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August 2016:

Investors Are Human, Too

Understanding the Net Investment Income Tax

August Featured Team Member

Regent Recipe of the Month



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Investors Are Human, Too



In 1981, the Nobel Prize-winning economist Robert Shiller published a groundbreaking study that contradicted a prevailing theory that markets are always efficient. If they were, stock prices

would generally mirror the growth in earnings and dividends. Shiller's research showed that stock prices fluctuate more often than changes in companies' intrinsic valuations (such as dividend yield) would suggest.¹

Shiller concluded that asset prices sometimes move erratically in the short term simply because investor behavior can be influenced by emotions such as greed and fear. Many investors would agree that it's sometimes difficult to stay calm and act rationally, especially when unexpected events upset the financial markets.

Researchers in the field of behavioral finance have studied how cognitive biases in human thinking can affect investor behavior. Understanding the influence of human nature might help you overcome these common psychological traps.

Herd mentality

Individuals may be convinced by their peers to follow trends, even if it's not in their own best interests. Shiller proposed that human psychology is the reason that "bubbles" form in asset markets. Investor enthusiasm ("irrational exuberance") and a herd mentality can create excessive demand for "hot" investments. Investors often chase returns and drive up prices until they become very expensive relative to long-term values.

Past performance, however, does not guarantee future results, and bubbles eventually burst. Investors who follow the crowd can harm long-term portfolio returns by fleeing the stock market after it falls and/or waiting too long (until prices have already risen) to reinvest.

Availability bias

This mental shortcut leads people to base judgments on examples that immediately come to mind, rather than examining alternatives. It may cause you to misperceive the likelihood or frequency of events, in the same way that watching a movie about sharks can make it seem more dangerous to swim in the ocean.

Confirmation bias

People also have a tendency to search out and remember information that confirms, rather than challenges, their current beliefs. If you have a good feeling about a certain investment, you may be likely to ignore critical facts and focus on data that supports your opinion.

Overconfidence

Individuals often overestimate their skills, knowledge, and ability to predict probable outcomes. When it comes to investing, overconfidence may cause you to trade excessively and/or downplay potential risks.

Loss aversion

Research shows that investors tend to dislike losses much more than they enjoy gains, so it can actually be painful to deal with financial losses.² Consequently, you might avoid selling an investment that would realize a loss even though the sale may be an appropriate course of action. The intense fear of losing money may even be paralyzing.

It's important to slow down the process and try to consider all relevant factors and possible outcomes when making financial decisions. Having a long-term perspective and sticking with a thoughtfully crafted investing strategy may also help you avoid expensive, emotion-driven mistakes.

Note: All investments are subject to market fluctuation, risk, and loss of principal. When sold, investments may be worth more or less than their original cost.

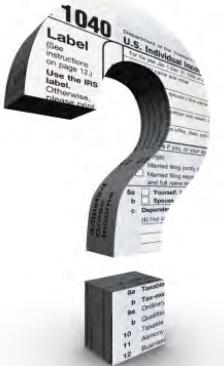
¹ *The Economist*, "What's Wrong with Finance?" May 1, 2015

² *The Wall Street Journal*, "Why an Economist Plays Powerball," January 12, 2016

Tuesday, August 9th
6:30pm - 7:30pm

See page 4 for more details





The 3.8% net investment income tax, sometimes referred to as the Medicare surtax on net investment income, originated in revenue provisions included in the Affordable Care Act of 2010. Unlike payroll tax revenues, funds collected from this surtax are deposited into the general fund of the U.S. Treasury; they are not applied to the Medicare Trust Fund.

The opinions voiced in this material are for general information only and are not intended to provide specific advice or recommendations for any individual. To determine which investment(s) may be appropriate for you, consult your financial advisor prior to investing. All performance referenced is historical and is no guarantee of future results. All indices are unmanaged and cannot be invested into directly.

The information provided is not intended to be a substitute for specific individualized tax planning or legal advice. We suggest that you consult with a qualified tax or legal advisor.

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Understanding the Net Investment Income Tax

It's been around since 2013, but many are still struggling to come to grips with the net investment income tax. The 3.8% tax, which is sometimes referred to as the Medicare surtax on net investment income, affected approximately 3.1 million federal income tax returns for 2013 (the only year for which data is available) to the tune of almost \$11.7 billion.¹ Here's what you need to know.

What is it?

The net investment income tax is a 3.8% "extra" tax that applies to certain investment income in addition to any other income tax due. Whether you're subject to the tax depends on two general factors: the amount of your modified adjusted gross income for the year, and how much net investment income you have.

Note: Nonresident aliens are not subject to the net investment income tax.

What income thresholds apply?

Modified adjusted gross income (MAGI) is basically adjusted gross income—the amount that shows up on line 37 of your IRS Form 1040—with certain amounts excluded from income added back in.

The net investment income tax applies only if your modified adjusted gross income exceeds the following thresholds:

Filing Status	MAGI
Married filing jointly or qualifying widow(er)	\$250,000
Married filing separately	\$125,000
Single or head of household	\$200,000

What is net investment income?

Investment income generally includes interest, dividends, capital gains, rental and royalty income, income from nonqualified annuities, and income from passive business activities and businesses engaged in the trade of financial instruments or commodities. Investment income does not include wages, unemployment compensation, Social Security benefits, tax-exempt interest, self-employment income, or distributions from most qualified retirement plans and IRAs.

Note: Even though items like wages and retirement plan distributions aren't included in net investment income, they are obviously a factor in calculating MAGI. So higher levels of non-investment income can still make a difference in whether the net investment income tax applies.

Gain from the sale of a personal residence would generally be included in determining investment income. However, investment income does not include any amount of gain that is excluded from gross income for regular income tax purposes. Qualifying individuals are generally able to exclude the first \$250,000—or \$500,000 for married couples filing jointly—of gain on the sale of a principal residence; any of the gain that's excluded for regular income tax purposes would not be included in determining investment income.

To calculate *net* investment income, you reduce your gross investment income by any deductible expenses that can be allocated to the income. So, for example, associated investment interest expense, investment and brokerage fees, expenses associated with rental and royalty income, and state and local income taxes can all be factored in.

How is the tax calculated?

You know your modified adjusted gross income. You know your net investment income. To calculate the net investment income tax, first subtract the threshold figure (shown above) for your filing status from your MAGI. Then compare the result with your net investment income. Multiply the lower of the two figures by 3.8%.

For example, assume you and your spouse file a joint federal income tax return and have \$270,000 in MAGI and \$50,000 in net investment income. Your MAGI is \$20,000 over the \$250,000 threshold for married couples filing jointly. You would owe \$760 (3.8% multiplied by \$20,000), because the tax is based on the lesser of net investment income or MAGI exceeding the threshold.

How is it reported?

If you're subject to the net investment income tax, you must complete IRS Form 8960, Net Investment Income Tax--Individuals, Estates, and Trusts, and attach it to your federal income tax return (you must file IRS Form 1040). The instructions for IRS Form 8960 provide an overview of the rules that apply and can be a good source of additional information. If you think you may be affected by the net investment income tax, though, it's a good idea to consider discussing your individual situation with a tax professional.

¹ IRS Statistics of Income Bulletin, Spring 2015



August Featured Team Member:

Aubrey Thompson

Administrative Associate

Aubrey Thompson is the newest full time Operation's Specialist for Regent Financial Services. Aubrey began her career in the insurance field upon graduation from Oklahoma State University in 2015. She holds a degree in Agriculture Business where she was an active member of MANRRS (Minorities in Agriculture and Natural Resource Sciences) as well as a member of Stillwater Young Professionals. Aubrey is licensed for Property, Casualty, Life and Health Insurance in the state of Oklahoma.

Aubrey's hobbies include fishing, reading, and cooking. She grew up in Coweta with three horses, and enjoys all aspects of horsemanship and training. She enjoys spending time with her family and her dog, Wrangler.

One Pot Stove Top Enchiladas - *Summer Style!*

Prep Time	Cook Time	Total Time
10 mins	20 mins	30 mins

Ingredients

- 3 teaspoons olive oil
- 8 corn tortillas, cut into one inch pieces
- ½ yellow onion, small diced
- 1 small zucchini, small diced
- 1 small yellow squash, small diced
- 1 small red bell pepper, small diced
- 1 clove garlic, minced
- ¾ cup fresh corn kernels
- 1 (15 ounce) can black beans, rinsed and drained

- ½ teaspoon salt
- ¼ teaspoon black pepper
- ½ teaspoon ground cumin
- ½ teaspoon paprika
- 1½ cup grated cheese
- 1½ cup enchilada sauce
- Cilantro leaves for topping, if desired

Instructions

1. Heat a large skillet (10-12 inch) over medium heat and add 2 teaspoons olive oil. Add corn tortilla pieces to the pan and cook for five minutes, until slightly crispy. Remove tortillas and set aside. Add the remaining 1 teaspoon oil to the pan, add the onions, and a pinch of salt. Cook onions for 2 minutes and then add the zucchini, squash, pepper, garlic, corn, black beans, and all of the spices. Stir until everything is combined and cook for ten minutes, until vegetables are tender.
2. Add the corn tortillas back in along with 1 cup grated cheese and stir. Next add the enchilada sauce and stir again. Top with the remaining ½ cup cheese, turn the heat off and cover for 5 minutes, until cheese is melted. Top with cilantro leaves, if desired.



By She Likes Food

Disaster Preparedness:

Tornado, Fire, Flood, Earthquake,
Terror Attacks!

Are YOU ready??



Prepare.



Plan.



Stay Informed.

**Tuesday, August 9th
6:30pm - 7:30pm
Regent Financial
Classroom**

**7134 S. Yale Ave., Ste 700
Tulsa, OK 74136**

You can't afford to miss this class! The Wagoner County Emergency Management Representative will educate and empower you to take some simple steps to prepare for and respond to potential emergencies including natural disasters and terrorist attacks.

All Americans should have some basic supplies on hand in order to survive for at least three days if an emergency occurs.

- 颶 Do you have a family emergency plan?
- 颶 Do you know what preparation steps to take at home? On the road?
- 颶 Do you know how to identify safe places?
- 颶 Do you have an emergency supply kit at home? In your car?
- 颶 Find out the appropriate response to each type of emergency.
- 颶 Receive a FEMA 'Emergency Supply Kit List'.

**We hope you will join us for this free
educational class.
Please feel free to bring a friend!**

Light snacks will be provided.

Seating is limited, so please RSVP:

www.RegentFS.com/Events or

Kelley@RegentFS.com or

918.493.4190



A REGISTERED INVESTMENT ADVISOR