Ashwood Advisors, LLC®

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Truth, Knowledge, Experience *4th Quarter 2017*

Hi Everyone,

I am happy to announce that my son Matthew joined my practice this past October. Before coming to work with me he spent two years working in the admissions department of a New England prep school in Connecticut. Matthew is a graduate of St. Lawrence University where he majored in Government studies and minored in Economics. Matthew played Baseball and Football at St. Lawrence. He is studying for the Securities Exams and will complete a two-year training program. Matthew is excited to join the family business and I am looking forward to it as well.

Sincerely,

Stephen Geremia

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- **Should You Pay Off Your Mortgage?**
- **Which College Savings Plan Is Right For You**
- **Is The Cloud Secure Enough For Me?**

Should You Pay Off Your Mortgage?

Presented by Stephen Geremia

After years of dutiful payments, you find yourself in the enviable position of having enough accumulated savings or discretionary income that you could aggressively pay down—or completely pay off—your mortgage. But should you? Are there better ways to ensure your financial security?

Making the best choice for you

Paying down your mortgage faster—or paying it off in a lump sum—seems like a no-brainer. For most Americans, a mortgage represents both the highest monthly expense and the largest liability on a net-worth statement. Intuition tells us that debt is bad, and being out of debt is akin to increased financial security.

While it's true that you can save thousands of dollars in interest by paying off the loan early, the interest rates for fixed-rate mortgages are historically low, and your mortgage interest is tax deductible. Depending on your circumstances, there may be better ways to use that extra money to boost your short- and long-term financial security.

With that in mind, **here are some questions to consider** before you aggressively pay down—or pay off—your mortgage:

- **Do you have higher interest or nondeductible debt?** If so, it makes sense to pay that off before paying down your mortgage. Credit card debt in particular should be a priority, as it has very high interest rates, and the interest is not tax-deductible the way mortgage interest is.
- **Are you already maximizing the employer match on your 401(k) and your annual contributions to IRAs?** If not, you may want to prioritize this over paying down your mortgage. An employer match is essentially free money, and qualified retirement accounts grow tax deferred (or generally tax free for Roth IRAs). These are critical opportunities to boost your retirement savings, and because there are annual limits to how much you can contribute, money you don't invest now is a lost opportunity.
- **How is your emergency fund?** It is generally recommended that you keep between three and six months of household expenses set aside for emergencies. You'll sleep better at night knowing you have liquid assets if you need them. If your emergency fund is light, it's probably wise to build it up before reducing your mortgage.
- **How is your health insurance coverage?** Whether it's life, medical, disability, or long-term care, your financial security could be undermined if you're not properly insured. The type or amount of insurance that's right for you comes down to your comfort in managing risk, but addressing potential shortfalls in coverage might be a higher priority than paying down your mortgage.

"If you aren't thinking about owning a stock for ten years, don't even think about owning it for ten minutes." **— Warren Buffett**

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- **Do you have children?** If you have kids, putting extra money into a college savings plan now will allow you to maximize tax-deferred savings and growth. You could even be eligible for a state tax deduction for your contributions, depending on where you live and the plan you choose.

While paying down—or paying off—your mortgage early is a worthy goal, it is important to align it strategically with other goals and within the bigger picture of your long-term financial security. If you have questions, we are hap-

Which College Savings Plan Is Right for You?

Presented by Stephen Geremia

The cost of college is steadily rising, and student loan debt has reached crisis status. What does this mean for you? It is more important than ever to commit to saving for the education expenses of the future scholars in your life.

But making that commitment to save is just the first step. Next, you must decide on the right savings plan—a 529 plan, a Coverdell Education Savings Account, or a custodial account—a decision that should not be made lightly. These account types differ in ways both big and small, and choosing the best option for your situation requires a careful analysis of each.

The 529 plan

The 529 plan gets its name from section 529 of the Internal Revenue Code (IRC). This plan is operated by a state or educational institution and is designed to help families set aside funds for future college expenses. To be clear, the 529 account is for college expenses *only*, and it cannot be used for elementary or secondary tuition and expenses.

Anyone can establish a 529 plan for the benefit of whomever they choose, as there are no income, age, or annual contribution limits. If you invest in your state's sponsored 529 plan, you may be eligible for a state tax deduction or credit for 529 plan contributions. As the donor of a 529 plan, you remain in control of the account and can ensure that the money will be used for its intended purpose. You also retain the right to withdraw funds from the plan at any time, for any reason, and to change the beneficiary.

Earnings in a 529 plan grow federal tax free and will never be taxed as long as the money withdrawn is used for "qualified" higher education expenses, which includes tuition, room and board, fees, books, and equipment. Distributions not used for qualified higher education expenses are allowed but are subject to federal income tax plus a 10-percent penalty. Taxes and penalties apply only to earnings in the account.

In addition, 529 plans can be a valuable gift and estate tax planning tool, as contributions are considered completed gifts; therefore, they are not included in the donor's estate despite the fact that the account owner retains control of the funds. In 2017, individuals can make gift tax-free contributions of up to $14,000 per beneficiary per year (or $28,000 for married couples who elect to gift split). They also have the option to "front-load" the plan, consolidating five years' worth of gifts into a single $70,000 contribution (or $140,000 for married couples) per beneficiary.

Bottom line? The 529 plan has a low impact on Free Application for Federal Student Aid (FAFSA) financial aid, as the account balance is treated as an asset of the account owner, not of the beneficiary.

Coverdell Education Savings Account

A Coverdell Education Savings Account functions in a very similar manner to a 529 plan, with a few key differences. Like a 529 plan, the donor of a Coverdell remains in control of the account and can withdraw funds or change the beneficiary to another family member as he or she sees fit. As a result, the Coverdell account has a low impact on financial aid.

The assets in a Coverdell grow tax deferred, and the distributions are tax free when used for qualified education expenses. Unlike a 529 plan, however, eligibility to contribute to a Coverdell is phased out for incomes between $95,000 and $110,000 for single filers and between $190,000 and $220,000 for joint filers. In addition, the maximum contribution to a Coverdell is $2,000 per beneficiary per year and can be made only until the beneficiary is 18. This provision makes it difficult to save considerable sums of money and eliminates most of the gift and estate tax planning benefits of the 529 plan.

Another key difference between the Coverdell and the 529 is that any unused funds must be distributed to the beneficiary at age 30, with earnings taxed as ordinary income plus a 10-percent penalty. (Keep in mind that 529 plans have no such rules regarding the distribution of unused funds.) One potential benefit of a Coverdell is that it can be used for elementary and secondary school expenses in addition to college, while a 529 plan is restricted to college only.

Custodial account
A custodial account, also known as a Uniform Transfers to Minors Act (UTMA) or a Uniform Gifts to Minors Act (UGMA) account, differs from both 529 plans and Coverdell accounts in several important ways. First and foremost, assets placed into a custodial account are an irrevocable gift to the beneficiary and are immediately placed in the name (and under the tax identification number) of the child. The parent or other designated guardian who established the account serves as the custodian, with a fiduciary responsibility to the beneficiary to ensure that the assets are used for his or her benefit only. Once the child reaches the age of trust termination—which varies by state but is typically between 18 and 21 years—the child gains complete access and control of the assets and can use them for whatever he or she wishes. All income earned in a custodial account is taxable to the child at his or her tax rate.

For 2017, the first $1,050 of unearned income is tax free, the next $1,050 is taxable to the child, and anything more than $2,100 is taxed at the parents' or designated guardian's top marginal rate. Because the asset is in the child's name, it counts as a student-owned asset for financial aid, leading to a much larger impact on financial aid than a 529 plan or a Coverdell Education Savings Account. Like a Coverdell, however, the money can be used for elementary and secondary school expenses, in addition to college.

What's your goal?
Each of these college savings instruments can help you lessen the burden of future education expenses. Just be sure to pay close attention to the advantages and drawbacks of each to ensure that whatever plan you choose aligns with your education savings goals.

"Put time on your side. Start saving early and save regularly. Live modestly and don't touch the money that's been set aside." **— Burton G. Malkiel, A Random Walk Down Wall Street**

Is the Cloud Secure Enough for Me?

Presented by Stephen Geremia

Have you ever used Dropbox or Box.com? How about web-based mail, like Gmail, Yahoo! Mail, or Hotmail? If you consider that all of these are clouds—as are most Google apps—it's hard to find an Internet user who doesn't have *some* information in the cloud.

As cloud-based services become more prevalent, you might be wondering: Is the cloud secure enough for storing and sharing my own information?

Cloud security implications
The perks. Before we dive into the risks involved, let's start with the perks of using a cloud:

- Your information is accessible from anywhere you have an Internet connection.
- You can easily share files with others.
- You don't have to worry about managing external hard drives, USB sticks, or other storage hardware.

The potential drawbacks. On the other hand, when you give your information to a cloud provider, you're ceding a good deal of control of that information.

- You may not know exactly where that information will be stored or how it will be secured.
- The perk of easy accessibility from the Internet for you is also true for attackers. If a criminal were to guess your password, he or she could potentially gain access to your information.

In the end, we do have to trust *something* with our information. And many cloud providers try to stand out by practicing sound security. So, if you've made the risk-based decision to move your information to the cloud, be sure to look out for the security features described below.

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Cloud provider security features to watch for

1) Multifactor authentication. This extra layer of protection can help make your login process much more secure. Multifactor authentication is a system that requires a second form of verification in addition to your password, such as:

- A passcode that you receive on your smartphone
- A digit that you press after receiving a phone call

This ensures that, even if your password were compromised, an attacker couldn't access your account because he or she wouldn't have that second piece of identifying information.

2) HTTPS connection. Check the beginning of the URL you visit to access your cloud.

- If you see **https://**, all your information will be encrypted while it's in transit between you and the cloud. An attacker trying to intercept your connection won't be able to see the information.
- If your cloud—or any website, for that matter—begins with **http://**, keep in mind that any information you transmit could potentially be compromised. In this situation, we'd strongly recommend finding an alternative.

3) Encryption at rest. Not only should your information be encrypted in transit (https), but it should also be encrypted at rest—while it's sitting in the cloud. That way, if anyone were to get access to that information, he or she would still need your password in order to make any sense of it. (Encrypted information appears unreadable when it hasn't been decrypted by its encryption key/password.)

4) File version history. It's always possible that something can go awry when syncing or making changes to files in the cloud. A service with *versioning* allows you to dig back into the various revisions of a file over time and choose to restore an older one if needed. This can be a life-saver in terms of protecting your information, especially in cases where information is accidentally erased or files are corrupted.

The forecast is looking cloudy . . .

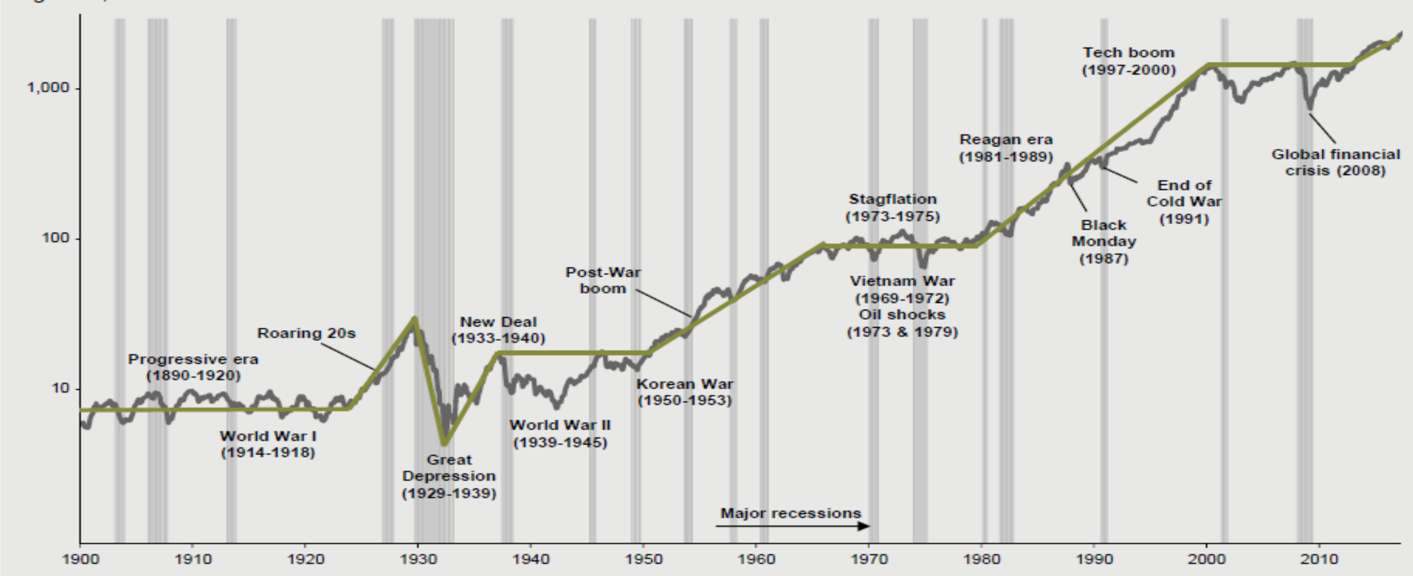
Years ago, the idea of entrusting your information to someone far, far away in a place you couldn't even see would've sounded ridiculous. But today, many Internet users are migrating their information and services to the cloud for cost savings, ease of use, and security benefits.

In the end, careful research can make all the difference. Deciding which service to trust is the most important part of the cloud that's in your control.

Stock market since 1900

GTM – U.S. | 16

Equities



Source: FactSet, NBER, Robert Shiller, J.P. Morgan Asset Management.
Data shown in log scale to best illustrate long-term index patterns.
Past performance is not indicative of future returns. Chart is for illustrative purposes only.
Guide to the Markets – U.S. Data are as of December 31, 2017.

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J.P.Morgan
Asset Management

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