REFLECTIONS

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WINDGATE
WEALTH MANAGEMENT

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DOL'S FIDUCIARY STANDARD RULE A WIN FOR INVESTORS

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Financial industry catches up to require that retirement advisors put the interests of their clients ahead of their own

On April 6, 2016, the world of professional financial advice was dramatically reshaped in favor of retirement investors. The Department of Labor (DOL) issued new rules requiring retirement advisors to abide by a "Fiduciary" standard. This significant change means that retirement advisors must now put the best interests of their clients ahead of their own.

"Fiduci-what?" you may find yourself saying. But even if you aren't familiar with the term you have felt its meaning: Windgate Wealth Management has operated as a fiduciary since the firm's beginning in 1987. The distinction is an important but simple one: a fiduciary puts clients at the center of the relationship. A salesperson, or non-fiduciary, puts products at the center of what they do.

INSIDE THIS ISSUE

If you have any questions or comments, or if you know of any friends or family that might benefit from our services, please give us a call at 844.377.4963

Your Account Online

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

Connect with us on LinkedIn

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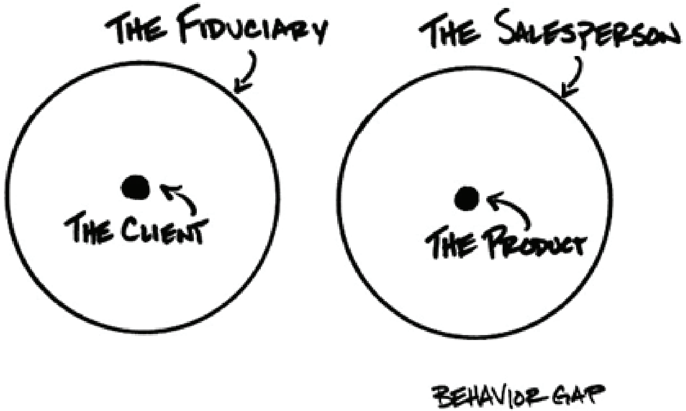


A fiduciary puts clients at the center of the relationship. A salesperson, or non-fiduciary, puts products at the center of what they do.

This sketch plainly demonstrates the difference between a fiduciary and a salesperson. For a fiduciary advisor, any course of action should be based on you making progress toward your goals, not the product that drives the most compensation.

Imagine how you would feel if you walked into a Dr.'s office and they handed you a prescription without doing any tests or asking a single question? A fiduciary, like a physician, has no agenda other than to make sure that they understand what you need before they make a recommendation.

Unfortunately, our way of doing business with you hasn't always been the norm for the financial industry. The basic rules governing retirement investing advice has not been meaningfully changed since 1975. Before the DOL's new rule, many investment firms were allowed to recommend poor investments with high costs and low returns, while benefiting from backdoor payments and hidden fees. The impact on investors is real: these conflicts of interest cost investors about $17 billion per year, according to a White House Council of Economic Advisers analysis.

DOL'S FIDUCIARY STANDARD RULE A WIN FOR INVESTORS (CONTINUED)

The requirement that all retirement advisors act in their clients' best interest is good for investors and for the financial industry as a whole.

It is good to see that our industry is finally catching up to require more advisors to act in the best interests of investors. The DOL's ruling goes into effect in April 2017 and should continue to be in the news in the coming year. As we already operate as a fiduciary, the DOL ruling has no effect on your financial plans or how we work as partners. But as firms shake up their business models to meet new fiduciary requirements, it may impact your family or friends. Should the discussion turn to investing and anyone seeks your opinion, we strongly recommend you ask them one simple question: is your advisor a Fiduciary?

When the topic of investing comes up with your friends and family, we strongly recommend you ask them one simple question:

Is your advisor a Fiduciary?

THE UP SIDE OF DOWN: STOCK MARKET DECLINES AND ANNUAL RETURNS

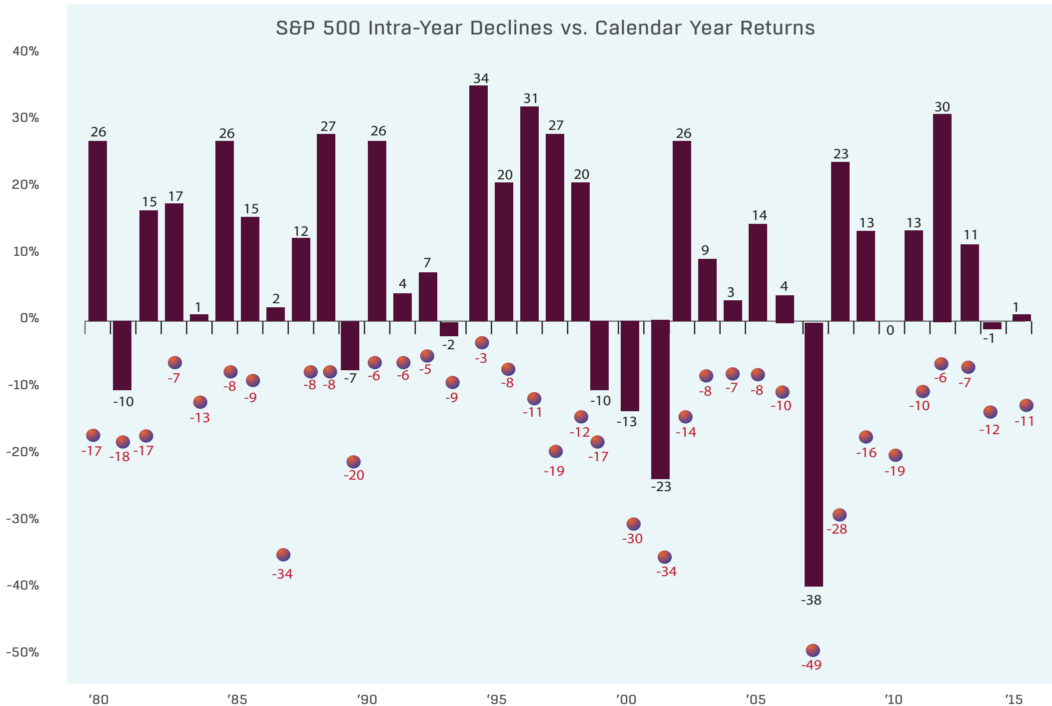
How was your last vacation? You might remember the beach, a walking tour of the city, or just being with family members. Good answer! But what about the plane that was delayed, the sandals you forgot to pack, or the wrong turn you took near the hotel entrance. If someone asks you about your trip and you begin describing all these difficulties, chances are you won't be getting asked again.

Unfortunately, as investors this is often exactly how we think. With investing, we are more likely to remember the setbacks than the joy of achieving our gains. So you may not be surprised – or your market anxieties may be confirmed – to learn that market declines do occur each and every year, as seen in the table on page 6.   But they also provide us with a historical perspective about what investors can do to be successful.

The table on page 6 shows the intra-year max decline of the S&P 500 Index for each of the last 35 years. The red dots show the largest peak-to-trough drop during the year, and the black bars show the year's eventual total return. The good news? Despite average intra-year drops of 14.2%, annual returns have been positive in 27 of 35 years.

Notice that in several of the years the intra-year decline was steep, but annual returns were still positive. For example, 1980 saw an intra-year drop of 17%, 1998 saw an intra-year drop of 19%, and 2003 saw an intra-year drop of 14% — and yet all three years saw positive returns. The takeaway: don't panic in a bad year…it's likely time to buy ahead of a rebound that is just around the corner.

THE UP SIDE OF DOWN: (CONTINUED)



Source: J.P. Morgan Asset Management.
Returns are based on price index only and do not include dividends. Intra-year drops refer to the largest market drops from a peak to a trough during the year.
For illustrative purposes only. *Returns shown are calendar year returns from 1980 to 2015, except for 2016 which is YTD.
Data as of March 31, 2016.

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Market fluctuations are a normal part of stock market investing, and past performance of the S&P 500 isn't guaranteed in the future. However, if you understand that fluctuations are to be expected, you will be better prepared to stick to your investment plan.

Here are five ways to make market fluctuations work for you rather than against you:

- Don't sell during a market downturn – a rebound could be just around the corner.
- Commit to rebalancing and adding to your investments in stocks during market corrections.
- Keep a diversified portfolio that will not fall as much during market downturns, to keep you from selling in a panic.
- Learn to expect and accept market volatility.
- Take a long-term perspective – It may not be easy, but think like a vacationer: those able to focus on long-term gains will have a much more satisfying story to tell.

4 MISTAKES TO AVOID WITH YOUR COMPANY STOCK OPTION PLAN

Participating in your company stock option plan can be a great source of wealth. But stock option plans are often complex, and the consequences for making a mistake can be substantial. You could face a large, unexpected tax bill, take on unnecessary risk, or lose the right to exercise your options entirely.

Make sure you maximize your stock option benefits by avoiding these four mistakes:

Don't Always Choose In-The-Money Options Over Stock

Stock options are more risky than common stock. And yet, when it comes time to diversify by selling company stock, some people choose to hold on to the riskier options over regular common stock. While options carry significant upside leverage, remember that they are a use-it-or-lose-it proposition. If your options expire below the exercise price during a downturn, they're worthless. Company stock can recover over time. Options don't.

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Company stock options are also subject to different tax rules. Stocks held for more than a year will be subject to lower capital gains tax. But depending on the type of option, you could pay ordinary income tax, alternative minimum tax, or capital gains rates. Common shares also may pay a dividend, whereas options never will.

Don't Skip on Making A Strategy

Many employees simply believe that their company stock will perpetually increase in value, so they wait until the last minute to exercise their options to make the most off the option. This wait-until-later approach can be a bad idea. If something happens at the last minute -- from a paperwork delay, getting caught in a "quiet-period," or just forgetting the deadline -- you'll lose the chance to exercise altogether.

Also consider the tax implications of your decision as well. Exercising your options is a taxable event. The IRS considers the difference between the current fair market value and your exercise price as income, either as ordinary income (for a Non-qualified Stock Option) or as an AMT item (for Incentive Stock Options).

Keep track of your options' expiration dates and develop an exercise plan for them at least a year in advance, giving you time to project cash flow and tax implications. If you can create a plan to exercise when you are in a lower tax bracket, you might make more money in the end.

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Don't Ignore Your Options When You Leave

Your company can change the terms of your options. Typically, your plan will change upon quitting or being fired from the company. You'll probably have no more than 90 days from your last day of work (not the last day of your severance package) to exercise your options. This shortened time limit gives less time for your options to appreciate in value. But if you are caught unaware, you might let your options expire altogether.

It's also possible for the stock option plan to change during company mergers and acquisitions. Your vesting schedule might be accelerated, or you might be able to immediately exercise your option. Check with your HR department so you can make the best decision for your portfolio.

Don't Forget to Consider an 83(b) Election.

A section 83(b) election is a notice you give to the IRS that you would like to be taxed on your equity (such as restricted stock options) on the date the equity was granted to you rather than on the date the equity vests. Why would you pay tax on stock before vesting? The answer is taxes.

The ability to make a section 83(b) election allows you to change the tax treatment on your option gains from ordinary income to a long-term capital gain, which is taxed at a much lower rate. The tax code rewards those who hold their investments for more than one year with discounted taxes. Currently, the highest long-term capital gains tax is 20%, versus the highest ordinary income tax rate of 39.6%. The goal of a section 83(b) election is to get as much of your gain taxed at the lower capital gains rate.

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By making a section 83(b) election, you are paying tax on the value of the shares at the time they are granted to you. All future gains between the grant date and final sale will be a considered capital gain. Normally, you only pay tax on options when they become vested to you (not granted to you); and any gain between the grant date and vesting date is taxed at ordinary income rates. So a section 83(b) election starts the clock on long-term capital gains rate right away.

Section 83(b) does have risks: if you are given large amounts of restricted stock, it creates a large tax bill and you can't sell any shares to help cover the taxes. And if the company fails or falls in value before your stock vests, you'll have paid taxes for nothing in return. But if you've been given a small amount of stock and you have reasonable confidence in your company's long term prospects, it is worth it to consider paying some tax up front and lock in the lower rates for future gains.

You must file an 83(b) election within 30 days of when you are granted the restricted company stock. The grant date is usually the date the board approves the grant, even if you don't receive the paperwork right away. Taking advantage of your company stock option plan can help you build wealth. But make sure to consult a tax professional and a financial planner to make the most of your options. You don't want to be surprised by a huge tax bill.

UNCOVERING YOUR FINANCIAL BLIND SPOTS

At Windgate Wealth Management, we are always striving to help you improve your financial life. On the following page is a visual menu of financial items that we are always ready to review with you. Even while you make progress on a financial plan or investment portfolio, it is inevitable that life will bring new developments. So as your circumstances change, remember that we are here to help advise you on possible course corrections or new opportunities along the way. Take a look at the chart on the next page – perhaps it's worth revising an old topic or starting a conversation about a new goal for the first time.

On the following page is a visual menu of financial items that we are always ready to review with you.

UNCOVERING YOUR FINANCIAL BLIND SPOTS (CONTINUED)

If you see one or more items that you would like to discuss, call us at 844-377-4963 or email sean@wind-gatewealth.com and let's talk about a plan.

Investment Planning

- Risk Awareness
- Asset Allocation
- Time Horizon
- Withdrawal Strategies
- Investment Policy Statement
- Stock Concentration
- Review Other Investments(401(k), etc.

Estate Planning and Charitable Giving

- Wills
- Power of Attorney Health Care Proxy
- Trusts
- Estate Tax Planning
- Guardians for Minor Children
- Charitable Giving and Trusts

Retirement Planning

- Retirement Goal Setting
- Social Security and Medicare
- Business Planning
- IRA Contributions and Conversions
- Employer-Sponsored Plans and 401(k)'s
- Annuities and Pensions
- RMD's and Withdrawal Strategies
- Self-Employed Retirement Plans

Risk Management and Insurance

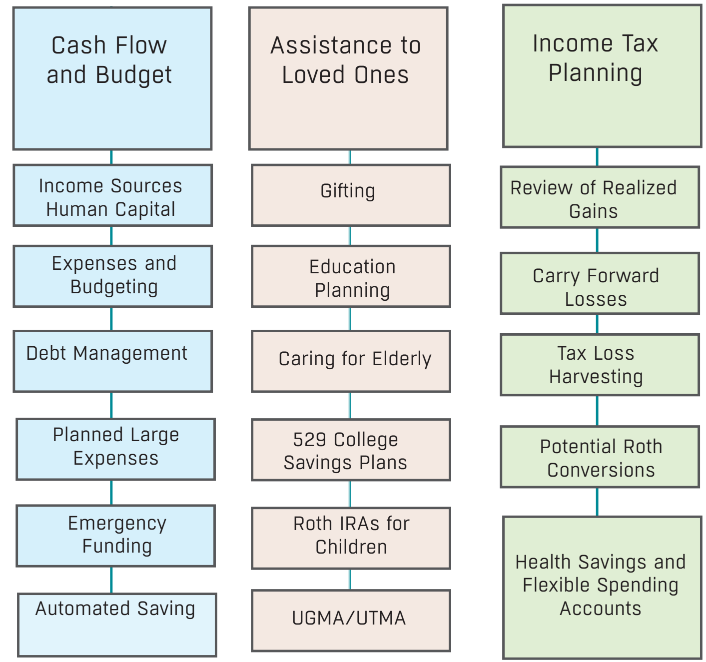
- Review of Existing Policies
- Life Insurance Needs
- Long-Term Care Insurance
- Disability Insurance
- Health Insurance
- Homeowners or Renters Insurance
- Liability Coverage

YOUR PLAN IN ACTION

One-Page Financial Plan: Goals-based financial planning with written summary of steps to take action now.

Your Quarterback: Coordinate with other professionals* that you have selected, such as your attorney and accountant, so you can maximize personal time and focus.

See All Accounts Online: No more multiple URLs and passwords. Securely connect all your accounts for viewing and store important documents (insurance policies, legal documents, tax returns) in a secure online vault.



*Any referral made by Windgate Wealth Management to a professional does not imply a recommendation.

QUOTES ON MONEY, WORK AND HUMOR

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

- "My biggest takeaway from economics is that the past wasn't as good as you remember, the present isn't as bad as you think, and the future will be better than you anticipate." - Morgan Housel
- "The only thing we know about the future is that it will be different." - Peter Drucker
- "We make a living by what we get, but we make a life by what we give." – Winston Churchill
- "Laugh and the world laughs with you, snore and you sleep alone." - Anthony Burgess
- "If investing is entertaining, if you're having fun, you're probably not making any money. Good investing is boring." George Soros

"You never know what the American public is going to do, but you know they will do it all at once." Bill Seidman, American economist

"If you want to have a better performance than the crowd, you must do things different from the crowd." Sir John Templeton

"Anyone who uses the phrase 'easy as taking candy from a baby' has never tried taking candy from a baby." - Unknown

"If the automobile had followed the same development cycle as the computer, a Rolls-Royce would today cost $100, get a million miles per gallon, and explode once a year, killing everyone inside." - Robert X. Cringely

CELEBRATING 25 YEARS

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