4TH QUARTER 2014

HCM | Hengehold Capital Management LLC

THE QUARTERLY REPORT

Budget Checkup: Tax Time Is the Right Time

Every year, nearly 130 million U.S. households file their federal tax returns. For many, the process involves digging through shoe boxes or manila folders full of receipts; gathering mortgage, retirement, and investment account statements; and relying on computer software to take advantage of every tax break the code permits.

It seems a shame not to make the most of all that effort. Tax preparation may be the only time of year many households gather all their financial information in one place. That makes it a perfect time to take a critical look at how much money is coming in and where it's all going. In other words, give the household budget a checkup. We would be delighted to help you with the budgeting process. Just give us a call and we can schedule a time to work on your budget with you.

Six-Step Process: One method for doing a thorough budget checkup involves six steps:

1. **Create Some Categories.** Start by dividing expenses into useful categories. Some possibilities include housing, auto, food, household, debt, clothes, pets, entertainment, and charity. *Don't forget savings and investments!* It also may be helpful to create subcategories. Housing, for example, can be divided into mortgage, taxes, insurance, utilities, and maintenance.

   Tip: Microsoft has all sorts of free templates available online, including various budget templates. Check them out at http://office.microsoft.com/en-us/templates/

2. **Follow the Money.** Go through all the receipts and statements you've gathered to prepare taxes and get a better understanding of where the money went last year. Track everything and be as specific as possible.

   Tip: Be careful with cash. Cash purchases don't show up on monthly statements, making them more difficult to track. Consider keeping receipts for all cash purchases.

3. **Project Expenses Forward.** Knowing how much was spent in each budget category can provide a useful template for projecting expenses moving forward. Go through category by category. Are expenses likely to rise in the coming year? If so, by how much? The results of this projection will form the basis of a budget for the coming year.

(continued on page 5)

IN THIS ISSUE . . .

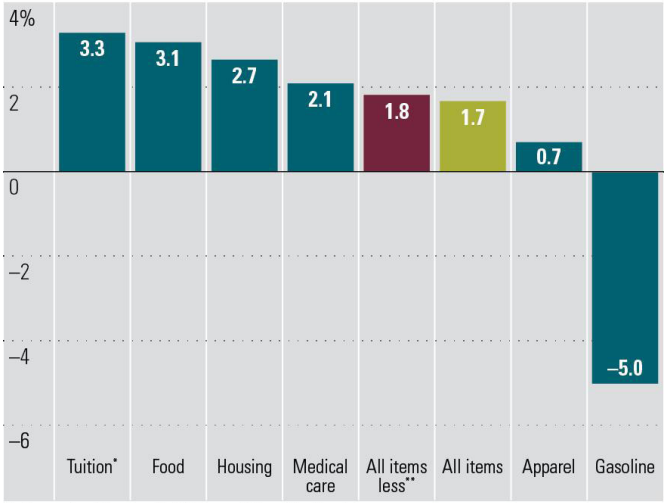
HCM MISSION STATEMENT

We work passionately to help our clients and their families enjoy a financially independent life by providing sophisticated wealth planning solutions.

Inflation Can Vary by Category

The general inflation number (the "All items" category in the chart below) may be a good measure for the economy at large, but the cost of certain goods and services could rise much faster than the average cost of living.

Consumer Price Index Components, Year-Over-Year Change



*other school fees and child care **less food and energy

Source: Bureau of Labor Statistics, Morningstar calculations. Date as of October 2014.

For the past year, tuition, food, housing, and medical care have all experienced much higher inflation rates than the headline number. Gasoline prices, on the other hand, have been declining and are now near four-year lows.

People who need to focus on savings for college or medical care may be left short, as the cost for such items often tends to rise at a faster rate than the average cost of living. Those investors might not be able to keep pace with rising costs if they do not take their real inflation rate into account when planning their investment goals. When HCM completes a client's Financial Independence Analysis, we factor in higher inflation rates whenever we have a line item for medical costs and education costs.

If you have any questions about how inflation impacts you and your financial independence plan, please contact your Wealth Advisor via email or give them a call at 513.598.5120.

A Common Retirement Distribution Pitfall: Failing to Reinvest RMDs You Don't Need

Accumulation is a key factor in reaching your retirement goals. However, far less is heard about portfolio drawdown or decumulation—the logistics of managing a portfolio from which you are simultaneously extracting living expenses during retirement. This can be even more complicated than accumulating assets.

Pitfall: One mistake of retirement distributions can be not reinvesting the required minimum distributions (RMDs) you don't need. Retirees may experience a situation in which the amount they must withdraw from 401(k) plans and IRAs for required minimum distributions is more than they need for living expenses. They would rather keep the money invested so that it can grow. The RMD rules require that the account owner initially withdraw less than 4% of assets at age 70½, but distributions can quickly step up into the 5%, 6%, and 7% range.

Workaround: Although it is impossible to avoid RMDs and their taxes without incurring big penalties, what people may not realize is that there is nothing saying they have to spend that money. The amount can be reinvested in a taxable account if the retiree wants it to stay invested in the market. This can be a wise strategy for anyone who is concerned with legacy planning or future long-term care needs. It is possible to build a taxable account that has many of the tax-saving features of a tax-deferred account.

401(k) plans and traditional IRAs are long-term retirement savings vehicles and grow tax-deferred. Withdrawal of pre-tax contributions and/or earnings will be subject to ordinary income tax and, if taken prior to age 59½, may be subject to a 10% federal tax penalty. Please consult with your HCM Wealth Advisor for advice specific to your situation. We can also help with other strategies that can help you maximize the RMD proceeds you don't need for living expenses.

Where Should I Keep It, and When Should I Get Rid of It?

Documents to Keep at Home	When to Get Rid of Them*
Bank deposit slips	After you reconcile your statements
Banking statements	After a calendar year; store with tax returns if they will be used to prove deductions
Brokerage, 401(k), IRA, Keogh, and other investment statements	Shred monthly and quarterly statements as new ones arrive; hold on to annual statements until you sell the investments
Credit-card bills	After you check and pay them, unless you need them to support tax filings
Employer defined-benefit plan communications	Never
Household warranties and receipts	After you no longer own the household items
Insurance policies	After you renew them
Investment purchase confirmations and 1099s	Hold until you sell the securities, then keep with your tax records for an additional seven years
Pay stubs	After you reconcile them with your W-2
Receipts	After you reconcile them with your credit-card or bank statement unless needed for a warranty
Safe-deposit box inventory	Never, but review and update annually
Savings bonds	Cash them in when they mature
Social Security statements	When you get a new statement, then shred the old one
Tax returns and supporting documents	After seven years

Documents to Keep in a Safety Deposit Box**	When to Get Rid of Them
Birth and death certificates	Never
Estate-planning documents (wills, trusts, and powers of attorney)	Never
Life-insurance policies	Never, or when a term policy has ended
Loan documents	After you sell your home, automobile, boat, or whatever the loan was for
Marriage licenses and divorce decrees	Never
Military discharge papers	Never
Social Security cards	Never
Vehicle titles	After you sell the car, boat, motorcycle, or other vehicle

*You can always drop off documents to be shredded at our Western Hills location. Please give us a call to schedule a time for drop-off, or if you have specific questions on document retention items that are not included above.

**Note the location of the box and your keys, and keep a list of what you have in it. Update the list once a year or as you add or remove documents. Keep the inventory list in your out-of-the way file cabinet. You should also keep photocopies at home of any documents you have stored in the box in case you need to refer to them.

HCM | Hengehold Capital Management LLC

6116 Harrison Avenue Cincinnati, OH 45247 I 4555 Lake Forest Drive Cincinnati, OH 45242
513.598.5120 I 877.598.5120 *(toll free)* I 513.598.2314 *(fax)*
www.hengeholdcapital.com

Keep this chart for quick reference!

Second Career Planning Tips and Strategies

Whether by choice or out of necessity, Americans are working longer. People remain employed well beyond the traditional mid-60s retirement age for a variety of reasons. Longer life spans, concerns about outliving retirement savings, and a desire to stay productive are inducing more and more workers nearing or in retirement to launch second careers. As many as 8.4 million Americans between the ages of 44 and 70 have already launched "encore careers," positions that combine income with personal meaning and social impact.

It's important to think of your new career as if you would be doing it for the next 10 or even 20 years. It will take groundwork and fortitude to get it right. Your HCM Advisor would welcome the opportunity to discuss your encore career ideas!

Here are some tips and strategies to help ensure your success:

1. Prepare yourself

Start by making an honest appraisal of your skills and interests. Much of what you already know is transferable to your next undertaking. The key is to match your next job or career to your interests and personality. Self-assessment quizzes are available online to help you (see the resources box at right).

2. Research where the jobs are

Why not look for fields where there is a new or strong market demand for jobs? Twenty-first-century technology has opened up opportunities in many fields, such as Internet marketing, health care support, technical consulting services, and many other niche areas. You'll find useful details about specific jobs in the Department of Labor's Occupational Outlook Handbook (website in box), and AARP's annual list of the "Best Employers for Workers Ovdr 50" can direct you to workplaces that are particularly friendly to aging boomers.

3. Start networking

It always helps to connect with people who have the same interests and those who have already started their second career. You can get assistance, learn from their experiences, and share your thoughts. Their firsthand experiences regarding how they made the move can help you plan your own transition to a new career. Talk with people who work in the fields that interest you and look for opportunities to volunteer or work part-time to get a sense of what the job entails.

4. Invest in your skills and education

Unless you choose a niche in your current career, you may need to learn new skills. If possible, take mandatory courses before retiring or leaving your current job. Professional programs, grad schools, and community colleges offer evening and weekend classes that you can squeeze into your current schedule.

5. Don't let your age be a factor

It's never too late to start a second career. The issue is not your age but your spirit—your mental health and your energy level.

6. Find satisfaction

Another key tip is that you must be inspired and motivated while planning your reentry into the workforce. What is your new career aspiration? Why did you choose this occupation? When you begin thinking about going back to work, make sure that the new career you plan has the potential of giving you more joy as compared to your previous career.

The HCM Team would be honored to help you achieve both your financial goals and your personal goals. Please call us to discuss how a second career can provide interesting opportunities to stay productive and do something meaningful later in life. After decades in the workforce, many people have the knowledge, energy, talent, and time to devote to a new career that can provide both a paycheck and a purpose.

SECOND CAREER RESOURCES

You can find self-assessment tools in the career advice sections on **CareerPath.com** and **Monster.com.** Another great resource for evaluating your interests and abilities is the book *What Color Is Your Parachute* by Richard Nelson Bolles, which is chock-full of self-assessment tools. The book also has a website at **eParachute.com**.

The Occupational Outlook Handbook is available at **BLS.gov/ooh.**

Job sites for seniors include **Workforce50.com, Seniors4Hire.org, and RetiredBrains.com.** You'll find the AARP list and more second career advice at **AARP.org/work**.

Several books have been published recently that provide some interesting perspectives on pursuing a second, post-retirement career. One we enjoyed is *Unretirement: How Baby Boomers Are Changing the Way We Think About Work, Community, and the Good Life* by Chris Farrell.

Budget Checkup

(continued from page 1)

4. **Determine Expected Income.** Add together all sources of income. Make sure to use your "take-home" income (after taxes).
5. **Do the Math.** It's time for the moment of truth. Subtract projected expenses from expected income. If expenses exceed income, it may be necessary to consider changes. Prioritize categories and look to reduce those with the lowest importance until the budget is balanced.
6. **Stick to It.** If it's not in the budget, don't spend it. If it's an emergency, make adjustments elsewhere.

Tip: For smart phone users, an app may help you set and track your budget. The iTunes App Store and Google Play each list more than 1,000 different budgeting apps.

Tax time can provide an excellent opportunity to give your household budget a thorough checkup. And taking control of your money through your budget could enable you to put more of it to work pursuing your financial goals. One of our HCM Wealth Advisors can help you segment and prioritize your goals for 2015. Just give us a call at 513.598.5120.

2015 Retirement Plan Contribution Limits

Retirement Plan Type	2015	2014
IRA	$5,500	$5,500
IRA Catch-Up (Age 50+)	$1,000	$1,000
Roth IRA	$5,500	$5,500
Roth IRA Catch-Up (Age 50+)	$1,000	$1,000
401(k)	$18,000	$17,500
401(k) Catch-Up (Age 50+)	$6,000	$5,500
Simple IRA	$12,500	$12,000
Simple IRA Catch-Up (Age 50+)	$3,000	$2,500
403(b)	$18,000	$17,500
403(b) Catch-Up (Age 50+)	$6,000	$5,500

How Do You Choose a Good Password?

The importance of picking a good, secure password can't be emphasized enough. Many of us use passwords that are based on personal information and are easy for us to remember. However, that also makes it much easier for a hacker to guess or "crack" them. Consider a four-digit PIN number. Is yours a combination of the month, day, or year of your birthday? Or is it the last four digits of your social security number? Or your address or phone number? Think about how easy it is for anyone to find this information about you.

At Hengehold Capital Management, we go to great lengths to make sure your content is secure, protected, and can't be accessed by anyone other than you. Make sure you protect your other important information as securely as possible. For example, what about your email password—is it a word that can be found in the dictionary? If so, it may be susceptible to "dictionary" attacks, which attempt to guess passwords based on words in the dictionary. Although intentionally misspelling a word ("daytt" instead of "date") may offer some protection against dictionary attacks, an even better method is to rely on a series of words (i.e., a complete sentence) and use memory techniques, or mnemonics, to help you remember how to decode it.

Try using a pass*phrase* instead of a password. For example, instead of the password "baseball," use "tCRa#1" or "the Cincinnati Reds are #1." Using both lowercase and capital letters adds another layer of obscurity. Your best defense is to use a combination of numbers, special characters, and both lowercase and capital letters.

Perhaps the most important thing to remember about passwords is that any password can be cracked. It's just a question of how much time and effort a hacker is willing to put into it. These tips will help reduce the odds that your passwords will be rooted out by random attackers, but no password is completely secure.

Tactics to use when choosing a password:

- ✓ *Don't use passwords that are based on personal information that can be easily accessed or guessed.*
- ✓ *Don't use words that can be found in a dictionary of any language.*
- ✓ *Develop a mnemonic for remembering complex passwords.*
- ✓ *Use both lowercase and capital letters.*
- ✓ *Use a combination of letters, numbers, and special characters.*
- ✓ *Use different passwords for different systems or purposes.*

Financial Checkup

Several times a year it makes sense to think critically about the events that have occurred in your family's life. Some events may have financial consequences that should be addressed in your family's wealth, tax, or estate plan. Your HCM Advisor would welcome the opportunity to help you and your family take a careful look at your current financial picture.

Some examples of events that can have a major impact include:

- Buying or selling a home
- Reviewing/revising beneficiaries on accounts and policies
- Getting a work transfer to a new city
- Managing your employee stock options

In certain circumstances, these events may require an adjustment to your wealth plan. Also, your capacity to accept market risk may have changed, requiring a modification to your asset allocation.

So, if you have recently experienced a significant event OR if you anticipate any of these events in the next few years, please call your HCM Wealth Advisor. We can get together by phone or in person to discuss your situation. In addition, we are always available to work with your tax professional, attorney, or other trusted advisor.

Important Mailing Deadlines for 2014 Tax Forms

The New Year has arrived and that means that soon you can expect Schwab to send various year-end tax forms associated with your HCM accounts. Please refer to the items below so you'll know what to expect and when.

Original Form 1099: The first batch of original Form 1099s for brokerage accounts will be sent to HCM Clients by Schwab in late January 2015. The second batch will be sent by mid-February 2015. The mailing date will depend on the types of securities within your portfolio.

Corrected Form 1099: If Schwab receives updated information from issuers of securities held after your original Form 1099 has been sent, they are required to send you a corrected tax form. Revisions will be clearly highlighted on the corrected form you receive. Corrected forms will be sent periodically, as the information becomes available. Since 1099s are subject to change, we recommend that you wait until late March 2015 to file your 2014 income tax returns.

If you would like to change the delivery of your Schwab tax documents this year from paper to electronic delivery, you can do so by following these steps:

- *Log in to your Schwab account and click on the Service tab.*
- *Choose "Account Settings" and then scroll down to the "Electronic Communications for This Account."*
- *Click on the "View/Edit Alert Preferences" and then scroll down to the "Tax Forms" section.*
- *There you can check the boxes for the accounts you wish to enroll for electronic delivery.*

If you have questions, please contact your HCM Client Services Team at 513.598.5120 or 877.598.5120.

We Welcome Your Referrals

We value your trust and confidence. We would be honored to provide our wealth management services to those you care about, such as your friends, family, neighbors, and business associates.

Offices

6116 Harrison Avenue
Cincinnati, Ohio 45247

4555 Lake Forest Drive
Cincinnati, Ohio 45242

513.598.5120
877.598.5120 (toll-free)
513.598.2314 (fax)

About Us . . .

When you decide to work with an Advisor to help plan and prepare for your financial future, it is important to work with professionals who are willing to take the time necessary to understand your situation and help you create solutions uniquely suited to meeting your goals and objectives. Your relationship with Hengehold Capital Management LLC is managed on a full-time basis by experienced Wealth Advisors. Your Wealth Advisor is always available to answer your questions, either in person or by phone. At HCM, we provide goals-based wealth planning and investment management services using the top technology, research, and analytical skills of our investment professionals. As a fee-only Registered Investment Advisor, our loyalties are always aligned with our clients' best interests. Our goal is to be your most trusted advisor based on integrity, knowledge, and personalized service.