

REFLECTIONS

3rd Quarter Newsletter 2017



WINDGATE

WEALTH MANAGEMENT

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To Your Future Prosperity

STOP GIVING YOUR CASH TO CHARITIES (USE APPRECIATED STOCK INSTEAD)

INSIDE THIS ISSUE



**Sean Condon CFP®
Financial Planner**

Gifted stock benefits both the charitable organization and the donor.

It is a great feeling to give some of your wealth to a worthy cause when you have a charitable intent. Any organization that you support becomes better off with additional funds that they can use towards their mission. You also earn a tax deduction for donated amounts that can take a bite out of your tax bill. If you are giving cash to a charity there is however a better strategy that will increase both the amount of money you can give an organization and the size of your tax savings.

Gifted long-term appreciated stock, as opposed to cash, benefits both the charitable organization and the donor. The reason is that anyone who donates stock that has appreciated in value (and held at least 12 months) is able to deduct the full value of the investment without being forced to recognize the capital gain in the process. By donating appreciated stock, your capital gain disappears entirely, allowing you to permanently avoid any long-term capital gains tax liability that you would otherwise owe in the future.

- **Your Account Online**

You can log-in to your personal financial website at www.windgatewealth.com by going to the “see all accounts” tab

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Did you know our business runs on referrals? If you know any friends or family that might benefit from our services, please give us a call at 844.377.4963

Stop Giving Your Cash To Charities (Use Appreciated Stock Instead)

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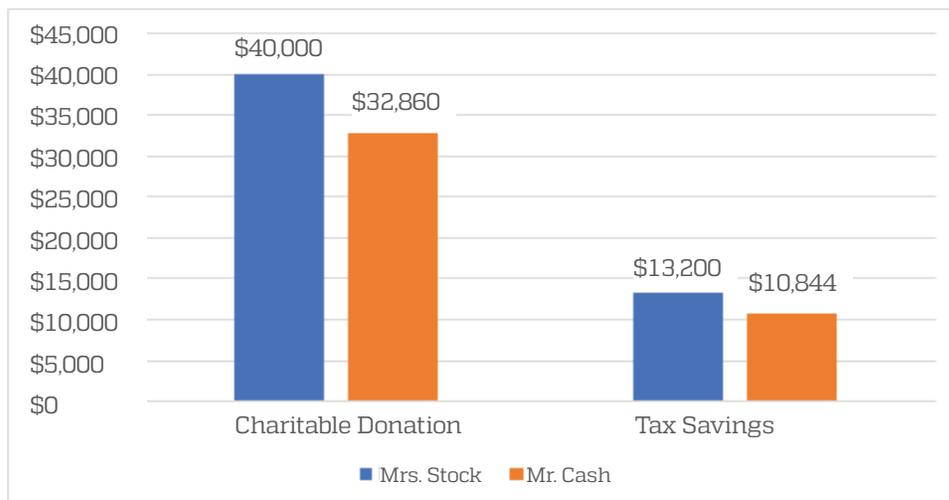
Quotes on Money, Work and Humor

CASE STUDY

To visualize the benefits to both the charitable organization and the donor, consider the example below of Mrs. Stock and Mr. Cash. Both parties purchased shares of Home Depot for \$10,000 several years ago and their investments are now worth \$40,000. This year they each earmarked \$40,000 as available to give to a charitable organization.

Mr. Cash decides to sell his Home Depot stock to raise cash for his charitable gift. By realizing a gain of \$30,000, he must pay \$7,140 in federal taxes (20% capital gains rate + 3.8% Medicare tax). He writes a check for the remaining \$32,860. Assuming he is in the 33% tax bracket, his \$32,860 charitable deduction provides him with \$10,844 in tax savings.

Donating Stock Provides For Larger Donation And Less Tax Paid



By donating appreciated stock, your capital gain disappears entirely, allowing you to permanently avoid any long-term capital gains tax liability that you would otherwise owe in the future.

STOP GIVING YOUR CASH TO CHARITIES (USE APPRECIATED STOCK INSTEAD) CONTINUED

After analyzing her situation with an advisor, Mrs. Stock has made plans to donate her Home Depot stock directly to her charity of choice. This transfer does not require her to sell any part of the investment or trigger any gains. The charity organization receives the full value of the investment (and is not required to pay any capital gains tax once liquidated in their account). Mrs. Stock also receives a charitable deduction for the full \$40,000 value of the investment. If Mrs. Stock is also in the 33% tax bracket, her \$40,000 contribution generates a tax savings of \$13,200.

In summary, Mrs. Stock can give \$7,140 more to charity and realize \$2,356 more in tax savings simply by donating appreciated stock versus selling it and giving cash.

DONOR-ADVISED TRUSTS AND ANNUAL GIFTING



Those wishing to establish ongoing charitable donations or annual gifting to family members can also benefit from using appreciated stock to fund these goals.

For those who are already charitably inclined, a donor advised fund can be an outstanding way to donate a large sum of money and reap an immediate tax benefit. A donor advised fund allows you to donate assets to charity today - and receive a tax deduction now - even though the money doesn't have to be granted to the charity until sometime later. Taxpayers can "front load" charitable contributions during a high-income year to maximize the value of the tax deduction, and then use the portfolio of assets to distribute gifts over time. In the meantime, assets inside the donor advised fund grow tax-free. By funding a donor-advised fund using appreciated stock, you receive the added benefit of removing capital gains from your portfolio.

The same strategy can be used to fulfill an annual gifting plan. Many families choose to make gifts to their children up to the annual limit of \$14,000 for individuals and \$28,000 for couples as part of a long-term estate plan. An annual gifting strategy compounded over many years can remove incredibly meaningful sums from a taxable estate. Gifting appreciated stock is a tax-smart way to accomplish an annual gifting plan, as you avoid capital gains by gifting them away. Should the stock later be sold, it is often done by a child in a lower tax bracket.

SUMMARY

Cash donations are rarely the most effective form of charitable giving. Donating appreciated stock gives you the most giving impact and tax savings, and nearly all charitable organizations are equipped to accept transferred securities. Keep in mind that the larger your investment gain and the higher your tax bracket, the more impactful a gifting stock strategy becomes. It feels great to give to a worthy cause, but it feels even better to pay less tax while giving more.

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WHAT IMPACT DO HURRICANES HAVE ON THE STOCK MARKET?



Michael Corbett,
Chief Investment Officer
Portfolio Manager

Our hearts and prayers go out to the families affected by Hurricanes Harvey and Irma. Hurricanes, superstorms, and floods can be devastating, and result in significant economic hardship for local communities. It is impossible to overstate the difficulty these communities are likely to endure as they work to rebuild their homes and resume living normal lives.

When thinking about the economic impact of hurricanes, it is often tempting to equate the devastation on the ground with equal or greater devastation to the economy. For example, some saw Irma as a nuclear hurricane ended up overestimating the potential damage by \$150 billion.

We tend to see a recurring theme of overstating the damage, particularly when it comes to hurricanes and natural disasters. Again, the toll on local communities cannot be overlooked or taken lightly. But when it comes to the broader economy and the equities markets, these storms tend to have very small, measured impact. For investors worried over whether Irma and Harvey could cause serious ripples in the economy and the markets, I would encourage you to relax and to remember history. The table below shows the results of large stocks, small stocks, and micro-cap stocks 12-months after a natural disaster.

It appears that hurricane-related damages could exceed 1% of GDP in 2017. On the other hand, there will be major rebuilding efforts, significant outlays of new government spending, and boosts to consumer spending that should ultimately be additive to GDP.

12 Month Gain After Storm

STORM	DATE	DAMAGES	S&P 500	RUSSELL 2000	RUSSELL MICROCAP
Hurricane Andrew	August 1992	\$48 Billion	8.68	31.49	NA
Great Flood of 1993	May 1995	\$36 Billion	2.32	30.39	NA
Hurricane Charley	August 2004	\$21 Billion	14.24	23.10	21.47
Hurricane Katrina	August 2005	\$160 Billion	5.47	9.36	7.09
Hurricane Ike	September 2008	\$35 Billion	-18.61	-9.55	-7.93
Superstorm Sandy	September 2012	\$70 Billion	18.49	30.06	32.12
Hurricane Harvey/Irma	September 2017	?	?	?	?

As you can see, there are a whole bunch of plus signs! At the time of impact, a big storm often feels like it has the potential to sink the economy and the markets, but in recent history it has yet to do so. Hurricane Ike might have been the exception, but we all know that 2008's recession and bear market were caused by other factors.

WHAT IMPACT DO HURRICANES HAVE ON THE STOCK MARKET? (CONTINUED)

It appears that hurricane-related damages could exceed 1% of GDP in 2017. That would be the first time that has ever happened, which is not insignificant. If we tack-on Irma, Jose, and whatever else may come after that, perhaps we even see costs rise to 2% of GDP. That would be historic, and with the economy barely producing growth of 2%, it raises the question of whether these hurricanes can actually flatten growth for a quarter or two this time around.

The problem with that logic, however, is that calculating a 2% for 2% tradeoff is not exactly the correct way to do the math. On one hand, the 2% hit can be significant as real assets are destroyed, refineries and ports are shut down, and job losses rise. On the other hand, there will be major rebuilding efforts, significant outlays of new government spending, and boosts to consumer spending that should ultimately be additive to GDP. One tends to offset the other, and it also explains why markets tend to move past these disasters with little impact. We think the economy and markets will endure this time too.

Natural disasters are tragic. But it is important for investors to separate tragedy on a local level from tragedy on a macro level. The U.S. economy is a diverse and resilient machine, and it is generally capable of absorbing shocks bigger than most would expect. As we move through this hurricane season, I would encourage investors not to let your expectations drift too far into tragic, big-impact territory. Instead, keep focus on the reality, which is that the economy and markets are likely strong enough to endure and move past these events, while continuing to grow.

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HOW TO RESPOND TO A DATA BREACH



As you are by now aware, Equifax, one of the nation's leading credit reporting agencies, was victim of a cybersecurity incident potentially impacting approximately 143 million U.S. consumers. The information accessed primarily includes names, Social Security numbers, birth dates, addresses and, in some instances, driver's license numbers.

Equifax has announced that it will send direct mail notices to those whose credit card numbers or dispute records were accessed. Overall this is a very unfortunate mess, and based on the scope of the breach, it is likely that you or someone you know has been affected.

Know that your assets are protected against fraud by your custodian. Both Charles Schwab and TD Ameritrade offer 100% guaranteed protection against loss due to cybercrime. If your personal data has been compromised, however, you should still take action to minimize the impacts. Below are a few resources and precautions:

Social Security

Call the **Social Security Administration's fraud hotline at 800-269-0271** if you suspect your Social Security number has been compromised. The Office of the Inspector General will take your report and investigate activity using your Social Security number. The Social Security Administration also provides helpful materials, such as the pamphlet **Identity Theft and Your Social Security Number**.

Identity Theft:

Contact the **Federal Trade Commission (FTC)**, either at **www.identitytheft.gov**, by calling **1-877-IDTHEFT (TTY 1-866-653-4261)**, or by visiting **www.ftc.gov**. **Click on Report Identity Theft** to access the **Identity Theft Recovery Steps**. This one-stop resource for victims of identity theft will guide you through each step of the recovery process.

HOW TO RESPOND TO A DATA BREACH (CONTINUED)

Credit Freeze

It may be appropriate to put a temporary freeze on your credit reports with each of the major credit bureaus. This will prevent you or unauthorized parties from obtaining any new debt.

Executing a freeze with one credit bureau will NOT automatically update the others. You can easily unfreeze your credit when needed. Contact the credit bureaus below using this contact information for freezes.

Equifax 1-800-685-1111 www.freeze.equifax.com

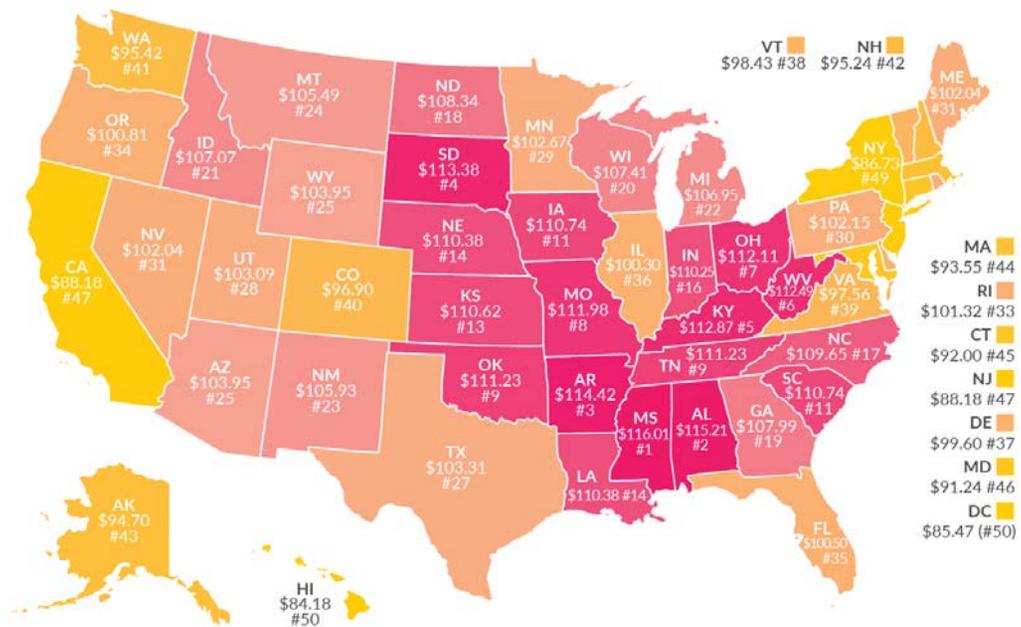
Experian 1-888-397-3742 www.experian.com/freeze/center.html

TransUnion 1-888-909-8872 www.transunion.com/securityfreeze

WHERE A DOLLAR GOES THE FURTHEST IN THE UNITED STATES

The Relative Value of \$100

Which State Offers The Biggest Bang For Your Buck?



Notes: Numbers represent value of goods that \$100 dollars can buy in each state compared to the national average. The Bureau of Economic Analysis has developed a methodology using Personal Consumption Expenditure and American Community Survey data to estimate average price levels in each state for household consumption, including rental housing costs. D.C.'s rank does not affect states' ranks, but the figure in parentheses indicates where it would rank if included. Data is as of 2015.

Source: Bureau of Economic Analysis, *Regional Price Parities*.



Considering relocating during retirement? What you can buy from your retirement income varies wildly depending on where you are, greatly impacting purchasing power and the cost of living. Sometimes even a short one-hour drive can make a difference in some cases.

The following map shows the buying power of \$100 by state.

If the number is below \$100, such as \$90, it means money buys less than the federal average. If a state's number is higher, such as \$110, that means each dollar goes further, giving residents more purchasing power.



Windgate Wealth Management is committed to giving back to the communities in which we live and work. We aim to make an impact by investing our resources – financial contributions, employee volunteering and mentoring to support outstanding charities, such as Wasmond Center - Little Angels.

Wasmond Center-Little Angels History



In 1958, Pat Wasmond, a registered nurse and mother, was working in a local doctor's office. This doctor had a child who had severe disabilities, requiring 24 hour care. Her family had difficulty managing this challenging situation. Pat offered her assistance and the child came to live with Pat, Bob and their children.

Word spread in the Elgin area of this exceptional family and the wonderful care this child was receiving. Soon the Was-

monds began receiving calls from other families seeking this kind of help.

It became evident to Pat there was a vital call for this type of care in the Elgin area. She and her husband decided to create a home for children with profound disabilities and Little Angels was founded. It all began with one family taking a child into their home.

And now, over 58 years later, the Marklund Wasmond Center at Little Angels has grown into a 57-bed facility for children and young adults who are medically complex and have severe developmental disabilities.

In the 1970s, Pat and Bob's daughter, Shelley, became involved in the facility on a full-time basis and eventually took over as Executive Director in 1979. Now the Administrator of the Marklund Wasmond Center, Shelley, an RN, worked at Little Angels most of her life in one capacity or another, as did her ten brothers and sisters. This background gave her a unique perspective on all aspects of delivering quality care, just like family.

Angel Songs Soiree 2017



Michael Corbett (CIO) and his wife Teri as well as Mark Buh (CFO) and his wife Natasha were among the guests at the Windgate in The Community table.

Windgate In The Community supported Little Angels in September 2017 by inviting eight staff members to participate in the Angel Songs Soiree charity event.

The Angel Songs Soiree started in 2009 as an Open House & Concert fundraising event for the Little Angels organization at the Sanfilippo Estate in Barrington Hills. Hosts Jasper and Marian Sanfilippo graciously open their home and collections to help local charities raise money, and offered this opportunity to Little Angels after Jasper's 60th high school reunion where he reunited with a former classmate who is also a Little Angels parent.

The guests were invited to a tour of the Sanfilippo Home, which contains magnificent collections of beautifully restored antique music machines and automated musical instruments, phonographs, arcade machines, chandeliers and art glass followed by a concert on their Wurlitzer organ, which happens to be the world's largest theater pipe organ.

This event has grown and evolved into a unique fundraiser for Marklund that it now includes a gourmet dinner, entertainment and auction in the Sanfilippo Carousel Pavilion, a second building on the estate housing more of the Sanfilippo collections plus an 1890s fully restored Parisian Carousel.

Windgate in the Community is proud to support such an amazing organization and the Angel Songs Soiree was truly a success.

ON MONEY, WORK AND HUMOR

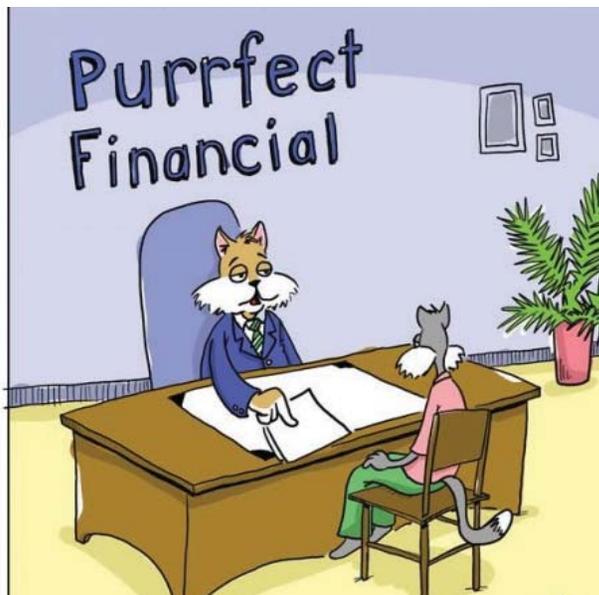
Money can buy happiness, but words are free. Here are a few of our favorites regarding money, work and humor.



"You're pretty optimistic about this new investment strategy of yours, aren't you?"



"We should probably take an aggressive approach. My allowance is 50 cents a week and I want to retire at age 16."



“The good news about this tax deferred IRA is that you won’t have to pay any tax until your ninth life.

Any opinions expressed in this article are general in nature and cannot be guaranteed to be suitable for every individual. Individual needs and situations vary. Talk to your financial advisor to help you consider what options might be right for you.

The information provided herein represents the opinion of Windgate Wealth Management and is not intended to be a forecast of future events, a guarantee of future results, nor investment advice. The information is neither a recommendation to buy or sell a security or invest in a specific sector. Past performance is not indicative of future results.

Perritt Capital Management, Inc. is the registered investment advisor for Windgate Wealth Management accounts.





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