



“Why are bond yields slumping despite hotter inflation figures? US markets are awash with liquidity coming in from overseas. With sovereign debt interest rates in many overseas countries still negative, US debt continues to look very attractive. Continued monetary accommodation overseas is forecast, as just yesterday the ECB said it would continue to make big debt purchases. However, wasn’t all this true back in March, when the 10-year bond yield soared to 1.74%? The inflation we have seen is increasingly being viewed as transitory, not permanent, so is of less import. For example, Wall Street points to the 12% rise in used car prices and says that’s not sustainable, nor are the big hikes in things like airfares and blouses. However, the core CPI is also rising.”

*David Dietze, JD, CFA, CFP
Bloomberg, June 11, 2021*

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Want More Income? Consider These Strategies!

By David G. Dietze, JD, CFA, CFP™
Managing Principal, Senior Portfolio Strategist

Call it what you will, a distribution, paycheck replacement, cash flow, dividends, interest, distribution, but the goal of all investing is ultimately to create a regular payout from your nest egg, either now or at some future time, typically retirement.

Creating that payout has never been more challenging. The current yield on the ten-year US Government bond is less than 1.5%. Not only is that a small absolute payout, but given that expected inflation is 2.4%, the “real,” meaning after inflation, payout is nearly a negative 1%.

Hunt for Income or Focus on Total Return?

A myopic focus on income is no longer best practice. First, there is very little income, as evidenced by the current yield on US Government debt. Greater income payout will rarely come without increasing your risk.

The days when dusty legal documents governed distributions from portfolios, limiting payouts to the “income from the corpus,” are mostly gone, giving investment managers more leeway to invest for total return. Total return is the combination of capital appreciation and income.

We believe the best practice is to focus on total return, constructing a portfolio with a strategic mix of both risk assets as well as less risky assets.

To satisfy distribution needs, simply create *“A myopic focus on income is no longer best practice”*

a cash flow by carefully trimming from various assets so that, when coupled with traditional income generated, the desired

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Want More Income? Consider These Strategies... continued from page 1

payout is available. The advent of commission free trading has facilitated this process.

Tips and Traps When Looking for Income

Even when focusing on total return, the income portion is important. Typically, a security that generates income will be less volatile, as investors will gravitate to the regular distributions in periods of uncertainty. Capital appreciation, while profitable, is less predictable; income producing securities reduce uncertainty.

More income would seem to be better than less income, but assume that if there's more reward, there's more risk. There are three key types of risk: credit, interest rate and inflation.

Credit risk is straightforward. A higher yield is of not much use if you're not paid. Check the credit ratings and the finances of anyone you lend money to.

Interest rate risk is more subtle. Generally, the longer dated the debt instrument, the greater the yield. That's why if you lend money to the US Government for two years your yield is just 0.15% but for ten years it will be 1.5%.

The higher rate compensates you for the longer wait before your money is returned. The longer the wait, the greater the risk of factors like inflation.

Inflation risk is a third risk, close kin to interest rate risk. Yields normally reflect the expected erosion of purchasing power from the time you make the loan or invest in the bond until the time you are repaid.

Be on the lookout for other risks, too. Cross border transactions can create exchange risk, meaning the value of the

"Best practice is to focus on total return constructing a portfolio with both risk assets as well as less risky assets"

currency returned to you is not what you expected. Some credit instruments allow for prepayment, which is almost always exercised when interest rates drop below what the security is yielding. Liquidity risk can crop up during periods of market volatility, making it difficult and or expensive to sell your bond.

Why High-Quality Bonds Belong in Every Portfolio

Diversification 101 calls for every investor having some bonds in their portfolio. We believe high quality bonds best offset risk assets and their volatility. These are bonds that investors will flock to during periods of stock market turmoil. Credit quality should not be an issue.

Low quality bonds, while they may yield more, typically move with risk assets like stocks when markets are down. For example, in 2008, high yield (a/k/a junk bonds) declined 26%, while the



S&P 500 tumbled 37%. Yet, high quality bonds, as reflected in the Barclay's Aggregate, gained, including income, over 5%. To hedge the risk of stocks, diversify over high quality fixed income.

Some investors object because the yields are so low now. True, but view it as a type of insurance for your portfolio. Just as you hope you don't have to make a claim on your auto insurance policy, you hope that those bonds are not where you are going to outperform. You're not going to go without that

insurance even though yields are low, any more than you'll drive without insurance because you view the premium as too expensive.

It's Not the Yield, But the Yield After Tax

Most fixed income, like Government bonds, CDs, and corporate bonds, are taxed as ordinary income, at an investor's highest marginal rate.

As a result, we advise most clients to hold their fixed income in their tax-sheltered accounts, like their IRAs and 401Ks, and to hold equities in taxable accounts. The fixed income payout in an IRA is tax deferred. The long-term gains of most equities and their dividends are taxed at preferential rates, nearly half of what an investor pays on ordinary income, but only if held in a taxable account.

If fixed income must be held in a taxable account, begin by examining tax exempt municipals. Their payouts are free from Federal tax and if issued by a jurisdiction in the state where the investor lives, state taxes, also.

Are Dividend Paying Stocks the New Bonds?

Generating income from a portfolio of dividend paying stocks is a tried and true method of developing regular cash flow and beating the market. Over a recent near 50-year period, dividend paying S&P 500 companies outperformed the equal weighted S&P 500 by nearly 1.5% per year. Nonpayers lagged by nearly 5% annually.

Unlike the fixed income from bonds, dividends historically keep rising, potentially allowing your income to keep up with or even outpace inflation.

What's not to like? Can dividend paying stocks replace your high-quality fixed income you have as a hedge? No.

The risk level with stocks, even dividend payors, is much greater. Dividends are not contractually required, can be cut or eliminated at will, and can only be paid after a company's more senior stakeholders, like its bond owners, have been paid in full.

Even among your stocks, you shouldn't just own dividend

Time to Rethink Your Health Insurance

By Claire E. Toth, JD, MLT, CFP™, Managing Principal, Senior Wealth Strategist

If you get your healthcare coverage through your workplace, open season will be on you sooner than you realize. Open season allows employees to change both healthcare plans and contribution levels to healthcare or flexible spending accounts. Take the time now to determine if you are better off with a high deductible/health savings account combination, or if a more traditional plan makes sense for you and your family.

The Basics. Over the past couple of decades, we've gotten used to the PPO/POS/HMO insurance model: There is a network of participating providers. Most doctor's visits and prescriptions require co-pays. There are out-of-pocket costs for emergency room visits, hospital stays, and outpatient procedures. You may need a referral to see a specialist. So long as you stay within your network, costs are known.

Typically, your employer subsidizes insurance premiums, a nontaxable benefit. There are no formal regulations around the availability and size of employer subsidies; on average, larger employers subsidize 80 percent of an individual employee's premiums and 70 percent of family members. However, those subsidies vary wildly, both in percentages and in whether they cover family members. Employees are responsible for any premium not paid by the employer; those premiums are paid with after-tax dollars.

Along with these plans, your employer may offer a Flexible Spending Account (FSA). An FSA allows the employee to contribute pre-tax dollars to pay expenses not covered by the employer's insurance plan. Here, tax free really means tax free: FSA contributions (unlike 401k contributions) are not subject to Social Security or Medicare taxes.

You can use your FSA to pay expenses including co-pays, out-of-pocket costs, both over-the-counter and prescription drug costs, and the like. The 2021 FSA contribution limit—for any employee—is \$2,750. You select the contribution amount during open season and usually cannot change it during the year. Your employer may permit you to carry forward as much as \$550 of an unused FSA to the following year—anything else is gone. As a result, December tends to be a big sales month for prescription eyewear and over-the-counter medication. Further, if you leave your job with an unused FSA balance, it may disappear.

High Deductible Healthcare Plans. Your employer may also allow you to enroll in a High Deductible Healthcare Plan (HDHP). These plans



are required to have specific, higher limits on your potential deductible and out-of-pocket costs. For 2021, the deductibles must be at least \$1,400 for an individual and \$2,800 for a family and no more than \$3,600 and \$7,200, respectively. The maximum out-of-pocket costs (including the deductible) may not exceed \$7,000 and \$14,000, respectively. The tradeoff for these potentially higher expenses is lower premiums and the ability to participate in a Health Savings Account—often with an employer contribution.

Along with lower premiums, some—but not all—HDHPs allow you to open a Health Savings Account (HSA). This is the big selling point and is critical in helping an HDHP make economic sense. Think of the HSA as a souped-up FSA. You can use it to pay for the same qualified medical expenses. Your contributions are pre-tax and escape Social Security and Medicare taxes.

However, an HSA can do far more than an FSA. You can contribute more—\$3,600 for an individual plan and \$7,200 for a family plan (plus an additional \$1,000 if you are at least age 55). Your employer may contribute as well—up to \$750 for an individual plan and \$1,500 for a family plan. Unlike an FSA, HSA balances don't expire at year end and are portable between employers. If you retire with a balance, you can use your HSA to pay retirement health care costs.

If you use your HSA for healthcare in retirement, withdrawals remain tax free. Withdrawals after age 64 for non-healthcare costs are taxable. Before age 65, those withdrawals also incur a ten percent penalty. Essentially, your HSA can enhance your retirement savings. Moreover, you can invest HSA funds before spending them. Your employer has a default custodian for your HSAs, and in order to receive the employer contribution you must use that custodian until you leave your job. Once you do move on, you can use the custodian of your choice.

Making the Decision. Received wisdom says young, healthy employees are better off with the HDHP/HSA combination. It's more nuanced than that. Calculators exist; many ask for inputs such as the full cost of doctor's appointments or prescription drugs. You likely have no clue about those numbers and would probably stop the analysis there.

An alternative method is to compare your costs under the two alternatives, assuming you use your full deductible. A couple of real-world examples may help.

Young and Single: Eleanor needs only cover herself. Her employer offers a PPO with an annual deductible of \$500 and a maximum out-of-pocket (including the deductible) of \$2,000.



Claire E. Toth, JD, MLT, CFP

Equity vs Debt: Understanding the Capital Structure

By Fritz Schoenhut, MST, CFA, Managing Director

Many of us invest in stocks or bonds of companies but may not fully understand the bigger picture of where these investments came from in the first place. Why does a company issue stock and bonds and what are the implications and considerations for each? What is a corporation's capital structure and why does it matter? How does the mix of equity and debt on a corporation's balance sheet impact the value of the company and the investments we make?

This article will give a brief overview of a corporation's capital structure and the difference between equity and debt.



in its operating environment or sales and cash flow could throw into question the company's ability to pay off its debts, decreasing the value of your investment. So, while it may be prudent for a company to borrow from investors by issuing debt, it is important to see the bigger picture of the business and understand how much risk the company is taking on based on its capital structure and the norm for its industry and peers.

Equity

As mentioned previously, equity represents ownership of a company. Consider it the value of the cash remaining after all its assets have been liquidated and liabilities paid. How does this relate to stock shares sold on exchanges around the world? From an investment perspective, stocks could be considered the current and future earnings potential of the company. Each share represents a small claim to those future earnings. This is why stock prices move up and down when news of the company hits the wire – investors are quick to make a determination if the stock is overvalued (and thus may sell the stock and decrease its price) or undervalued (buying pressure would raise prices).

A company may decide to sell a percentage of its ownership to investors in the form of stock in exchange for cash. Further, there are several classifications of stock; the most prevalent are common stock and preferred stock. Common stock is much more widely followed and the prices of which flash across the screen on your favorite financial news network. It represents a true equity stake in the firm and typically comes with the right to vote in elections determining corporate governance matters. Additionally, common stockholders can receive a share of annual profits – dividends – but only after interest has been paid to bond holders and payments have been made to holders of preferred stock. Preferred stockholders own a fixed claim on future profits, but it is still not a debt that must be repaid by the company. Thus, preferred stockholders have higher claims to any profits and proceeds than common stockholders but lower claims than a company's creditors.

What is a corporation's capital structure and why does it matter?

Debt

Earlier in the article I gave the example of a company issuing debt to fund its business as it expands. Just as a home mortgage is a debt that must be paid back at some point in the future, so too is corporate debt an IOU given from a company to an investor. In return, the investors earn an interest rate for a fixed period until the debt is repaid.

Just as there are multiple types of equity, so too are there several classifications of debt in a company's capital structure. There is unsecured debt, which is a general obligation of the company to repay, and secured debt, where a specific asset or cash flow is pledged as collateral to assure repayment. Additionally, there is senior and junior debt, with senior debt having a higher priority over junior

The Capital Structure

The capital structure of a corporation is the mixture of equity and debt that it uses to fund its operations and growth. As a company expands – perhaps building a new plant in another country or buying additional equipment to keep up with increasing demand for products – it may require additional capital to fund its expansion. The leaders of the company (e.g. CEO, CFO, Board of Directors) then can decide on which of two different paths to

It's crucial to understand the financial wellbeing of a company prior to making any investment.

take. They can either raise cash by selling an ownership stake in the company, or equity, to investors, or they can

borrow the funds from investors with clear rules for repayments. The latter would be considered debt issued by the company.

Before jumping into the specifics of equity and debt, let us consider why this is important to us as investors. It's crucial to understand the financial wellbeing of a company prior to making any investment. When looking at a company's balance sheet, we see the assets of the business followed by the liabilities or debt the company holds as well as the equity. Unlike being saddled with personal debt like high-interest rate credit card loans and expensive mortgages, debt on a company's balance sheet is not necessarily a bad thing. When interest rates are low as they are in the current environment, it may be advantageous to issue debt at reduced interest rates to fund operations or even pay off older and more expensive debt. In this scenario, debt may be a cheaper form of liquidity than selling equity or ownership in the company, allowing it to retain a higher percentage of profit and control.



Fritz Schoenhut, MST, CFA

To Roll Over or Not Roll Over Your 401K

By Donna St. Amant, MBA, Managing Director

Investors have options when deciding what to do with an employer sponsored 401k after leaving the company. One option is to leave it in place with the old employer and continuing to have the same institution manage the existing funds even though no new monies will be invested. Another choice is to roll the funds into an existing or new individual rollover IRA, or to roll it into a new employer's 401k plan.

All of these are viable options, but when faced with the decision of whether to roll it out of the old company or leave it, in most cases the roll out is the way to go. The best choice would be to roll into an individual IRA, but even rolling it to your new company plan is better than leaving it behind. There are a couple of exceptions to this general rule, but first consider the distinct advantages of rolling over to an IRA.

Range of Investment alternatives. IRAs provide more flexible investment choices. 401k plans typically offer only mutual funds whereas the IRA allows for many options,

“As to whether to roll it out or leave it, in most cases the roll out is the way to go”

including purchasing individual securities. An investor can choose from actively managed funds, individual securities, or low-cost index funds. The IRA also offers greater flexibility when managing and trading in the account.

Consolidation is a key benefit. Rolling over funds allows you to consolidate multiple 401ks and/or IRAs into one retirement account. This allows for ease in managing the investments and is a huge benefit when coordinating complex required minimum distribution (RMD) rules upon turning 72.

Lower fees. No matter what the investment choice, fees are often lower in an IRA. Company plans charge a fee for administering the plan and at times identical funds have a higher fee when offered through a corporate sponsored 401k plan.

Roth Option. Once rolled into an IRA, investors have the option to convert funds to a Roth IRA. Taxes are due on any funds converted; however, these funds will continue

to grow tax-free and there will no tax due when the funds are eventually withdrawn. With the Roth there is no RMD so it affords more flexibility for individuals who may not need to use the money until well past age 72. The funds can remain in the Roth indefinitely and continue the tax-free growth. It is beneficial to have different buckets of funds to withdraw from, some



Donna St. Amant, MBA



taxable and some not, for more flexibility in retirement. Careful consideration should be given to the tax implications and timing of a conversion, but for some it can be an attractive option.

Flexible Withdrawal Options. Not all but some 401k plans force an individual to either withdraw the entire balance or leave the money where it is. Alternatively, plans may offer quarterly or monthly installment

withdrawals. A number of plan administrators don't allow you to specify which investments to sell, but rather deduct funds equally from all of the investments in your account. In an IRA the investor can direct exactly how much to take, from which specific holding and can make qualified withdrawals at any time. In addition, when taking RMDs you can mix and match amount your IRAs, but you must take each 401k RMD only from that particular 401k account.

Tax efficiency. Both accounts do offer the tax-deferred benefit. When executing a rollover, ensuring that the funds move directly to the IRA is critical. The key element to a Rollover IRA is that funds move without a tax penalty if done properly. The terms indirect and direct

“No matter what the investment choices, fees are often lower in an IRA”

rollover are used frequently, but it is critical to understand the difference. Direct rollovers are the preferred way to move the money. Funds go directly from the employer-sponsored 401k into a rollover IRA, without penalty. No taxes are due or withheld. When an individual chooses a direct rollover, the tax deferred status of the investments remains intact.

An indirect rollover means that funds are payable to the individual. The employer is then required to withhold 20% for taxes. The individual takes receipt of the funds and has sixty days to deposit those funds into an IRA and make up the 20% that was withheld. Otherwise, this will be considered a taxable distribution. If under age 59 1/2, the individual may be subject to an additional 10% penalty.

In some cases, an individual may choose an indirect transfer to have use of the money for sixty days. If this is the case, it is important to pay close attention to the rules around this type of transfer and be cognizant of the tax ramifications. For example, the IRS allows an indirect rollover only once per 12-month period. If an individual rolls out a 401k into two different financial institutions the IRS would consider this two rollovers, and one would become taxable. Another snag in this scenario is that this is now considered a taxable withdrawal from the IRA, it will be deemed a regular contribution when the funds are rolled into the new IRA. It would likely exceed the IRA contribution limits, thus triggering an excess

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Raising Investment Savvy Teenagers

By Elaine F. Phipps, MBA, CFA, Managing Director

Parents confront many challenges during the tween and early teen years. As a result, educating our children about investing often falls through the cracks. While our children have watched us interact with money throughout their young lives, the examples have been more transactional. They have learned how to pay for groceries, distinguish different dollar bill denominations, and count change. You likely have discussed budgeting with them, as well as suggested rules for how to divide their allowance between an emergency fund, longer-term savings, and impulse spending. When the teen years approach, their relationship with money becomes more personal and aspirational. While they likely know that savings is important, the next leap for them is to understand that true wealth is accumulated through investment.

Time is on their side in terms of compounding and market performance. The younger you are the more time there is for your money to grow. To become good investors, they need to learn this mantra and practice.

Be a good example with real life decisions – continue to teach them every day and connect decisions to investment choices. The expensive hair product your daughter needs can

“The next leap for teens is to understand that true wealth is accumulated through investment.”

can open a discussion about interest costs and the consequences. Seeing a news story about rising inflation makes them think about firms that do well in an uncertain economic environment. Watching you make and explain thoughtful financial decisions is a powerful learning tool.

Teach them the basics – investing can be daunting and requires a new vocabulary and skill set. Stocks, bonds, mortgages, mutual funds, compound interest – these are all



Elaine F. Phipps, MBA, CFA



start a conversation about the merits of that company and its potential as an investment. Using cash for a purchase instead of putting it on a credit card

words that your young teen may not be familiar with. Start with the basic concepts of risk and reward then incorporate the definitions of stocks and bonds to bring that point home. Kids may be familiar with their savings account at the local bank, but what happens in the financial markets is a great unknown. While savings accounts are important, teens should understand that wealth grows through

investment, and the earlier they learn the fundamentals the better.

Make investing a family activity - we are all familiar with family game night, so explore a family investing night. Go over the financial headlines that are dominating the news. Discuss products you use, fashions they like, foods they can't live without and where their friends go for entertainment. After researching these companies, design a sample portfolio to track the performance

of the stocks. There is a high likelihood they will become very knowledgeable about those stock prices, especially in relation to other family members' picks. Sibling rivalry can be a good teaching strategy.

Invest in companies they understand and care about - while starting a portfolio with diversified mutual funds can be a good idea, they will learn so much more from investing in companies they understand and support.

It could be a retail chain they shop at, a restaurant they eat at, or a sneaker company whose shoes adorn their closet. They will know the products, new concepts being launched, and how their peers value what the company produces. They can be the eyes of the consumer with their expertise and specific knowledge, a possible competitive advantage.

“The younger you are the more time there is for your money to grow.”

Help them set longer-term financial goals – good outcomes in life often start with a plan. When they were younger it might have been a simple want such as buying a new video game on release day or saving for a car when they graduate high school. It is harder to get a teen to appreciate longer-term goals, such as the joys of retirement, before he has even started a job. Try and focus them on the bigger goals and the freedom wealth can afford them. Adult examples are vacations, a nice apartment, and a first home. They may also be interested in reading about the Financial Independence, Retire Early movement (F.I.R.E) as a motivator. The goal is to imagine bigger lifetime goals, beyond the video game they want to buy this week.

Explain the need for diversification - we discussed the idea of buying shares of stock in a company they understand and like, but teens should also be familiar with how to spread risk around. Just as they wouldn't want to eat the same food every day – they wouldn't want to own just one company or have only stock and no cash. They need to understand risk and why not diversifying is a dangerous strategy. Teach them about diversification among investments through asset allocation – how to divvy up a nest egg between stocks, bonds, and cash. Go a step further and discuss sector and industry classifications and

Time to Rethink Your Health Insurance

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Her bi-weekly cost is \$116. Alternatively, Eleanor can enroll in an HDHP for \$69 every two weeks. The annual deductible is \$1,500 (out of pocket maximum of \$2,500), and her employer will contribute \$750 to Eleanor's HSA. Here's how the math stacks up:

| | PPO | HDHP |
|------------------------------|---------|---------|
| Deductible | \$500 | \$1,500 |
| Additional Out of Pocket | \$1,500 | \$1,000 |
| Annualized Premium | \$3,016 | \$1,794 |
| Employer HSA Contribution | | (\$750) |
| Eleanor's Total Maximum Cost | \$5,016 | \$3,544 |

Even if Eleanor is a heavy healthcare user, she saves using the HDHP/HSA combination. If she were to use her entire deductible but not incur additional out-of-pocket costs, she'd still save with the HDHP/HSA: that is \$2,544 for the HDHP/HSA versus \$3,516 for the PPO.

Older with Family: Faith covers her spouse and children on her health insurance. Further, her employer's premium subsidies are less generous. Because Faith is comparing family plans, her employer will contribute \$1,500 to an HSA. Here are Faith's choices:

| | PPO | HDHP |
|----------------------------|-------------|-------------|
| Deductible | \$1,000 | \$5,000 |
| Additional Out of Pocket | \$7,000 | \$7,000 |
| Annualized Premium | \$11,443.80 | \$10,804.04 |
| Employer HSA Contribution | | (\$1,500) |
| Faith's Total Maximum Cost | \$19,443.80 | \$21,304.04 |

For Faith, the large difference in the deductibles along with the small difference in the premiums militate for the PPO.

HSA Considerations. If the HDHP/HSA combination appeals, there are a few other variables to consider. First, once you turn 65 and register for Medicare, you are no longer able to contribute to an HSA. If you continue in the workforce after age 65, be certain you understand your Medicare registration requirements and how those affect your employer-provided health insurance.

As noted above, to receive an employer contribution to your HSA, you must use your employer's custodian. Take a good look at that—many custodians are owned by insurance companies. They may come with high fees, limited investment choices, and unattractive returns. This is more of an issue if you intend to build up your HSA for retirement, and it can make the HDHP/HSA combination less economical.

■ Contact Claire at cloth@pgbank.com

To Roll Over or Not Roll Over Your 401K

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contribution tax.

Given these aspects, it makes the most sense to choose a direct rollover. These are considered trustee to trustee transfers and the funds are never in the hands of the individual. This is the cleanest way to go.

When Not to Roll Over

There are a few circumstances where there may be a better option than rolling all of the funds directly to an IRA.

Holding Appreciated Stock in the 401k. An important consideration when making the decision to rollover 401k assets is the ownership of company stock. Individuals who hold company stock within a 401k are potentially eligible for a tax break under the Net Unrealized Appreciation rule. There are specific rules that apply in order to qualify for the tax break, so it is wise to consult with a tax professional. In general, if you are rolling over your entire 401k and you hold highly appreciated company stock, you can realize a tax savings on the unrealized gain in the stock by using this strategy.

"The younger you are the more time there is for your money to grow."

The company stock is transferred in kind to a taxable account, and the remaining retirement assets are rolled over to an IRA. The IRA funds maintain their tax deferred status. Ordinary income taxes are due on the company stock that was deposited into the taxable account; however, the tax only applies to the amount equal to your cost basis in the stock (i.e., its value when the 401k acquired it). This value is reported by your company.

Any value above what you paid for the stock is considered the unrealized gain. Unrealized gains on the stock are taxed at the more favorable capital gains rate, even if the stock is sold immediately. Those rates are about half the rates applicable to IRA withdrawals. If you choose not to sell the stock immediately, it becomes like any other taxable investment. There is no RMD, and capital gains taxes will apply when you eventually decide to liquidate the stock. When there is substantial appreciation in the company stock, this can amount to significant tax savings.

"Individuals who hold company stock within a 401k are potentially eligible for a tax break"

Age/Employment Status. Another factor to consider before rolling out a 401k is your age and if you are still working. If you are age 72 or older, you will have to begin taking RMDs from a traditional IRA. If you are still employed, you typically don't have to take RMDs from your current 401k and therefore you could roll over an old 401k into the new plan and protect those assets from RMDs as well.

■ Contact Donna at dstamant@pgbank.com

Want More Income? Consider These Strategies!

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payors. Dividends are just one use of company profits; companies may be better off using excess cash flow to pay down debt, buy back stock, buy other companies, or simply invest in their businesses. A dividend payment merely moves money from one of your pockets, your stock portfolio, to your other pocket, holding your cash.

While most dividends are treated lightly under our tax law, an investor can come out even better taxwise by focusing on companies generating superior capital gains. Strategically trim those gains when cash flow is needed.

Selectively selling stocks can create "home grown" dividends, an approach we advocate for flexibility and tax efficiency.

■ Contact David at ddietze@pgbank.com

Raising Investment Savvy Teenagers

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the need to further spread that risk around. Just because you are an expert in what stores are popular, you never want to own all retail stocks in case the economy slows. They may not be familiar with their parents' vintage adage of not putting all your eggs in one basket, but you can deliver the point.

Understand the long-term – It is hard to think long-term when you are just entering the double digits of age, but investing should be taught as the long game.

"Investing can be daunting and requires a new vocabulary and skill set."

Invest money that you don't need now and adopt a buy and hold approach that has been key to successful investors. You can teach them about Peter Lynch and Warren Buffett or buy their books as a gift. Discourage the Robinhood and Reddit day trading and meme philosophy, even though that is what teens read in the headlines.

Acquaint them with compounding – nothing teaches teens the power of time and patience more than the concept of compounding. There are numerous online tools to show the power of compounding returns, or how much \$10 invested today may be worth in 10 years. There is also the Rule of 72, which teens might appreciate as a cool mathematical tool to calculate how long it takes you to double your money at a given return rate. Concrete examples of when your teen may become a millionaire are priceless!

"Teach them about diversification among investments through asset allocation."

Reinforce saving and investing as a habit – your teen should open a brokerage account and a Roth 401K if they have earned income. Make a portion of each paycheck go into their general savings account, the investment/brokerage account, and the IRA. Parents can even match what the child puts into the Roth if the total contribution is within IRS limits. Then encourage them to invest the funds. Dollar cost averaging is the concept of buying a little bit each month. This way they are less likely to buy or sell everything at the wrong time should the market exhibit volatility. Savings and investing should become as rote a habit as brushing their teeth, assuming they follow that suggestion!

■ Contact Elaine at ephilips@pgbank.com

Equity vs Debt: Understanding the Capital Structure

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debt, though each takes priority over common and preferred equity.

No two debt securities are the same. A company with a higher amount of debt on its balance sheet relative to another company may be deemed riskier, and likely investors would require a higher interest payment to take on that risk. A company may be looking to borrow for three years while another may be looking to borrow for much longer, depending on when the company expects to be able to pay off the borrowing. All these factors come in to play when an investor determines the riskiness of a specific bond offering and if the investment is worth taking.

Debt and equity are pivotal to a company and provide much needed flexibility as leaders determine how best to support the operations and growth of their business. Both means of raising capital have their benefits and costs, but it is likely that a corporation will utilize both to build out its capital structure. As investors, it is important to understand what the implications may be for our investments in stocks or bonds of a corporation and the risks we may be taking on. ■ Contact Fritz at fscheonhut@pgbank.com

At Peapack Private, we consider education to be an important part of what we do, both for our clients and for the public overall. That's why we regularly speak to local and national media, why we contribute articles to leading publications, and why we volunteer our time to professional organizations.

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IMPORTANT: This information should not be construed as tax or legal advice. Please consult your attorney or tax professional before pursuing any of the strategies described above.

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