Tax Wise
10 strategies for managing taxes now.
Page 26
Dear Client,

Tax Day may be months away, but tax planning should be a year-round affair. The month of December is an especially critical time, with deadlines for everything from required minimum distributions to 529 contributions swiftly approaching. For a complete rundown of all the relevant deadlines, see “Save the Dates,” on page 9.

Of course, managing your taxes isn’t just about meeting deadlines; it’s also about thinking ahead to avoid unnecessary taxes and keeping more of your hard-earned money. We’ve outlined 10 tax strategies that could potentially lower your tax bill in the short and long terms. Turn to page 26 for the full story.

As you work through the details of your financial plan, I encourage you to reach out to us directly at 877-297-1126. After all, no two situations are alike, and we look forward to helping you with yours.

Sincerely,

Terri Kaltren
Executive Vice President
Schwab Investor Services

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See page 46 for important information. (1117-9FL8)
ON THE COVER
The sculpture is based on a Eurasian eagle-owl and is made almost entirely of IRS 1040 tax forms. “I printed them on different-colored sheets of paper and then hand-cut and glued them onto an armature, also made of paper,” says the artist, Diana Beltran Herrera, of the eight-day process.

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Correction: “A Different Way to Save” (Fall 2017) incorrectly stated that contributions to Health Savings Accounts are not deductible in Wisconsin. In fact, the state has allowed such deductions since the 2011 tax year.

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Expect the Unexpected

Exposure to multiple asset classes is the key to riding out the next market swing.

D 

Despite the obvious virtues of investing, many find it hard to stomach the market’s unpredictability. When it’s up, they brace themselves for a correction; when it’s down, they worry it might never recover. And yet, over the long haul, those who stay invested during periods of market turmoil almost invariably come out ahead of those who don’t—regardless of whether they invest at the market’s trough or its peak.1

Of course, even the most stalwart among us can lose their nerve in the face of a market downturn. That’s why exposure to multiple asset classes is so important: Even if one area of the market is in free fall, others can be poised for outperformance. In fact, our research shows that a diversified portfolio of stocks and bonds generally loses less than an all-stock portfolio during down cycles, while still capturing significant gains during up cycles.2

If you’re unsure whether your portfolio is diversified enough, a good first step is to compare your current holdings against your target asset allocation using the Portfolio Checkup tool on schwab.com, by talking to your financial consultant or by calling us at 888-484-5340.

As we approach the end of the year, it’s a great time to give us a call or stop by your local branch for a portfolio review. We can help you strategize about how to keep on track so you’re ready to face the future—whatever may come.

Sincerely,

Walt Bettinger
President & CEO

---

1 “Is There Ever a ‘Bad’ Time to Invest?” schwab.com, 02/17/2017.

See page 46 for important information. Diversification and rebalancing strategies do not ensure a profit and do not protect against losses in declining markets. (1117-7BTM)
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Rethinking Retirement Spending

Preserving wealth takes you only so far.

Faced with the prospect of outliving their savings, many retirees tend to be overly cautious, unnecessarily preserving wealth at the expense of a more comfortable and fulfilling retirement. Indeed, a recent study found that today’s retirees are so committed to pinching pennies that their portfolios are actually growing, rather than shrinking, as they enter their 80s.¹

“Most people know how to save for retirement,” says Rob Williams, managing director of income planning at the Schwab Center for Financial Research, “but they often struggle with spending what they’ve saved.”

Rob notes that although many financial advisors tout the merits of the 4% rule—in which a retiree withdraws 4% of her or his assets in the first year of retirement, adjusting for inflation...
THE BOTTOM LINE

What's your number?
Your time horizon should inform your withdrawal level.

<table>
<thead>
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<th>Percentage of portfolio to withdraw in first year</th>
</tr>
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<tbody>
<tr>
<td>10.7%</td>
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<tr>
<td>10 years</td>
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Source: Schwab Center for Financial Research.
Percentage withdrawal amounts are for a 75% level of confidence that funds will not be completely depleted over the given time horizon. Assumptions are based on a moderate portfolio allocation. For illustrative purposes only.

Turbulence Ahead?
The last time market volatility was this low was prior to the Great Recession.

The Chicago Board Options Exchange Volatility Index® (a.k.a. VIX®) fell to a decade low of 9.36 earlier this year,1 half its long-term average of around 19. That's raised concerns among some analysts that investors aren't worried enough about the market's downside. The last time the VIX fell below 10 was about 10 months before the onset of the Great Recession.

So does this recent low signify a similar tumble? Probably not, says Randy Frederick, vice president of trading and derivatives at the Schwab Center for Financial Research, who explains that the VIX merely measures how much volatility investors can expect to see in the S&P 500® over the coming 30 days, based on the index's options prices. “A low VIX reading has provided an accurate signal of a short- or long-term pullback only once in the past 25 years,” he says. “Of course, it could happen again, but it’s more likely to be coincidence than correlation.”

Rather than fretting over whether there’s enough worry in the market, Randy suggests that investors focus on fundamentals and adequately diversify their holdings. “You can’t control the markets,” he says, “but you can try to control the overall health of your portfolio.”

The bottom line
Stay focused on long-term goals can help you ride out market volatility.

1Federal Reserve Bank of St. Louis, as of 07/21/2017.

Source: Federal Reserve Bank of St. Louis. Data from 01/03/2007 through 08/08/2017.

Each year thereafter—there’s often a better way to go. “You want a plan that’s specific to your situation, not one that’s based on a generic rule of thumb,” he says. “You aren’t a math formula and neither is your retirement-spending plan.”

While those who expect to live well into their 80s or even 90s—or who wish to pass money on to their heirs—should aim for smaller withdrawals, those who are further along in retirement or otherwise less concerned with outlasting their savings may be able to live a bit larger (see “What’s your number?” left).

No matter which withdrawal rate you land on, remember that you can always reassess, as necessary. “Even the most optimistic among us may need to adjust our plans from time to time to make our retirement savings last,” Rob says.

The bottom line
Make sure your retirement-spending plan is realistic—but not overly pessimistic.


See page 46 for important information.
(1117-7C96)

LET’S TALK

Need help with your retirement-spending plan? Call your Schwab financial consultant today.

T

Call your Schwab financial consultant to review your holdings’ fundamentals.

See page 46 for important information. • Past performance is no guarantee of future results. • All market data shown above are for illustrative purposes only and are not a recommendation, offer to sell or a solicitation of an offer to buy any security. Supporting documentation for any claims or statistical information is available upon request. (1117-7XBG)
Untying the Knot

Don’t overlook the considerable tax consequences of divorce.

Americans ages 40 and older are at an ever-increasing risk of divorce. From 1990 through 2015, the incidence of divorce rose 14% among those aged 40 to 49—and a whopping 109% among those 50 and older—according to the Pew Research Center.1

Beyond the emotional toll of divorce, there’s the challenge of divvying up marital property. Although many couples do so on the basis of fair-market value, that may not be the best approach. “Two assets of similar value can be taxed very differently, making one worth substantially less than the other,” says Marianne Hayes, a Schwab wealth strategist.

For example, investments liquidated from brokerage accounts may be subject to capital gains taxes, while those transferred from Individual Retirement Accounts and 401(k)s often retain their tax-advantaged status (so long as the divorce decree specifies their division and they are rolled into similarly tax-advantaged accounts). “Make sure you review the tax status of each asset individually,” Marianne says.

Beyond the division of assets, she suggests considering how the following may affect your post-divorce tax bill:

Dependent exemption

The custodial parent typically receives this exemption, though the IRS allows the noncustodial parent to claim the tax deduction—worth $4,050 per qualifying child in 2017—under certain conditions. Bear in mind, however, that the value of the exemption is reduced by 2% for each $2,500 above $287,650 in income, up to $410,150, at which point it phases out completely.

Alimony

Although it’s deemed taxable income by the person who receives it, it is tax-deductible by the person who pays it (provided the payments are laid out in the divorce decree and disbursed in cash or by check).

Tax withholding

Alimony is generally not subject to tax withholding, so recipients may need to consult a tax advisor about the best way to satisfy the resulting tax liability. In addition, you’ll no longer be eligible for the tax benefits conferred upon married couples, so be sure to revisit your W-4 after the divorce is finalized to ensure enough taxes are being withheld from your paycheck.

Robert Aruldoss, a senior financial planning analyst at the Schwab Center for Financial Research, also suggests consulting a tax attorney as part of the divorce process. “The tax implications of divorce can be quite consequential,” he says, “but enlisting a professional can help ensure each party gets a fair shake.”

The bottom line Make sure you understand how your new marital status could affect your tax bill.


See page 46 for important information. This information does not constitute and is not intended to be a substitute for specific individualized tax, legal or investment-planning advice. Where specific advice is necessary or appropriate, Schwab recommends consultation with a qualified tax advisor, CPA, financial planner or investment manager. (0817-73T9)
Prolonging Your Principal

Putting off Social Security can help conserve your nest egg—but by how much?

According to AARP and the Financial Planning Association, 90% of retirees know that waiting to collect Social Security will get them a bigger benefit—but only 5% know how much bigger. Here’s a look at how postponing Social Security can increase your monthly check—and thus reduce your reliance on your retirement portfolio.

The bottom line Waiting to collect your Social Security benefit can be beneficial to your portfolio.

Source: U.S. Social Security Administration. This hypothetical example assumes the retiree was born between 01/01/1943 and 12/31/1954, is eligible for $1,500 in monthly benefits at full retirement age and requires $5,000 in monthly income.
Save the Dates

Keep your financial house in order with our checklist of deadlines and to-dos.

BY YEAR-END

☐ Take required minimum distributions (RMDs): If you’re 70½ or older, you’re required by the IRS to take RMDs from certain retirement accounts by December 31—or face a penalty equal to 50% of the sum you failed to withdraw. If you turned 70½ this year, you have until April 1, 2018, to take your first RMD, albeit with potential consequences (see “Take first RMD,” right).

☐ Reduce capital gains taxes: Any capital losses you realize before December 31 can be used to offset your gains. If your net losses exceed your gains, you can offset an additional $3,000 of ordinary income; any losses beyond that limit can be carried forward to future years.

☐ Fund Health Savings Account (HSA): For 2017, those in high-deductible health-insurance plans can sock away as much as $3,400 before taxes. For families, the figure is $6,750, and those age 55 and older can contribute an additional $1,000.

☐ Spend flex dollars: Unused funds in Flexible Spending Accounts are typically forfeited at year’s end, so make sure to tap them for eligible health and medical expenses by December 31. That said, some plans don’t follow the calendar year, so check with your employer to confirm your plan’s deadlines.

☐ Contribute to a 529: Such contributions must be made before the end of the year in order to take advantage of any state-income-tax benefits or to be eligible for the federal gift-tax exclusion.1

BY NEXT SPRING

☐ Take first RMD: If you turned 70½ this year and decide to delay your first RMD, you have until April 1, 2018, to take it without penalty. Note that deferring your first RMD to the following year will mean taking two distributions in the second year, which could bump you into a higher tax bracket.

☐ File taxes: Tax Day falls on April 17 in 2018. Even if you’re applying for an extension, you still must pay any taxes due by this date.

☐ Fund Individual Retirement Account (IRA): You also have until April 17, 2018, to max out your IRA for the 2017 tax year ($5,500, or $6,500 if you’re age 50 or older).

ANNUALLY

☐ Revisit tax withholding: Changes in dependents, income and marital status can all affect your tax bill. Use the IRS’s withholding calculator (irs.gov/individuals/irs-withholding-calculator) to ensure you’re withholding enough—but not too much.

☐ Confirm beneficiary designations: Make sure your current designations are still in line with your estate plan.

☐ Request credit reports: With data breaches and identity theft on the rise, it’s increasingly important to stay on top of fraudulent activity. Thanks to the Fair Credit Reporting Act, each of the national credit-reporting agencies is required to provide you with a free copy of your credit report, upon request, once every 12 months. Get yours at annualcreditreport.com.

☐ Reassess portfolio: A professional can help you evaluate whether you’re on track to meet your goals, if you need to rebalance and more. Call 888-484-5340 or visit schwab.com/consultant to request an appointment with a Schwab financial consultant near you.

The bottom line Following a checklist of financial milestones can help set you up for success.

1In 2017, an individual can gift up to $14,000 per person without incurring gift taxes.

See page 46 for important information.

- This information does not constitute and is not intended to be a substitute for specific individualized tax, legal or estate-planning advice. Where specific advice is necessary or appropriate, Schwab recommends consultation with a qualified tax advisor, CPA, estate planner or attorney. (1117-772A)
Fixed income securities are subject to increased loss of principal during periods of rising interest rates. Fixed income investments are subject to various other risks, including changes in credit quality, market valuations, liquidity, prepayments, early redemption, corporate events, tax ramifications, and other factors.

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Earlier this year, Mary Jovanovich, a senior manager at Schwab Charitable™, was asked to review the giving goals of a client with a private family foundation worth $3.5 million. The family had been granting up to $250,000 each year to the same eight tax-exempt 501(c)(3) organizations. Had they been awarding scholarships to specific recipients or making loans to their preferred charities, a private foundation might have made sense. However, their straight-up grants made Mary think there might be a better way. “It’s difficult to justify the considerable administrative costs of maintaining a private foundation if you’re not going to take advantage of its unique benefits,” she says.

Enter the donor-advised fund. One reason assets in such funds have been growing at double-digit rates since 2010¹ is that their administrative costs tend to be far lower than those of private foundations, which can range from 2.5% to 4% a year.² “By switching to a donor-advised fund, this family saved thousands of dollars that they were then able to pass on to their charitable organizations of choice,” Mary says.
Beyond the potential cost advantages, donor-advised funds allow benefactors to give anonymously, with minimal paperwork and significantly greater tax advantages than private foundations (see below). Still, both private foundations and donor-advised funds have their pros and cons. Here’s a look at how they differ:

**DONOR-ADVISED FUND**
- **Basics**: Allows donors to make charitable contributions, receive an immediate tax benefit and recommend grants over time.
- **Costs**: Startup and ongoing administrative costs can be comparatively low.
- **Flexibility**: Grants are permitted to IRS-qualified public charities based in the U.S. (Some donor-advised funds, including Schwab Charitable, offer international granting.)
- **Privacy**: Grants can be made anonymously and names of donors can be confidential.
- **Board of directors**: Not required.
- **Taxes**: Deductions are limited to 50% of adjusted gross income for cash gifts and 30% for real property* or stocks.
- **Timing**: Donors can typically take their time deciding when and where to give.

*Real property is deductible at fair market value for donor-advised funds and on a cost basis for private foundations.

Despite their differences, the two vehicles can be used in tandem to powerful effect.

For example, you can use a donor-advised fund to contribute to IRS-qualified charities, while establishing a private foundation to fund causes that lack tax-exempt status, such as certain international aid organizations not eligible under donor-advised-fund guidelines.

Private foundations can also make grants to individuals for study, travel and other purposes, provided certain IRS requirements are met.

“Given the differences between donor-advised funds and private foundations,” says Denise Schuh, managing director and legal counsel at Schwab Charitable, “some clients find that a complementary approach is a more efficient way to help maximize the impact of their philanthropy.”

**PRIVATE FOUNDATION**
- **Typically created and funded by an individual, a family or a group of individuals; has its own board of directors.**
- **Costs**: Startup and ongoing legal and managerial costs may be significant.
- **Flexibility**: Grants are permitted to IRS-approved, U.S.-based public charities, as well as individuals and international nongovernmental organizations if approved in advance by the IRS.
- **Privacy**: Tax returns must specify grant recipients, staff salaries, trustee names and more.
- **Board of directors**: Required.
- **Taxes**: Deductions are limited to 30% of adjusted gross income for cash gifts and 20% for real property* or stocks.
- **Timing**: Foundations are required to distribute at least 5% of their assets each calendar year.


donor-advised funds and on a cost basis for private foundations.

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**The Schwab Charitable donor-advised-fund account**

A simple way to incorporate giving into your everyday life.

A Schwab Charitable donor-advised-fund account is a tax-efficient investment solution that allows you to:

- **Make a bigger impact** Your contribution will be invested for potential growth so you can maximize your giving over time.
- **Be more tax-efficient** You can contribute cash, appreciated assets and investments that have been held for a year or more without paying capital-gains taxes.
- **Streamline your giving** You can contribute to your account and recommend grants quickly and easily through the Schwab Charitable Client Center or Schwab Mobile app.

To learn more, visit schwab.com/charitable.

See page 46 for important information. ♦ The information in this presentation is not intended to be a substitute for specific individualized tax, legal or investment-planning advice. Schwab Charitable does not provide legal or tax advice. Where specific advice is necessary or appropriate, Schwab Charitable recommends consultation with a qualified tax advisor, CPA, financial planner or investment manager. ♦ Examples provided are for illustrative purposes only and not intended to be reflective of results you can expect to achieve. (1117-7AXA)
Trader, Heal Thyself

How to overcome four common behavioral biases.

By Lou Mercer
When it comes to investing, everybody hates mistakes—like losing money on a bad investment or cashing out before the market rebounds. However, the stakes are even higher for traders, who buy and sell far more frequently than long-haul investors, and whose trading accounts may not be as diversified as, say, a retirement portfolio.

Here are some of the most widespread behavioral biases I’ve witnessed among active traders—and my advice for overcoming each.

1. **Loss aversion**

   The average person feels the pain of financial loss twice as much as he or she does the pleasure from financial gain—and traders are no different. The trick, then, is not to avoid loss but to manage it. Before you initiate any trade, decide how far you’re willing to let the stock drift before you sell. All things being equal, you want your winners to earn double to triple the amount you’re willing to sacrifice on your losers.

   This is where so-called bracket orders can help. By placing limit orders for both profits and losses, you can mitigate the natural inclination to exit your profitable positions too soon and maintain your losing positions too long. For example, say you bought XYZ Corp. at $50 per share. With a bracket order, you can set a stop-loss order at $48 and an exit-limit order at $55. That way, the most you’re risking is $2 per share, while maintaining a profit potential of $5 per share—an approach that, theoretically, allows you to accumulate more losses than gains and still come out ahead. (See “Breaking down bracket orders,” below.)

2. **Revenge trading**

   When a trade is going against you, you may be tempted to try countering those losses by doubling or tripling down as the stock continues to drop—something known as revenge trading. But it can take months or even years for such a stock to recover—if it recovers at all—and that’s much too long for most traders to hold a losing position. Worse, you increase the odds that an already bad trade will turn catastrophic.

   So what’s a trader to do? Make sure you identify in advance how much you’re willing to lose with each trade—no more than 1% to 2% of your total trading capital, all things being equal. That means a trader with $50,000 on hand shouldn’t risk more than $1,000 on any single transaction.

---

**Breaking down bracket orders**

A trader purchasing 100 shares of XYZ Corp. at $50 per share sets an exit-limit order and a stop-loss order; this so-called bracket order allows for a potential gain that’s two-and-a-half times the potential loss.
Shirking the blame

Although it’s natural to blame losses on outside forces instead of our own oversights, it sets us up for further failure down the road. The solution lies in an impartial grading mechanism that tells you how strong your performance truly is. (See “Test your strength,” right.)

Comparing your trading portfolio to a benchmark or group of benchmarks is another way to go. The most widely used stock market benchmark is the S&P 500® Index, but it isn’t always the best gauge of an individual’s trading portfolio. If you consistently fall short, it may be time to revisit your strategy or seek out the help of a professional.

Negativity

The length of the current bull market has plenty of traders convinced of its imminent collapse, despite all evidence to the contrary. So do your homework, and if a longtime trend still appears to have legs, let your winners run. Even if the market turns against you, your stop-loss orders and other risk-management strategies can help protect your downside—before you pivot your portfolio to take advantage of the correction.

GO-TO GUARDRAILS

Five tips for trading smart.

Limit your losses
Identify in advance how much you’re willing to lose with each trade—no more than 1% to 2% of your total trading capital, all things being equal.

Overweight your winners
Generally speaking, you want your winners to earn double to triple the amount you’re willing to sacrifice on your losers—by setting an exit-limit order at two to three times your stop-loss, for example.

Go your own way
If, after doing your homework, a longtime trend still appears to have legs, let your winners run—however contrary to conventional wisdom.

Measure your progress
Schwab clients can compare their portfolios’ risk and return to a benchmark or group of benchmarks using Schwab’s Portfolio Risk & Return tool (schwab.com/riskandreturn).*

Test your strength
Schwab clients enrolled in Schwab Trading Services can use the Gain/Loss Analyzer (schwab.com/analyzertool), shown below, to accurately gauge their performance.† It reveals not only a trader’s average gain and loss but also the ratio of gains to losses.

Lou Mercer, CMT, is a trading solutions regional manager at Schwab Trading Services.


See page 46 for important information. ● There is no guarantee that execution of a stop order will be at or near the stop price. ● Examples provided are for illustrative purposes only and not intended to be reflective of results you can expect to achieve. (1117-7PV9)
THE BIG PICTURE

The Black Swan Effect

High-profile, hard-to-predict market disruptions—collectively known as black swans—are said to have catastrophic, long-lasting consequences. But are all black swans created equal? “It really depends on how far and wide the impact is felt,” says Steven Greiner, a senior vice president at the Schwab Center for Financial Research. Steven draws a distinction between discrete crises and systemic events of global consequence, such as 2000’s dot-com crash or the collapse of Lehman Brothers eight years later: “Many crises have been destructive at the local level but have had a fairly limited impact on the broader global economy.” Here’s a look at how the S&P 500® Index reacted to five such calamities—and how long it took to recover from each.

9/11 terrorist attacks

In an effort to mitigate panic selling, Nasdaq and the New York Stock Exchange halted trading in the aftermath of the attacks. When markets reopened the following Monday, the S&P 500 plummeted 12.1%—before rebounding 19 trading days later.

Fukushima Daiichi nuclear disaster

The S&P 500 fell 3.6% after the Japanese power plant was hit by a 15-meter tsunami that triggered a Chernobyl-like meltdown, but it bounced back in nine trading days.

Greek government debt crisis

When the European nation shuttered its banks to stave off imminent economic collapse, the S&P 500 slipped 2.6%, then rallied in 11 trading days.

Trading days to recover

- 9/11 terrorist attacks: 19 days
- Fukushima Daiichi nuclear disaster: 9 days
- Greek government debt crisis: 11 days

*Date indicates the S&P 500’s close on the trading day immediately preceding the black swan event. | Source: Standard & Poor’s.
Flash crash

Although extreme market volatility sent the S&P 500 tumbling 7% in less than 15 minutes—ending the day down 4.7%—the market fully recuperated in five trading days.

Brexit

When Brits unexpectedly voted in favor of a referendum to leave the European Union, the S&P 500 dropped 5.3% before recouping its losses 10 trading days later.
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Sizing Up Dividend Stocks

Why and how to invest in equities that make regular payouts.
By Steven P. Greiner, Ph.D.

Dividend-paying stocks are an essential part of many investors’ portfolios—though not always for the same reasons.

Those with a long time horizon, for example, often reinvest their dividends as a means of boosting returns. In fact, $10,000 invested in a hypothetical S&P 500® Index fund in 1988 would have swelled to more than $180,000 by mid-2017 had dividends been reinvested but only $95,000 had dividends not been reinvested (see “The dividend dividend,” on the following page).

For retirees, on the other hand, the regular payouts from dividend-producing stocks have the potential to provide a steady stream of income. And whereas dividend yields from S&P 500 companies may have declined over time, it’s important to consider them in the context of inflation.

When inflation is high, it erodes your purchasing power, meaning your dividends must be greater to keep pace with rising prices. The opposite is also true: A low-inflation environment, like the current one, puts less pressure on income. Consequently, you want your
Need help selecting dividend-paying stocks for your portfolio? Call your Schwab financial consultant today.
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When it comes to funding your retirement, you might not know what choices are right for you. Schwab can help you develop an income-generating portfolio that makes sense for your current and future goals.

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The Price of Popularity

What happens when an exchange-traded fund (ETF) gets too big for its britches?

By Emily Doak

anEck Vectors® Junior Gold Miners ETF (GDXJ) made headlines this past April when it diverged from its benchmark of micro- and small-cap firms in the gold- and silver-mining industries and began acquiring the stocks of larger miners.

During the previous 17 months, GDXJ had grown from $1.2 billion in assets to more than $5.2 billion. That made it difficult for authorized participants—those entities tasked with obtaining an ETF’s underlying assets—to acquire adequate stakes in the small mining firms the fund required to efficiently track its index. Rather than halt the creation of new shares, GDXJ decided to accommodate stocks with bigger market caps—and in June its benchmark followed suit in order to eliminate the mismatch with its ETF.

GDXJ’s situation, while notable, isn’t all that surprising. ETFs that offer exposure to niche asset classes may outgrow their indexes if demand for new ETF shares increases beyond what the underlying securities can bear. When that happens, an ETF typically takes one of two tacks: It either stops issuing new shares or it deviates from its original benchmark, as GDXJ did in April.

In the first instance, high demand for an ETF’s existing shares could drive up its market price, causing the fund to trade at a premium.

In the second instance, adding nonindex holdings to an ETF could in turn alter the portfolios of its investors in ways that may no longer fit with their overall objectives.

So, how do you know if your ETF is parting ways with its benchmark?

Warning signs

Schwab’s research has found that the ETFs most prone to outgrowing their indexes are those that hold:

- International emerging-market and small-cap stocks, especially those focusing on a single sector.
- International fixed income, especially local currency–denominated emerging-market bonds.
- Target-maturity bonds, especially those with longer durations holding less-liquid sectors of the fixed income market.

If you own such an ETF and are concerned about it outgrowing its index, start by checking its holdings. Should the ETF begin investing outside its mandate, that could indicate the authorized participants are having trouble acquiring the its target assets in sufficient quantities.

You might also monitor an ETF’s tracking difference, or the discrepancy between an ETF’s performance and that of its stated benchmark; a higher tracking difference could indicate the ETF is struggling to acquire stakes in its underlying securities.

Look before you leap

By and large, new shares of ETFs are created every day with relative ease. Nevertheless, as ETF providers continue to launch highly specialized products that tap into less-liquid corners of the market, index deviations may continue to occur.

When that happens, investors in an ETF that opts to diverge from its benchmark should reassess its place in their overall portfolios.

Those looking to join the stampede into an especially popular niche ETF, in particular, should examine the liquidity of the underlying securities—lest what you purchase today morph into something else entirely tomorrow.

Emily Doak, CFA®, is a senior research analyst at Charles Schwab Investment Advisory, Inc.

See page 46 for important information. ● Investors should carefully consider information contained in the prospectus or, if available, the summary prospectus, including investment objectives, risks, charges and expenses. You can request a prospectus by calling Schwab at 800-435-4000. Please read the prospectus carefully before investing. ● Past performance is no guarantee of future results. ● Investment returns and principal value will fluctuate and are subject to market volatility, so that an investor’s shares, when redeemed or sold, may be worth more or less than their original cost. Unlike mutual funds, shares of ETFs are not individually redeemable directly with the ETF. Shares of ETFs are bought and sold at market price, which may be higher or lower than the net asset value. Brokerage commissions will reduce returns. All fund names and market data shown above are for illustrative purposes only and are not a recommendation, offer to sell or a solicitation of an offer to buy any security. (1117-7PPW)
New clients who are referred, open an account, and enroll in the offer can earn $100. See schwab.com/referred for details. Schwab may change the terms or terminate the offer at any time.

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If you invest in municipal bonds, it’s probably for their tax benefits. Interest payments are often exempt from federal income taxes, and munis from your home state may also be exempt from state and local income taxes. What investors in state-specific bond funds might not be aware of, however, is that fund managers can—and often do—invest in munis from other states or U.S. territories (see “Altered states,” page 25).

Most fund managers opt for investment-grade bonds when crossing state lines. However, that’s not always the case when investing in munis from U.S. territories, particularly general-obligation bonds from Guam and Puerto Rico and the senior-most bonds issued by the U.S. Virgin Islands Public Finance Authority—all three of which have lower credit ratings than their lowest-rated mainland counterparts (see “Credit crunch,” page 25).

Puerto Rico has had a particularly troubled recent history. On May 3, the Financial Oversight and Management Board for Puerto Rico filed a petition to put the central government into bankruptcy-like protection—a byzantine process further complicated by September’s hurricanes—which is why Schwab now classifies Puerto Rico’s bonds as speculative investments.

Fund managers don’t always opt for investment-grade bonds when crossing state lines.
Altered states

Of the 23 funds on the Schwab OneSource State Tax-Free Bond Fund List, 12 have allocations to states other than their home state—and 16 have allocations to Guam, Puerto Rico and/or the U.S. Virgin Islands.

So why might fund managers invest in bonds from sub-investment-grade territories?

1 Tax-free income

As with many munis, bonds from U.S. territories offer interest income that’s exempt from federal, state and local taxes—regardless of where you reside.

2 Potentially higher yields

Many munis from Puerto Rico and the U.S. Virgin Islands, for example, currently offer yields of 4% or more, compared with roughly 2.3% for a broad municipal bond index.1 Of course, higher yields generally reflect a greater risk of default. This may not be an issue if a fund has a relatively low exposure to such bonds, but not all fund managers are so restrained.

3 Diversification

Some states have so few munis outstanding that they must cross state lines to maintain adequate diversification.

What to do

Don’t avoid state-specific muni-bond funds merely because they include out-of-state bonds—but do look under the hood. Those with relatively high exposures to sub-investment-grade U.S. territories, for example, may increase a fund’s risk profile beyond what you’re comfortable with.1

Credit crunch

Bonds from Guam, Puerto Rico and the U.S. Virgin Islands are all sub-investment grade—unlike their lowest-rated mainland counterparts.

Cooper Howard, CFA®, is a senior research analyst at the Schwab Center for Financial Research.
Honey, I Shrunk the Tax Bill

10 tips for taming taxes—now and in the future.
“Minimizing fees and taxes is one of Schwab’s 7 Investing Principles,” says Rob Williams, director of income planning at the Schwab Center for Financial Research. “However, taxes tend to be the more complex of the two.”

Taxes can be particularly tricky for high-income earners, who often don’t qualify for certain credits, deductions and tax-advantaged accounts. That said, there are a number of steps all investors may be able to take now to help minimize their tax bills in both the short and long terms.

Step one is to reduce your annual taxable income through tax-deferred savings accounts. To that end:

1. **Maximize your 401(k):** You can shield up to $18,000 ($24,000 if you’re over age 50) in annual income through an employer-sponsored 401(k) plan.

2. **Fund an Individual Retirement Account (IRA):** You may also be able to deduct up to $5,500 ($6,500 if you’re over age 50) through contributions to a traditional IRA.1

3. **Enroll in a Health Savings Account (HSA):** Individuals who have high-deductible health plans2 can shield up to $3,400 in annual income through an HSA ($4,400 if you’re age 55 or older), and families can generally shield up to $6,750 ($7,750 if the account holder is age 55 or older). Contributions are generally tax-deductible;3 capital gains, dividends and interest accumulate tax-free; and you pay no tax on withdrawals for qualified medical expenses.

4. **Minimize RMDs:** Of course, maxing out traditional IRAs or 401(k)s today could mean a larger portfolio—and tax bill—tomorrow. That’s because required minimum distributions (RMDs) kick in at age 70½. The bigger your portfolio, the bigger your RMDs—potentially pushing you into a higher tax bracket.

For example, if you had $3 million in a traditional IRA, you’d need to withdraw roughly $110,000.4 Add other sources of income—Social Security, say, or earnings from a rental property—and you could easily land in the 28% bracket or higher in 2017. The good news is there are several ways to try to minimize both your bracket and your tax bill in retirement, Rob says.

One strategy, if you have a large traditional IRA or 401(k) balance, is to withdraw money from retirement accounts before you reach age 70½ (though not so much that it would land you in a higher bracket).

“Once you reach age 59½, you can take distributions from a traditional IRA without penalty,” Rob says. “If you start taking small withdrawals at that age, you can reduce the size of your portfolio and thus the size of your RMDs when you reach 70½.”

5. **Open a Roth IRA:** Another strategy is to contribute to a Roth IRA, to which RMD rules don’t apply because it’s funded with after-tax dollars. What’s more, A Roth IRA conversion involves pulling money out of a traditional IRA, paying ordinary income tax on the distributed amount and then putting the money into a Roth IRA within 60 days. “It may sound counterintuitive, but paying taxes now can sometimes result in a lower tax bill later,” says Susan Bober, a Schwab wealth strategist in Indianapolis.

For example, workers in the 28% bracket might find themselves catapulted into the 33% bracket or higher in retirement once Social Security and RMDs are factored in. “Even if you end up in the same tax bracket in retirement as you’re in today, you might still come out ahead (so long as you pay the tax liability resulting from the Roth IRA conversion with non-IRA funds). That’s because gains on the converted amount can be withdrawn tax-free, subject to certain requirements,” Susan says. “That alone can make a conversion a smart strategy for some people.”
withdrawals of earnings made after age 59½ are tax-free, provided you’ve held the account at least five years.

“If you think your tax bracket might be the same or higher in retirement than it is today, or want flexibility to manage the size of distributions and the taxes paid when you reach retirement, a Roth is worth considering,” Rob says.

Under current law, only those individuals who earn less than $118,000 ($186,000 if you’re married) can contribute the full amount to a Roth IRA for the 2017 tax year. However, even investors who exceed those limits can avail themselves of a Roth IRA conversion. (See “Consider a conversion,” bottom left.)

Rather than settle for any single strategy, investors might consider all of the above. For people who have saved a healthy sum for retirement, it can be helpful to diversify retirement savings—dividing their money among traditional IRAs, Roth IRAs and taxable accounts holding long-term investments.

Put your assets in the right place: You should also try to hold your least tax-efficient investments in your most tax-advantaged accounts.

The income thrown off by real estate investment trusts (REITs), for example, makes them well suited to an IRA, where any income won’t be taxed until retirement.

Conversely, tax-efficient mutual funds, exchange-traded funds and stocks make more sense in a taxable account at least five years.

Pay attention to tax efficiency: Just as you might compare expense ratios of similar mutual funds, you can also assess the relative tax efficiency of mutual funds you plan to hold in a taxable account. You can determine how often fund managers trade—and if they produce taxable short-term gains—or whether the securities in the fund produce income in the form of dividends and/or interest.

The Compare Funds tool (schwab.com/comparefunds) allows you to view the one-year tax-cost ratio—that is, the percentage-point reduction in returns resulting from federal income taxes—for up to five funds.

Don’t go it alone: Of course, the strategies Rob suggests depend in part on a reasonably accurate estimate of how much money you’re likely to have after you’re no longer working—which can be difficult to calculate, especially if retirement is a decade or more away.

Working with a financial planner is one way to anticipate what both your savings and income might look like in retirement. And as you layer uncertainties about savings, investment performance and future spending on top of the complexities of the tax code, you might also want to enlist a certified public accountant or tax attorney. After all, a penny saved from unnecessary taxes is a penny earned toward your long-term savings.

Estate-tax tactics

For individuals subject to estate taxes, proper planning can cushion the blow.

While income taxes matter to all investors, estate taxes apply to relatively few. That’s because the tax applies only when passing more than $5.49 million (in 2017) to someone other than your spouse or a qualified charity.

Once your estate exceeds that threshold, the government’s take is substantial: Federal estate tax alone is 40%, and your overall tax bill gets even bigger if you live in one of the 18 states (plus the District of Columbia) that impose estate and/or inheritance taxes.

For those looking to lessen the bite, there are really only two places your wealth can go:

Choose charity: Our government gives us the opportunity to donate unlimited amounts to charity,” says Marlin Walker, a Schwab wealth strategist in Indianapolis. “If your assets exceed the federal estate-tax threshold, a charitable contribution during your lifetime or at death can reduce your exposure to this tax.”

Give a gift: Proper planning can increase the amount you can transfer before taxes hit. In 2017, for example, you can give up to $14,000 a year ($28,000 for a married couple) to an unlimited number of people without paying taxes. How much of an impact might this make? Consider a couple with five grandchildren who gifted the maximum amount for 10 years. That’s $1.4 million not subject to estate taxes—or a savings of $560,000 in federal taxes alone.

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1 If you do participate in a 401(k) or similar workplace plan, the deduction may be limited or not allowed at all.
2 High-deductible health plans are defined as those with a minimum annual deductible of $1,300 for individuals and $2,600 for families. Enrollees can’t be claimed as a dependent on someone else’s tax return or covered by another health plan without a high deductible, including Medicare.
3 Contributions to HSA accounts are tax-deductible on a taxpayer’s federal return. You should consult with a tax professional on your ability to deduct HSA contributions on your state return.
4 RMD Calculator on schwab.com. Example assumes an account balance of $3 million at age 70½ and a primary beneficiary who is less than 10 years younger than the account owner.

See page 46 for important information. This information does not constitute and is not intended to be a substitute for specific individualized tax, legal or investment-planning advice. Where specific advice is necessary or appropriate, Schwab recommends consultation with a qualified tax advisor, CPA, financial planner or investment manager. (1117-72NZ)
While many investors prefer the relative ease of buying and holding securities for the long term, others have developed an appetite for more-active trading—a pursuit that can be as rewarding as it is risky. “The good news is that it’s possible to mitigate the downside,” says Kevin Horner, a senior manager with Schwab’s trading-education team, “but doing so consistently requires discipline and a plan.”

Interviews with several Schwab clients who trade frequently bear that out. All three manage their long-term holdings separately from any actively traded positions. (Kevin recommends keeping at least 75% of your portfolio in diversified, long-term investments.) And all have their own resources, routines and tools for identifying opportunities and managing risk.

Even if you don’t have a passion for trading individual securities, you might be able to learn something from those who do. Here’s how these three active traders spend their days.
“Even really experienced traders don’t always have all the answers.”
—Jim Seeto

“Companies that are doing well tend to continue to do well, and companies that are doing poorly tend to continue to do poorly.”
—Carson Levit

“You don’t have to limit yourself to online tools.”
—Tribune Marcus
Routine: This former tech CEO goes by the name Tribune Marcus among the Schwab Trading Community, an online group of more than 10,000 Schwab traders who discuss strategies and tactics. Tribune rises early and sits down before a mix of monitors—one showing Bloomberg Television or CNBC, another with Schwab StreetSmart Edge® (see “The right stuff,” far right), and a third with a trading screen at the ready.

Tribune estimates he manages from three dozen to six dozen holdings on any given day. He jokes that he works longer hours now than he did as a CEO, arriving at his desk before markets open and staying put until they close—after which he often reads up on long-term trends for a more-macro perspective on his portfolio.

When he does step away from his desk, he keeps up with the market using the Schwab Mobile app, along with CNBC, Yahoo Finance and Twitter (where a “$” preceding any stock symbol indicates real-time news and commentary).

Tools: Tribune starts by looking at global macroeconomic trends. “I then use Schwab’s fundamental-analysis tools within StreetSmart Edge to search for best-in-class companies within particularly promising countries and sectors, and then technical trading tools to determine buy and sell targets,” he says.

Once, when a retail stock caught his eye, he even made a point of stopping by one of the company’s stores during his frequent travels, identifying himself as a potential shareholder and asking to speak with the manager. “That’s the kind of work you can do in areas you’re not so familiar with,” he says. “You don’t have to limit yourself to online tools.”

Inspiration: Tribune regularly attends biotech and technology conferences in search of ideas and to commune with like-minded investors. He also checks in with the online Schwab Trading Community, “which I often use either to challenge existing assumptions or gain new insights,” he says.

Carson Levit

Routine: Having spent decades as a fund manager closely monitoring the markets, Carson now spends most mornings with The Wall Street Journal and Barron’s to keep abreast of financial news and for insights that might lead to trading opportunities.

Tools: Carson uses technical analysis to determine the right entry price for a given stock. He says the advance-decline line, or the number of advancing stocks minus the number of declining stocks, can signal trends in the broader market.

He’s also been teaching his son about investing—and learning something along the way himself—by attending seminars at his local Schwab branch.

Jim Seeto

Routine: Jim works a full-time job in San Francisco but rises early to look at sites like Seeking Alpha; its “Wall Street Breakfast” daily briefing, in particular. He’ll check on his various positions during his lunch hour and often does more research in the evening, including watching CNBC’s “Nightly Business Report” on YouTube.

Tools: Keeping a detailed record of one’s own trading experiences can be instructive. Jim maintains a spreadsheet that tracks the performance of his various trades. Reviewing it at the end of each year helps him improve his overall approach, he says.

Schwab’s Kevin Horner agrees that keeping even simple notes on open positions can be helpful. While StreetSmart Edge allows you to pin notes to stock charts and keep comprehensive records on why some trades
Inspiration: Despite his years of professional experience, Carson still relies on wisdom from a book that influenced him early on: Peter Lynch’s *One Up on Wall Street*, which advises investors to pay particular attention to the products and services they rely on day to day.

“Another thing I try to take advantage of—which may be obvious but is nevertheless often underestimated—is that companies that are doing well tend to continue to do well, and companies that are doing poorly tend to continue to do poorly,” Carson says. He points to the Schwab Equity Ratings® assigned to approximately 3,000 of the largest U.S. stocks, using a scale of A through F. “There is quite a bit of history that shows that the higher-ranked stocks do better over time,” he says.

worked out and others didn’t, “you can also use something as low-tech as a sticky note on a monitor to remind you of the exit price you established when opening the trade,” he says. “Believe it or not, documenting your strategy can be one of the greatest tools. It forces you to recognize when you’re departing from that approach—and ask yourself why.”

Inspiration: Jim follows earnings releases and other events that can move a stock. He’ll set up calendar alerts in advance of company reporting dates, aiming to buy a week or so ahead of the announcement if he’s expecting results to exceed consensus estimates.

Jim also keeps in touch with a handful of friends through a group chat on WhatsApp. “Our experience ranges from the novice to the really experienced—and the latter don’t always have all the answers,” he says.

See page 46 for important information. • The testimonials may not be representative of the experience of other clients and are not a guarantee of future performance or success. (1117-7EV7)
5
Risks
Worth Worrying About

Underestimate these financial pitfalls at your peril.
Underestimate these financial pitfalls at your peril.
If you’ve ever lost sleep worrying that a dramatic event might derail your finances—your brokerage failing à la Lehman Brothers, for example, or the stock market tumbling as a result of a technical glitch—you may be focused on the wrong things.

For one, there are robust protections for individual investors in the unlikely event a bank or brokerage goes under, and many so-called black swan events caused only limited market disruptions (see “The Black Swan Effect,” page 16).

More important, it’s the subtler pitfalls—the ones that can creep up on you over time—that are really worth guarding against, says Mark Riepe, senior vice president at the Schwab Center for Financial Research. “It’s one thing to take a calculated risk,” he says. “It’s another to get blindsided by the sorts of day-to-day risks to which we’re all susceptible.”

With that in mind, here are five hazards investors too often neglect.

1. **Procrastination**

When it comes to retirement, doing nothing may be the biggest risk of all. The longer you delay establishing goals and putting a savings plan in motion, the less time you have to benefit from compounding, or earning returns on your returns. “And if you wait too long,” Mark says, “it can become almost impossible to catch up.”

Suppose a hypothetical 25-year-old invested just $250 a month until retiring at age 65. At the end of four decades, assuming an annualized return of 6%, this early and consistent saver would have accumulated nearly half a million dollars—more than three-quarters of it attributable to compounding (see “The snowball effect,” right).

If that person had delayed saving until age 35, by comparison, he or she would have had to save nearly twice as much a month to achieve the same net savings.

2. **Unrealistic expectations**

Even after you’ve set goals and established healthy savings habits, you still risk coming up short in retirement if your expectations for returns are unreasonably high. Although it’s impossible to say for certain how your investments will fare over time, there’s broad consensus about what to expect in the coming decade.

Charles Schwab Investment Advisory, for example, expects U.S. large-cap stocks to return an average of 6.7% annually from 2017 through 2026, counting dividends and share-price appreciation, and investment-grade bonds to return just 3.1%. That’s one-third and one-half lower, respectively, than the averages experienced during the past half century.

For proof of why this matters, look no further than the headlines about states facing funding shortfalls in their public-employee pensions. In almost every instance, politicians were overly optimistic about the returns their fund managers could achieve.

“With almost all of these underfunded pension plans, we see a dramatic example of what happens when you don’t save enough—and fool yourself into thinking that the market will bail you out with an unrealistic rate of return,” Mark says.

3. **Neglected portfolio**

A lot of risks needlessly pile up if you don’t update your plan and portfolio from time to time. An approach that made sense for a married couple with no kids may be all wrong once the family expands, for example, and an aggressive investment strategy when you’re 50 might be downright detrimental a decade later. Even the most forward-looking portfolio can drift from its goals as some asset classes stagnate while others surge.

“There’s no such thing as one and done,” Mark says. “Your situation changes, the world changes—and...
your portfolio may need to change with it. You should review absolutely everything at least once a year.”

4. **Inflation**

Inflation in the United States has been at historically low levels for the better part of a decade. Indeed, “there’s now an entire generation that has little or no experience dealing with the risks associated with inflation,” Mark says. That said, you shouldn’t ignore the possibility that the purchasing power of your long-term investments might be badly eroded by a rising cost of living, particularly as it compounds over time.

Inflation is a risk for retirees, in particular, because an outsize percentage of their spending goes to health care, which has seen much steeper price increases relative to the other goods and services that make up the Consumer Price Index (CPI).

One way to combat this risk is to set a higher retirement-savings goal to prepare for this eventuality. Another is to recalibrate your investing approach—by shortening the duration of your bonds so their prices aren’t as vulnerable to the rising interest rates that often accompany inflation, for example.

5. **Lack of learning**

Research has shown that those with even a basic level of financial literacy—including an understanding of compounding, diversification and inflation—are more likely to achieve their retirement goals than those without.¹ “There’s a risk in not taking the time to understand key financial concepts,” Mark says. “Conversely, there’s an opportunity for those who do make the effort.” (See “Back to school,” right.)

The risk is especially acute for young adults, who often enter the workforce with a limited understanding of financial fundamentals. “Time is a young person’s greatest advantage,” Mark says, “but they need to know why and how to leverage it.”

Mark suggests we all take the time to educate those just starting out. “Teach them the basics and introduce them to your go-to resources,” he says. “Often, it’s just a matter of pointing them in the right direction.”

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**See page 46 for important information.** • Investing involves risk, including loss of principal. (1117-7G67)
Handle With
Preparing for the financial future of special-needs dependents.
Chances are you or someone you know has special needs.

According to the U.S. Census Bureau, nearly one-fifth of all Americans have some kind of disability, a broad term that includes genetic disorders such as Down syndrome, physical limitations like complete or partial paralysis, and neurological conditions such as autism. Twenty-five percent of those affected are school-age children who will likely deal with their disabilities for the rest of their lives.

On top of the day-to-day challenges of raising kids with special needs, parents and other caregivers must often bear a considerable financial burden. Depending on the disability, there may be medical costs with outsize insurance deductibles, specialized education programs, and physical aids such as wheelchair-accessible housing and transportation.

“Parents who have children with special needs often say they’re raising million-dollar kids, and that’s not an understatement,” says Tamara Blue, a Schwab senior financial consultant in Los Gatos, California.

She should know. For years now, Tamara has taken primary responsibility for a minor-age family member with special needs. As a result, “my biggest focus is getting caregivers to think about the single most important question they face, which is, What’s going to happen when I’m no longer here?” she says.

“Many clients come in thinking a close family member or other designated guardian can do it all, but few people truly understand the magnitude of caring for those with special needs.”

Bring in the pros
There are really only two things families should determine from the start, Tamara says: How much money will be required to provide for the person in need—potentially for the rest of her or his life—and who is going to make the financial decisions?

Tamara’s advice in both instances is to seek professional guidance. For example, she points to care specialists (often members of the Case Management Society of America) whose primary focus is to help families predict what kind of expenses their special-needs children are likely to incur over their lifetimes.

In addition, many financial firms like Schwab have specialists who can discuss general special-needs planning topics. (They don’t provide legal advice, however, so you’ll need to consult an estate-planning attorney about what type of plan is most appropriate for your family; see “A helping hand,” right.)

Kim Frank, a tax, trust and estate specialist in Schwab’s Wealth Strategies Group, says that as soon as you’re aware your child has a disability, you should consult your attorney, as well.

“If your child receives governmental assistance—now or in the future—any money that passes to her or him directly through gifts or other sources can affect eligibility,” she says. “Even relatively small amounts can reduce or eliminate governmental assistance altogether and may need to be spent down before your child can requalify.”

Part of your estate plan may include a special-needs trust (SNT), which is designed to allow a beneficiary to maintain separate assets without affecting her or his eligibility for governmental assistance. That said, “it’s important to find an experienced trustee who knows how to properly disburse the funds,” Kim says.

For help creating a financial plan for a special-needs dependent, call your Schwab financial consultant today.


A helping hand

Where to turn with questions about special-needs financial planning.

An estate attorney can help you answer such questions as:

- Are there aspects of our financial situation or state law that should guide our planning decisions?
- How can we structure our estate so that our child is cared for in the event of our passing?
- Should our family consider a special-needs trust, an ABLE account or both?

Schwab can help with such questions as:

- How can we incorporate saving for our special-needs child into our overall financial plan?
- What factors should we consider when trying to prioritize multiple financial goals?

Explore your financial-aid options

Tamara works to help clients understand the breadth of any state-based financial assistance that may be available to them. For example, she often refers them to websites such as Disability Benefits 101 (db101.org), which includes guidance on Supplemental Security Income (SSI) and other assistance from select states.

Another emerging solution is a tax-advantaged savings account made available to people with disabilities by the 2014 Achieving a Better Life Experience (ABLE) Act. You can contribute up to $14,000 in post-tax dollars to a single ABLE account per year. Although contributions are not tax-deductible at the federal level, they may be at the state level. Any growth in such an account is exempt from federal taxes, so long as the money is used for qualified expenses, such as education, housing and supplemental medical costs.

While most states allow total contributions of $300,000 or more over the life of these accounts, government benefits may be suspended if the balance exceeds $100,000 at any one time. Although benefits can be reinstated once the balance falls below this threshold, it’s better not to exceed it lest benefits be withheld.

“There are a lot of differences among ABLE accounts, primarily related to availability, fees and investment choices,” Tamara says. Check with the ABLE National Resource Center (ablenrc.org) for more information.

Get started

As with all financial planning, the sooner you start making decisions, the better. That’s no small task for people already consumed with raising a special-needs child, but in the end, Tamara says, you’ll feel better for having planned ahead. “All parents wish they could secure their children’s financial future, particularly the most vulnerable among them,” she says, “and that’s exactly what estate planning is designed to help you do.”

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“All parents wish they could secure their children’s financial future—particularly the most vulnerable among them—and that’s exactly what estate planning is designed to help you do.”

—Tamara Blue, Schwab senior financial consultant

A tailored approach

A unique family calls for a unique financial plan. The Planning Consultants at Schwab Intelligent Advisory—who are also Certified Financial Planner professionals—can help.

- Use the online planning tool to give Planning Consultants a clear picture of your family’s needs.
- Meet with Planning Consultants virtually to develop an action plan.
- Contact Planning Consultants at any time with concerns, questions or to revisit your plan.

To learn more about Schwab Intelligent Advisory, visit schwab.com/intelligentadvisory.

Please read the Schwab Intelligent Advisory disclosure brochures for important information. Schwab Intelligent Advisory is made available through Charles Schwab & Co., Inc. (Schwab), a dually registered investment advisor and broker-dealer. Portfolio management services for Schwab Intelligent Portfolios are provided by Charles Schwab Investment Advisory, Inc. (CSIA), a registered investment advisor.
A Trusted Partner for Your Family’s Future

Schwab Personal Trust Services can help manage your assets for the next generation.

If you have or are considering establishing a trust—a vital part of estate planning for many families—you also must carefully consider who will serve as trustee. Your trustee should be able to impartially manage your financial assets, with all the accompanying administrative duties and legal complexities, for the full term of the trust.

Schwab Personal Trust Services, offered through Charles Schwab Trust Company (CSTC), can help. CSTC can administer the trust according to its terms, communicate regularly with beneficiaries, professionally manage your trust assets and make portfolio adjustments in response to market changes, provide accurate and timely accounting information, and file tax returns on your behalf.

Depending on your needs, CSTC can serve in three separate trustee capacities:

1. **Sole trustee.** CSTC assumes all the administrative, fiduciary and investment responsibilities of managing your trust according to the terms defined in your trust document.

2. **Co-trustee.** CSTC acts as a co-trustee* with the individual(s) you designate. CSTC assumes full investment management and administrative responsibilities for the trust, but may share disbursement decisions with the co-trustee(s), according to the trust provisions.

3. **Successor trustee.** CSTC can step in once you or the individual you name as sole trustee or co-trustee is no longer willing or able to serve.

* A co-trustee may advise on distributions but may not have any authority pertaining to investments.

Let’s Talk

If you’d like to discuss your needs with a personal trust expert, call CSTC at 877-862-4304 or contact your Schwab financial consultant.

See page 46 for additional offer information. You should be aware that you have alternatives, including whether to combine your trust’s administrative services with its investment-management services and whom to select as trustee. You may select a third party for administrative services, investment-management services or both, and third parties may be able to provide similar services at different costs. Charles Schwab & Co., Inc. (Schwab), is affiliated with Charles Schwab Trust Company (CSTC), the corporate trustee for Schwab Personal Trust Services (SPTS). Schwab may introduce clients to CSTC but will neither evaluate whether SPTS is appropriate for each client nor recommend SPTS for any particular client. It is the client’s responsibility to ensure CSTC meets her or his trust needs and to conduct any due diligence that may be required before engaging CSTC. Schwab financial consultants who introduce clients to CSTC will receive compensation if they choose to use SPTS. CSTC receives fees in connection with administrative services and/or investment-management services as permitted pursuant to the terms of the trust instruments. Schwab and Schwab Private Client Investment Advisory both earn compensation from CSTC for services provided in connection with SPTS. CSTC may invest trust assets in wrap-fee programs or make use of investment-advisory services that are sponsored by Schwab and/or in which Schwab affiliates provide discretionary or nondiscretionary investment recommendations. Schwab and its affiliates earn compensation for assets selected or recommended by Schwab-affiliated advisors, including management fees for Schwab-affiliated mutual funds and shareholder-servicing fees for mutual funds that participate in the Schwab Mutual Fund OneSource service. This presentation is for general informational purposes only and is not intended, nor should it be construed, as investment, legal or tax advice. CSTC does not provide legal or tax advice. Consult with your legal counsel and tax advisor about your particular circumstances.
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Understanding how your goals, investments and time horizons work together is essential to measuring your progress. That’s why we’ve redesigned the Summary page on schwab.com to bring you more information in a single view. The customizable page allows you to:

- **Track your portfolio**
  With the Personal Value chart, you can monitor your overall progress or drill down on specific accounts and/or time frames.

- **Customize your experience**
  You can nickname accounts, adjust the order in which they’re displayed, and collapse or expand certain information—and your preferences will be saved for the next time you log in.

- **Monitor your positions**
  We’ve made it easy to review your holdings across all your accounts, keep track of market activity, and conduct research and place trades with just a few clicks.

- **Stay informed**
  Remain up-to-date on the markets, check the status of your orders, and get the latest financial news and other information relevant to your portfolio.

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**NEXT STEPS**
To try the new Summary, log in to schwab.com today.
With thousands of fund choices available, building a diversified portfolio can be challenging. Schwab’s new Personalized Portfolio Builder simplifies the selection process by helping you find the mutual funds or ETFs that meet your needs.

**How does it work?**

The tool helps you create a portfolio of funds using Schwab’s asset-allocation models. These models help you determine an appropriate allocation across various asset classes, based on your financial goals, risk tolerance and time horizon.

**How do I get started?**

Log in to schwab.com/portfoliobuilder to build a portfolio in five easy steps:

1. **Step 1** Choose the account in which you want to build your portfolio.
2. **Step 2** Select your fund preference. You can build an all-mutual-fund portfolio—and choose taxable-bond funds or municipal-bond funds—or an all-ETF portfolio.
3. **Step 3** Select your risk tolerance, ranging from conservative to aggressive.
4. **Step 4** Specify your initial investment. There is no minimum, but we suggest at least $5,000 to ensure proper diversification.
5. **Step 5** Choose from a selection of funds within each asset class and click “Trade” to complete your portfolio.
Create a customized portfolio of mutual funds or exchange-traded funds (ETFs) in just a few clicks.
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Charles R. Schwab
Founding Chairman

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