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**Money In Motion**

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# Avoiding Large Losses in Your Portfolio

*Rule No.1: Never lose money. Rule No.2: Never forget rule No.1." – Warren Buffett*[1]

Risk is a factor in any investment decision that you make. Your tolerance for risk is something that you will want to consider when you make decisions alongside your trusted financial professional. Your risk tolerance is balanced against your time horizon, meaning the time between now and your anticipated retirement date.

But is it possible to avoid a loss? No, not completely, but you can take steps to manage that risk when investing. This is where conversations about your risk tolerance are critical.

What would you rather have, $500 right now or a 50% chance at $2,000? Many people go for the $2,000 and rightfully so. Since you have a 50/50 chance, a decision tree shows the $2,000 answer carries a potential value of $1,000.

But let's add a few zeros and see if that changes your perspective.

What would you rather have, $50,000 right now or a 50% chance at $200,000? The decision tree says the opportunity to win $200,000 has the highest potential value. But in reality, many people second-guess that decision because $50,000 is a lot of money. (continued on page 2)


# Understanding the Alternate Valuation Date

*Is it appropriate for your estate?*

When an individual dies, the executor is faced with an important decision that has the potential to impact the taxes owed by the estate and its heirs. The executor will have the option of valuing the estate on the date of death, or on the six-month anniversary of death – the "Alternate Valuation Date."[1]

This situation assumes the deceased has a valid will and has named an executor, who is responsible for carrying out the directions of the will. If a person dies intestate, it means that a valid will has not been executed. Without a valid will, a person's property will be distributed to the heirs as defined by the state law.

Pick a Date— It may seem like an obvious decision and simple choice, but it's not. Here's why.

For estates with substantial holdings in stocks, the use of the Alternate Valuation Date may be an appropriate approach if the executor believes stock prices will be lower than they were on the date of death.

When heirs inherit assets, such as stocks, they may receive a step-up in the cost basis if the value of the asset is higher than it was when the original owner acquired it. The heir's valuation is reset to either the value on the date of the owner's death – or the value on the Alternate Valuation Date – whichever is chosen by the executor.

Market Moves—Let's take a look at a hypothetical example. Say Dad bought Out-of-Date Technologies at $10 per share several years ago. At his death, (continued on page 2)

# Understanding the Alternate Valuation Date *(continued from page 1)*

the stock was worth $35. The executor used the Alternate Valuation Date and six months later, due to market movements, the stock was worth $28.

His heir, Julie, will inherit this asset and receive a step-up in the cost basis to $28, the value declared by the estate. Let's now assume that Julie sells the stock a short-time later at $35.

If the estate had used the value on the date of death – $35 – she might not have owed capital gains tax, since she would have been selling the stock at the same price as her cost basis. But since she received the stock with the lower cost basis – $28 – because the executor chose the Alternate Valuation Date, capital gains tax on the $7 per share gain may be due.


This is a hypothetical example used for illustrative purposes only. It is not representative of any specific investment or combination of investments.

In this example, the estate saved money by electing the Alternate Valuation Date, but the heir was exposed to a lower cost basis and the prospect of paying higher capital gains tax in the future.

Consider & Balance—As the executor thinks through this balancing act, they should consider the relative prevailing tax rates for the estate and for the heirs to ascertain what approach may result in the most efficient transfer, net of taxes, to the heirs.

Keep in mind the information in this article is not intended as tax or legal advice. It may not be used for the purpose of avoiding any federal tax penalties. Please consult legal or tax professionals for specific information regarding your individual situation.

Citations

1 - thebalance.com/what-does-alternate-valuation-date-mean-3505496 [10/22/18]

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*(continued from page 1)*

Remember, there is no correct answer to the questions. They simply help you better understand the concept of risk.

Investment risk can be managed, but it can't be eliminated entirely. All investments carry some level of risk. In general, the greater the risk an investment carries, the higher its potential return.

Risk happens, but don't let it get in the way of your dreams. Ultimately, these concerns should only serve to inform you and the questions that you ask the financial professional you are working with. The conversation should include your questions about the risks for each strategy presented as well as questions from your professional about the retirement you want and the aspirations you hope to realize.

Citations

1 - finance.yahoo.com/news/warren-buffetts-investing-rule-no-154251030.html [9/5/19]

2019

YEAR-END REMINDER

## RMDs

### Required Minimum Distribution

**DEADLINE IS**

**DECEMBER 31st**

**Just what is an RMD?** After you turn 70½, the IRS requires you to withdraw some of the money in most retirement savings accounts each year. These withdrawals are officially called Required Minimum Distributions (RMDs).

If you have any questions about RMD's, we are here to help you.