



## Smith Capital

100 River Bluff Drive  
Suite 410  
Little Rock, AR 72202  
Phone: 501-228-0040  
Fax: 501-228-0047  
Info@SmithCap.com  
www.smithcap.com

### FROM JAY WHITE

Greetings from everyone here at Smith Capital! We would like to take this opportunity to wish all of our *Directions* readers a Happy Thanksgiving! We are truly grateful for your relationship and wish you and your family the best this holiday season and in the coming year. Enjoy!

### DIRECTIONS FOR LIFE

The name of the Lord is a fortified tower; the righteous run to it and are safe.

Proverbs 18:10

### **VOL. 35, NO. 11, November 2019**

Ten Year-End Tax Tips for 2019  
Tips for Managing Your Holiday Spending

How can I teach my high school student the importance of financial literacy?



SMITH CAPITAL

# DIRECTIONS

The Investor's Guide to Financial Management

## Three Regrets of Retirees



A recent survey found that more than half of retirees have retirement planning regrets. Unfortunately, many of these retirees had to cut back on their lifestyles to compensate for financial shortfalls.<sup>1</sup>

Considering their most common regrets may help you avoid making the same mistakes.

### **Not saving enough**

More than one-third of retirees wish they had saved more.<sup>2</sup> How much is enough? The amount you need depends on your other sources of income and your anticipated retirement lifestyle.

It might be helpful to consider the 4% rule, a traditional guideline for the percentage of savings that you may be able to withdraw each year without depleting your nest egg over a 30-year retirement. For example, \$100,000 in savings would provide only \$4,000 in annual income. If you will need \$20,000 from your savings each year, you should have \$500,000 socked away by the time you retire. Withdrawing \$40,000 annually might require \$1 million in savings.

The longer you have before retirement, the more time you have to take advantage of long-term savings and compounding of potential returns.

If you have a workplace plan, you might start by saving enough to receive any employer match and then increase your savings percentage by 1% each year until you reach 15% or more. You may need to target a higher percentage if you get a late start. Even if retirement is coming soon, you might be surprised by how much you can save if you focus on that goal.

### **Relying too much on Social Security**

Social Security was never meant to meet all your retirement income needs. The average 2019 monthly benefit of \$1,461 for a retired worker and \$2,448 for a couple would hardly provide a comfortable retirement. The 2019 maximum worker benefit of \$2,861 at full retirement age would be better, but that would require maximum taxable Social Security earnings for at least 35 years. If you postpone claiming Social Security after reaching full retirement age, your benefit increases by 8% annually. For example, if you were born in 1960 or later, your full retirement age will be 67 under current law, so working until age 70 would increase your benefit by 24%.<sup>3</sup>

According to the most recent trustees report, Social Security may be able to pay out only 77% of scheduled retirement benefits beginning in 2034, unless Congress takes action to strengthen the program.<sup>4</sup> Considering the importance of Social Security, it seems unlikely that benefits will be reduced to that level, but this is another reason not to count too much on Social Security benefits for retirement income.

### **Not paying off debts**

Carrying heavy debt can be a strain at any stage of life, but it can be especially difficult for retirees living on a fixed income. Paying off your home before you retire not only reduces your monthly expenses but also provides equity that could be tapped if necessary for future needs. Before paying off your mortgage, however, it might be wise to pay off credit cards and other high-interest loans.

The road to retirement can be challenging, but avoiding the mistakes made by those who have traveled before you may help you reach your destination with fewer regrets.

<sup>1-2</sup> National Association of Plan Advisors, December 8, 2018

<sup>3-4</sup> Social Security Administration, 2019



#### **Timing of itemized deductions and the increased standard deduction**

*Recent tax law changes substantially increased the standard deduction amounts and made significant changes to itemized deductions. It may now be especially useful to bunch itemized deductions in certain years; for example, when they would exceed the standard deduction.*

#### **IRA and retirement plan contributions**

*For 2019, you can contribute up to \$19,000 to a 401(k) plan (\$25,000 if you're age 50 or older) and up to \$6,000 to traditional and Roth IRAs combined (\$7,000 if you're age 50 or older). The window to make 2019 contributions to an employer plan generally closes at the end of the year, while you typically have until the due date of your federal income tax return (not including extensions) to make 2019 IRA contributions.*

## Ten Year-End Tax Tips for 2019

Here are 10 things to consider as you weigh potential tax moves between now and the end of the year.

### **1. Set aside time to plan**

Effective planning requires that you have a good understanding of your current tax situation, as well as a reasonable estimate of how your circumstances might change next year. There's a real opportunity for tax savings if you'll be paying taxes at a lower rate in one year than in the other. However, the window for most tax-saving moves closes on December 31, so don't procrastinate.

### **2. Defer income to next year**

Consider opportunities to defer income to 2020, particularly if you think you may be in a lower tax bracket then. For example, you may be able to defer a year-end bonus or delay the collection of business debts, rents, and payments for services. Doing so may enable you to postpone payment of tax on the income until next year.

### **3. Accelerate deductions**

You might also look for opportunities to accelerate deductions into the current tax year. If you itemize deductions, making payments for deductible expenses such as medical expenses, qualifying interest, and state taxes before the end of the year (instead of paying them in early 2020) could make a difference on your 2019 return.

### **4. Factor in the AMT**

If you're subject to the alternative minimum tax (AMT), traditional year-end maneuvers such as deferring income and accelerating deductions can have a negative effect. Essentially a separate federal income tax system with its own rates and rules, the AMT effectively disallows a number of itemized deductions. For example, if you're subject to the AMT in 2019, prepaying 2020 state and local taxes probably won't help your 2019 tax situation, but could hurt your 2020 bottom line. Taking the time to determine whether you may be subject to the AMT before you make any year-end moves could help you avoid a costly mistake.

### **5. Bump up withholding to cover a tax shortfall**

If it looks as though you're going to owe federal income tax for the year, especially if you think you may be subject to an estimated tax penalty, consider asking your employer (on Form W-4) to increase your withholding for the remainder of the year to cover the shortfall. The biggest advantage in doing so is that withholding is

considered as having been paid evenly throughout the year instead of when the dollars are actually taken from your paycheck. This strategy can also be used to make up for low or missing quarterly estimated tax payments. With all the recent tax changes, it may be especially important to review your withholding in 2019.

### **6. Maximize retirement savings**

Deductible contributions to a traditional IRA and pre-tax contributions to an employer-sponsored retirement plan such as a 401(k) can reduce your 2019 taxable income. If you haven't already contributed up to the maximum amount allowed, consider doing so by year-end.

### **7. Take any required distributions**

Once you reach age 70½, you generally must start taking required minimum distributions (RMDs) from traditional IRAs and employer-sponsored retirement plans (an exception may apply if you're still working for the employer sponsoring the plan). Take any distributions by the date required — the end of the year for most individuals. The penalty for failing to do so is substantial: 50% of any amount that you failed to distribute as required.

### **8. Weigh year-end investment moves**

You shouldn't let tax considerations drive your investment decisions. However, it's worth considering the tax implications of any year-end investment moves that you make. For example, if you have realized net capital gains from selling securities at a profit, you might avoid being taxed on some or all of those gains by selling losing positions. Any losses over and above the amount of your gains can be used to offset up to \$3,000 of ordinary income (\$1,500 if your filing status is married filing separately) or carried forward to reduce your taxes in future years.

### **9. Beware the net investment income tax**

Don't forget to account for the 3.8% net investment income tax. This additional tax may apply to some or all of your net investment income if your modified adjusted gross income (AGI) exceeds \$200,000 (\$250,000 if married filing jointly, \$125,000 if married filing separately, \$200,000 if head of household).

### **10. Get help if you need it**

There's a lot to think about when it comes to tax planning. That's why it often makes sense to talk to a tax professional who is able to evaluate your situation and help you determine if any year-end moves make sense for you.





#### **How much will you spend this year?**

In October 2018, the National Retail Federation projected that consumers were planning to spend more than \$1,000 on holiday-related purchases over the entire season, which was a 4% increase over 2017. For 2019 figures, typically released in late October, please visit the [organization's website](#).

#### **There's an app for that, too?**

You can even find an app that will help you locate your car in the shopping mall parking lot.

## Tips for Managing Your Holiday Spending

Like almost everything else these days, the holidays have become a barrage of options and choices, with nearly limitless opportunities to overspend. Here are some tips to help you make sure your family's spending remains in check this holiday season.

### **Develop a spending strategy**

First and foremost, **develop a budget**.

Involving family members will help you establish and maintain realistic expectations at the outset. Remember to include not just gifts, but also holiday meals and parties, travel, greeting cards and stamps, gift wrap, decorations, and any other category you deem necessary. This is also a good time to commit to using cash or charging no more than you can pay off in one month.

Next, **devise a method of tracking all your purchases**, receipts, gift recipients, and the locations of hidden gifts that you might otherwise forget about. This will make life easier as the chaos ramps up.

**Review your credit cards** to see if you have any perks. Could you use earned points for travel, or cash-back and gift card rewards to help defray costs?

**Track down old gift cards** and put them to use now. If you think you'll never use them, trade them in for cash on a discounted gift card website. There, you can sell your old cards and even buy new e-gift cards at a discounted rate, which you can then give as gifts or use for your own purchases.

**Put technology to work for you.** You can find apps that offer cash back if you shop online; alert you to online coupons available at nearby stores; round up your purchases to the nearest dollar and put the difference into a savings account; and track your online purchases, scan other stores for better prices, and then automatically email the original stores on your behalf to take advantage of the price-match guarantees. There are myriad options available, so be sure to check reviews and privacy/security measures before downloading.

### **Think creatively**

**Gifts.** Take time to carefully scan all promotional materials before you head out the door or open a browser, because great deals are often available for limited periods of time. For example, some stores have offered generous gift cards in exchange for buying certain products on Black Friday.

Consider giving experiences rather than gifts, which happiness experts say could lead to more sustained levels of well-being. In fact, you

may find that you'll spend less overall by giving one or two memorable experiences instead of the usual pile of items.

Create meaningful yet inexpensive gifts, such as photo books, calendars, and family recipe books, using online apps and services. This idea is especially appropriate for gifts from children to older family members.

For larger or extended families, make a game out of gift giving. Consider a "Yankee swap," or implement a gift exchange, where everyone is randomly assigned a person for whom they buy one special gift. Or consider having the entire family chip in a certain amount per person and donating to a favorite charity or sponsoring another family in need.

**Food.** Nonperishable holiday-related goods typically go on sale in late fall, so plan ahead and stock up. Also keep an eye out for specials; for example, some grocery stores offer a free turkey around Thanksgiving when you spend a certain amount on groceries.

### **Party planning, decorations, gift wrap.**

Consider buying the bulk of these supplies at deep-discount stores and splurging on a few special highlight items, such as napkins with an elaborate design, centerpieces of fresh flowers, or fancy bows. If you live in an area where evergreens, autumn berries, and pine cones are plentiful, take advantage of this potentially sophisticated, yet *completely free*, decor. Or create even more memories by hosting an ornament-making party. Use old costume jewelry or other items to make ornaments and decorations with sentimental value.

**Travel.** During one of the busiest travel times of the year, deals can be hard to find. Here are some tips:

- Be flexible. If you can postpone your celebration until after the holidays, you may be able to save substantially on travel costs. (You can also shop the post-holiday sales for gifts!)
- Avoid airline baggage fees by using carry-on luggage.
- Use fare-tracking apps to find the best deals.
- Cost-compare alternative modes of travel, such as train and ridesharing.

### **It's never too early to start saving**

Finally, get a jump on next year's festivities by stocking up on supplies during post-holiday sales, opening a savings account with a goal of saving at least as much as you spend this year, and shopping as early as possible to spread spending throughout the year.



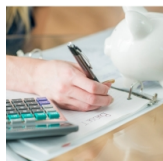
**Smith Capital**  
100 River Bluff Drive  
Suite 410  
Little Rock, AR 72202



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Address inquiries to: Smith Capital 100 River Bluff Drive, Suite 410 Little Rock, AR 72202 Phone: 501-228-0040 Toll Free 800-866-2615 E-Mail: [info@smithcap.com](mailto:info@smithcap.com) Website: [www.smithcap.com](http://www.smithcap.com)



## How can I teach my high school student the importance of financial literacy?

Even though your child is just in high school, he or she may still have to deal with certain financial challenges. Whether

this involves saving for an important purchase like a car or learning how to use a credit card responsibly, it's important for your high schooler to have a basic understanding of financial literacy concepts in order to manage his or her finances more effectively.

While financial literacy offerings in schools have increased in popularity, a recent study reported that only 17 states require high school students to take a personal finance course before they graduate.<sup>1</sup> Here are some ways you can teach high school students the importance of financial literacy.

**Advocate saving.** Encourage your children to set aside a portion of any money they receive from an allowance, gift, or job. Be sure to talk about goals that require a financial commitment, such as a car, college, and travel. As an added incentive, consider matching the funds they save for a worthy purpose.

**Show them the numbers.** Use an online calculator to demonstrate the concept of long-term investing and the power of compound interest. Your children may be surprised to see how fast invested funds can accumulate, especially when you match or contribute an additional amount each month.

**Let them practice.** Let older teens become responsible for paying certain expenses (e.g., clothing and entertainment). The possibility of running out of their own money might make them think more carefully about their spending habits and choices. It may also encourage them to budget their money more effectively.

**Cover the basics.** By the time your children graduate from high school, they should at least understand the basic concepts of financial literacy. This includes saving, investing, using credit responsibly, debt management, and protection planning with insurance.

<sup>1</sup> Survey of the States, Council for Economic Education, 2018