index. Stock prices are represented by the change in price of the S&P 500 index. It is not possible to invest directly in an index. Past performance is not a guarantee of future results. Copyright © 2016, DST Systems, Inc. All rights reserved. Not responsible for any errors or omissions.(CS000029)

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Year-End Planning to Help You Lower Your Tax Bill

Consider taking losses before gains, since unused losses may be carried forward for use in future years, while gains must be taken in the year they are realized.

As the end of the year draws near, the last thing anyone wants to think about is taxes. But if you are looking for ways to minimize your tax bill, there's no better time for tax planning than before year-end. That's because there are a number of tax-smart strategies you can implement now that will reduce your tax bill come April. And with higher rates, being tax efficient is more important than ever.

Put Losses to Work

If you expect to realize either short- or long-term capital gains, the IRS allows you to offset these gains with realized capital losses. Short-term gains (gains on assets held less than a year) are taxed at ordinary rates, which range from 10% to 39.6%, and can be offset with short-term losses. Long-term gains (gains on assets held longer than a year) are taxed at a top rate of 20% and can be reduced by long-term capital losses.[1] To the extent that losses exceed gains, you can deduct up to $3,000 in capital losses against ordinary income on that year's tax return and carry forward any unused losses for future years.

Given these rules, there are several actions you should consider:

- Avoid short-term gains when possible, as these are taxed at higher ordinary rates. Unless you have short-term losses to offset them, try holding the assets for at least one year.
- Take a good look at your portfolio before year-end and estimate your gains and losses. Some investments, such as mutual funds, incur trading gains or losses that must be reported on your tax return and are difficult to predict. But most capital gains and losses will be triggered by the sale of the asset, which you usually control. Are there some winners that have enjoyed a run and are ripe for selling? Are there losers you would be better off liquidating? The important point is to cover as much of the gains with losses as you can, thereby minimizing your capital gains tax.
- Consider taking losses before gains, since unused losses may be carried forward for use in future years, while gains are taxed in the year they are realized.

Unearned Income Tax

A 3.8% tax on "unearned" income for high-income taxpayers effectively increases the top rate on most long-term capital gains to 23.8%. The tax applies to "net investment income," which includes interest, dividends, royalties, annuities, rents, and other passive activity income, among other items. Importantly, net investment income does not include distributions from IRAs or qualified retirement plans, annuity payouts, or income from tax-exempt municipal bonds. In general, the tax applies to single taxpayers with a modified adjusted gross income (MAGI) of $200,000 or more and to those who are married and filing jointly with a MAGI of $250,000 or more.

What's to Come?

While there are currently no scheduled changes in federal tax rules, there are many steps you can take today to help lighten your tax burden. Work with a financial professional and tax advisor to see what you can do now to reduce your tax bill in April.

[1]Under certain circumstances, the IRS permits you to offset long-term gains with net short-term capital losses. See IRS Publication 550, Investment Income and Expenses.

This communication is not intended to be tax advice and should not be treated as such. Each individual's tax situation is different. You should contact your tax professional to discuss your personal situation.

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Three Strategies to Help You Manage Volatility

Equity investors looking to limit volatility may want to consider dividend-paying stocks.

Managing an investment portfolio is a challenge. Recent market cycles have tested many investors' commitment to their long-term investment plans.

Understand that while volatility cannot be eliminated, it can potentially be reduced. The following three strategies can be used to help you reduce the amount of volatility in your portfolio.

Strategy 1: Seek Investments With Low Correlation

Longer term, the market risk associated with an individual asset class, such as stocks, may be reduced by allocating a portion of a portfolio's assets to other types of investments that historically have reacted differently to market and economic events.[1] This is known as "correlation," which measures the tendency of two investments to move together. A correlation close to zero indicates that two investments are largely independent of each other. The closer a correlation is to 1.00, the greater the tendency two investments have had to move in tandem. The table below lists four assets that have had relatively low correlations with U.S. stocks during the past decade.[2] Past performance does not guarantee future results.

	Commodities	Cash	Investment-Grade Bonds	Home Prices
Large-Cap Stocks	0.50	-0.11	0.04	0.17

Strategy 2: Diversify Your Investments[1]

Modern portfolio theory is founded on the assumption that investment markets do not reward investors for taking on risks that could be eliminated though diversification. There are many strategies available for diversifying a stock portfolio. Investors can allocate portions of a portfolio to domestic and international stocks, which may take turns outperforming depending on circumstances in various global economies.[3] An allocation to small-cap, midcap, and large-cap stocks also provides exposure to companies of various sizes. Although there are no guarantees, smaller companies may be nimble enough to exploit untapped market niches and capitalize on growth potential.[4]

Strategy 3: Consider Dividend-Paying Stocks

In addition, equity investors looking to limit volatility may want to consider dividend-paying stocks. Although a company can potentially eliminate or reduce dividends at any time, a dividend may provide something in the way of a return even when stock prices are volatile. When evaluating dividend-paying stocks, it may be worthwhile to review how long a company has paid a dividend and whether the dividend has increased over time. According to a study by S&P Dow Jones Indices, firms that had increased their dividends for the past 25 years outperformed the S&P 500 and also were less volatile during the 5-year, 10-year, and 15-year periods ending June 30, 2015.[5] Past performance does not guarantee future results.

For investors interested in managing volatility, low-correlation investments, diversification, and dividend-paying stocks may be worth considering.

[1]Asset allocation and diversification do not ensure a profit or protect against a loss.

[2]Source: DST Systems, Inc. Large-cap stocks are represented by the S&P 500 Index, commodities by the Standard & Poor's GSCI®, cash by the Barclays 3-Month Treasury Bill Index, investment-grade bonds by the Barclays Aggregate Bond Index, home prices by the S&P/Case-Shiller 20-City Composite Home Price Index. You cannot invest directly in an index. Past performance is not a guarantee of future results. Data is based on the 10-year period ending December 31, 2015.

[3]Foreign stocks involve greater risks than U.S. investments, including political and economic risks and the risk of currency fluctuations, and may not be suitable for all investors.

[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.

[5]Source: S&P Dow Jones Indices. Returns are based on the S&P 500 Dividends Aristocrats. Volatility is measured by a statistic known as standard deviation. Past performance does not guarantee future results.

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