[VINTAGE] FINANCIAL SERVICES, LLC

On the [MONEY]

Registered Investment Advisor | www.VintageFS.com | Winter 2015/16 Vol. XXXI No. IV

From the Grapevine...

This year Vintage is sponsoring the Ann Arbor Art Center's 117 Gallery on the second floor of the center in downtown Ann Arbor. We're planning an exclusive party there on Thursday, March 3rd. Stay tuned via our Vintage E-News for more information.

Todd Perry recently celebrated ten years with Vintage. Since joining us, Todd has become a Certified Financial Planner (CFP®) and a Certified Investment Management Analyst (CIMA®). Todd advises some of our clients and also heads our tax planning and preparation team.

Frank Moore has been featured in a few articles over the past couple months. He was quoted in a couple articles in *Financial Advisor* magazine, one in *Financial Planning* magazine as well as an article in the *Washington Post* titled "Robo-advisers are here. What's a human financial planner to do?" Frank elaborates on the new automated services in the article on page two.

CONGRESS UPENDS SOCIAL SECURITY STRATEGIES

In recent years, many retirees have learned of new Social Security claiming strategies that can increase their benefits. Using "file and suspend" and "restricted" applications, retired couples or divorcees were able to use loopholes opened by legislative changes made in 2000. The new strategies have begun to be widely used and the already cash-strapped Social Security system is being hurt by the higher benefits being paid to retirees that have learned how to game the system. Congress put an end to that in early November, though some near-retirees and retirees may still be able to benefit.

Generally, if you're under age 62, you can forget about the "file and suspend" and "restricted" options. If you'll be age 66 by early May and haven't determined what strategy will work best, you may want to check into it soon. Retirees that have already implemented the strategies won't be affected and will continue to receive the higher benefits.

The end of these strategies will simplify your options for claiming Social Security, but it's still best to consult a knowledgeable financial planner. There are still many different options in how best to claim your benefits, especially for couples and divorcees, and you'll want to maximize the benefits to which you're entitled. Our team of fee only Certified Financial Planners (CFP®) are well-versed in the strategies and the new changes. Feel free to contact us to learn more.

WILL ROBOS DRIVE PORTFOLIOS OFF A CLIFF?

Tesla, the new electric car company, recently enabled an Auto Pilot feature on many of their cars. The new feature allows drivers to cruise down the highway or even around town without touching the gas or steering wheel. Sensors read lines on the road and watch for other cars to determine where to steer and when to slow down or stop. It's a fun new tool, but drivers would be foolish to bet their lives on the car's ability to figure out every situation with the limited data inputs.

In the investment world, some new firms are trying to automate the investment process using the latest technologies. These "robo-advisors" make it easy to open an account and transfer funds online. They typically ask some risk assessment questions and then determine an asset allocation model for a client's portfolio. Many use low cost ETFs (Exchange Traded Funds) and rebalance the portfolios to the asset allocation target periodically. They even look for opportunities to take tax losses to help defer capital gains taxes. Because the services are automated with computer algorithms, the firms are able to reduce costs, saving investors 0.4% or more per year.

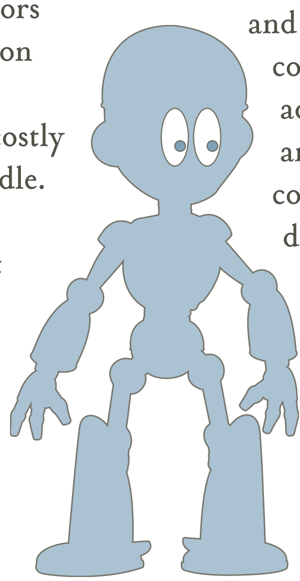
For some investors, the new robo-advisors may seem like a way to put their portfolios on Auto Pilot and save some costs, but like the Tesla's system, there are many potentially costly problems that today's algorithms can't handle.

Automated trading of ETFs can present some significant risks. Unlike mutual funds, ETFs trade throughout the day and are supposed to mimic an index such as the S&P 500. In times of volatile trading, the ETFs can become misaligned with their underlying securities and the variance can result in much higher, not lower costs. In late August, there was a market selloff one day that saw some ETFs trade at prices that were wildly different from their index. Without human intervention and some common sense, computer algorithms can trigger sales at inopportune times with costly results.

The concept of robo-advisors seems to suggest that there is one correct asset allocation strategy for an investor. Many of the robo firms limit their asset allocation classes to some basic stock and bond categories and often overlook potentially lucrative areas like REITs or high yield bonds. Their asset allocation strategies also tend to ignore valuation levels and simply always keep the same percentage in a particular asset class. Different robo firms will offer different asset allocation models so the results will vary based more on performance than any difference in costs.

The tax strategies used by these firms tend to work toward minimizing capital gains for all of their customers. While deferring tax gains is often a good strategy, some clients may be in a 0% capital gain tax bracket this year, but may be in a higher bracket in the future. Without that input, the algorithm works against what's best for their customer.

The biggest drawback to the robo-advisor firms is that they don't offer any personalized coaching. Last year, Vanguard did a study on the value that a financial advisor can bring to a client relationship and the biggest factor was being a behavioral coach. The study determined that advisors can add "about 3%" annually to investor returns and 1.5% of that came from being a behavioral coach who is there to guide clients through difficult markets and help with other financial decisions. Most advisors only charge about 1% annually so the robo-advisors and their algorithms can't compete, even if they were free. Maybe someday we'll have cars that can drive themselves and computers that can counsel you but, for now, humans still have the upper hand.



WHO'S myRA?

The US Department of Treasury recently unveiled the new retirement savings vehicle, the myRA. President Obama introduced the idea nearly two years ago in his State of the Union address and it's now available at myra.gov.

The myRA sounds like a new retirement savings plan, but in reality, it is simply a Roth IRA with the same eligibility and contribution limits as the Roth. The new vehicle is really designed as a starter Roth for workers who don't have access to a 401(k). For employers that don't want to pay the administrative costs or matching contributions of a 401(k), the myRA is a low cost alternative plan. Employees can fund their myRA through payroll deduction or can simply have funds withdrawn from their checking or savings account. Another option is to direct some or all of a tax refund to the myRA account. Like a Roth, contributions are made with after-tax dollars.

The Roth is available to individual tax filers with income below $131,000 or joint filers with less than $193,000. Annual contribution limits are the lower of earned income or $5,500 ($6,500 if you are over age 50).

This introductory Roth comes with no fees, but only one investment option. Funds will earn a rate set by the government in the Government Securities Fund, which over the past five years has averaged a little over 2%. Once the myRA balance exceeds $15,000, the funds must be moved to a regular Roth IRA.

The new plan holds little appeal for workers with a 401(k) or investors who'd like more investment options. It's really designed to get small savers started. For the right person, it may be a good first step toward retirement savings, but for most Americans, it's not a good option.

IRS CHANGES TO ADDRESS TAX FRAUD

Over the past couple years, income tax fraud has become a serious problem for many taxpayers. The fraud typically involves someone gathering enough personal information about you to file a phony tax return and claim a refund. They file the return early in the tax season and hope that the IRS will issue them your refund before you file. When you do file, your return is delayed until the IRS can verify that you are the correct filer. The IRS has deadlines for you, but they don't have deadlines to help you, and the process can take six months or more for them to accept your return and send out your refund. Then, in subsequent years, you'll need to use an IRS issued six digit PIN number when you file.

The IRS has acknowledged the problem but, based on our experience with clients and talking with other CPAs, they haven't admitted how widespread it is. Much of the fraud is committed using online software products like TurboTax or H&R Block and the IRS is working with them to try to reduce the fraud. Beginning this tax filing season, these firms will report more information to the IRS about where the return was filed from and how long it took to prepare the return. It's hoped that this will help the IRS identify the scammers that file multiple returns with an automated process.

If you file your own return using online software, expect more rigorous security measures this year including better passwords, a limit on unsuccessful log-ins and more security questions. You may also need to retrieve a PIN sent to your phone or e-mail address. These security features are pretty familiar to most people that use the web so they shouldn't make filing much more difficult. And it's nice to see the IRS starting to treat your tax refund and private information like the financial institutions have for years.

[VINTAGE] FINANCIAL SERVICES, LLC

101 North Main Street, Suite 800
Ann Arbor, MI 48104

Presorted Standard
U.S. POSTAGE
PAID
ANN ARBOR, MI
PERMIT NO. 898

On the [MONEY]

INSIDE THIS ISSUE: