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Our first article, *Mid-Year 2016: An Investment Reality Check*, poses the following questions:

**1. How are my investments doing? 2. Is my investment strategy on track? 3. Am I maximizing my tax savings?**

If you're not sure of the answer to these three basic questions regarding your investments, it's time to meet with your financial advisor.

Please call us at 800.440.8807 to schedule a review of your portfolio.

We look forward to helping you keep your financial plan on track.

**July 2016**

Mid-Year 2016: An Investment Reality Check

Common Financial Wisdom: Theory vs. Practice

Finding and Claiming Forgotten Funds

I have matured U.S. savings bonds. Are they still earning interest and, if not, can I roll them over to another savings bond?

**Mid-Year 2016: An Investment Reality Check**



Market volatility is alive and well in 2016. Low oil prices, China's slowing growth, the prospect of rising interest rates, the strong U.S. dollar, global conflicts--all of these factors have contributed to turbulent markets this year.

Many investors may be tempted to review their portfolios only when the markets hit a rough patch, but careful planning is essential in all economic climates. So whether the markets are up or down, reviewing your portfolio with your financial professional can be an excellent way to keep your investments on track, and midway through the year is a good time for a reality check. Here are three questions to consider.

**1. How are my investments doing?**

Review a summary of your portfolio's total return (minus all fees) and compare the performance of each asset class against a relevant benchmark. For stocks, you might compare performance against the S&P 500, Russell 2000, or Global Dow; for mutual funds, you might use the Lipper indexes. (Keep in mind that the performance of an unmanaged index is not indicative of the performance of any specific security, and you can't invest directly in an unmanaged index.)

Consider any possible causes of over- or underperformance in each asset class. If any over- or underperformance was concentrated in a single asset class or investment, was that consistent with the asset's typical behavior over time? Or was recent performance an anomaly that bears watching or taking action? In addition, make sure you know the total fees you are paying (e.g., mutual fund expense ratios, transaction fees), preferably as a dollar amount and not just as a percentage of assets.

**2. Is my investment strategy on track?**

Review your financial goals (e.g., retirement, college, house, car, vacation fund) and market outlook for the remainder of the year to determine whether your investment asset mix for each goal continues to meet your time frame, risk tolerance, and overall needs. Of course, no one knows exactly what the markets

will do in the future, but by looking at current conditions, you might identify factors that could influence the markets in the months ahead--things like inflation, interest rates, and economic growth projections from the Federal Reserve. With this broader perspective, you can then update your investment strategy as necessary.

Remember, even if you've chosen an appropriate asset allocation strategy for various goals, market forces may have altered your mix without any action on your part. For example, maybe your target was 70% stocks and 30% bonds, but now you have 80% stocks and 20% bonds. To return your asset mix back to its original allocation, you may want to rebalance your investments. This can be done by selling investments and transferring the proceeds to underrepresented asset classes, or simply by directing new contributions into asset classes that have been outpaced by others. Keep in mind that rebalancing may result in commission costs, as well as taxes if you sell investments for a profit.

*Asset allocation does not guarantee a profit or protect against loss; it is a method used to help manage investment risk.*

**3. Am I maximizing my tax savings?**

Taxes can take a significant bite out of your overall return. You can't control the markets, but you can control the accounts you use to save and invest, as well as the assets you choose to hold in those accounts. Consider the "tax efficiency" of your investment portfolio. Certain types of investments tend to result in larger tax bills. For example, investments that generate interest or produce short-term capital gains are taxed as ordinary income, which is usually a higher rate than long-term capital gains. Dividing assets strategically among taxable, tax-deferred, and tax-exempt accounts may help reduce the effect of taxes on your overall portfolio.

*All investing involves risk, including the loss of principal, and there can be no guarantee that any investing strategy will be successful.*





*It might not always be possible to follow some common financial wisdom.*

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## Common Financial Wisdom: Theory vs. Practice

In the financial world, there are a lot of rules about what you *should* be doing. In theory, they sound reasonable. But in practice, it may not be easy, or even possible, to follow them. Let's look at some common financial maxims and why it can be hard to implement them.

### Build an emergency fund worth three to six months of living expenses

**Wisdom:** Set aside at least three to six months worth of living expenses in an emergency savings account so your overall financial health doesn't take a hit when an unexpected need arises.

**Problem:** While you're trying to save, other needs--both emergencies and non-emergencies--come up that may prevent you from adding to your emergency fund and even cause you to dip into it, resulting in an even greater shortfall. Getting back on track might require many months or years of dedicated contributions, leading you to decrease or possibly stop your contributions to other important goals such as college, retirement, or a down payment on a house.

**One solution:** Don't put your overall financial life completely on hold trying to hit the high end of the three to six months target. By all means create an emergency fund, but if after a year or two of diligent saving you've amassed only two or three months of reserves, consider that a good base and contribute to your long-term financial health instead, adding small amounts to your emergency fund when possible. Of course, it depends on your own situation. For example, if you're a business owner in a volatile industry, you may need as much as a year's worth of savings to carry you through uncertain times.

### Start saving for retirement in your 20s

**Wisdom:** Start saving for retirement when you're young because time is one of the best advantages when it comes to amassing a nest egg. This is the result of compounding, which is when your retirement contributions earn investment returns, and then those returns produce earnings themselves. Over time, the process can snowball.

**Problem:** How many 20-somethings have the financial wherewithal to save earnestly for retirement? Student debt is at record levels, and young adults typically need to budget for rent, food, transportation, monthly utilities, and cell phone bills, all while trying to contribute to an emergency fund and a down payment fund.

**One solution:** Track your monthly income and expenses on a regular basis to see where your money is going. Establish a budget and try to

live within your means, or better yet *below* your means. Then focus on putting money aside in your workplace retirement plan. Start by contributing a small percentage of your pay, say 3%, to get into the retirement savings habit. Once you've adjusted to a lower take-home amount in your paycheck (you may not even notice the difference!), consider upping your contribution little by little, such as once a year or whenever you get a raise.

### Start saving for college as soon as your child is born

**Wisdom:** Benjamin Franklin famously said there is nothing certain in life except death and taxes. To this, parents might add college costs that increase every year without fail, no matter what the overall economy is doing. As a result, new parents are often advised to start saving for college right away.

**Problem:** New parents often face many other financial burdens that come with having a baby; for example, increased medical expenses, baby-related costs, day-care costs, and a reduction in household income as a result of one parent possibly cutting back on work or leaving the workforce altogether.

**One solution:** Open a savings account and set up automatic monthly contributions in a small, manageable amount--for example, \$25 or \$50 per month--and add to it when you can. When grandparents and extended family ask what they can give your child for birthdays and holidays, you'll have a suggestion.

### Subtract your age from 100 to determine your stock percentage

**Wisdom:** Subtract your age from 100 to determine the percentage of your portfolio that should be in stocks. For example, a 45-year-old would have 55% of his or her portfolio in stocks, with the remainder in bonds and cash.

**Problem:** A one-size-fits-all rule may not be appropriate for everyone. On the one hand, today's longer life expectancies make a case for holding even more stocks in your portfolio for their growth potential, and subtracting your age from, say, 120. On the other hand, considering the risks associated with stocks, some investors may not feel comfortable subtracting their age even from 80 to determine the percentage of stocks.

**One solution:** Focus on your own tolerance for risk while also being mindful of inflation. Consider looking at the historical performance of different asset classes. Can you sleep at night with the investments you've chosen? Your own peace of mind trumps any financial rule.





### **Do you have a tax refund waiting for you?**

Each year, millions of dollars in tax refunds go unclaimed. In March 2016, the IRS announced that it was holding \$950 million in unclaimed refunds as a result of taxpayers failing to file a federal income tax return for 2012. (Source: IR-2016-38, March 10, 2016)

You may have missed out on a potential tax refund because you earned income and had taxes withheld but weren't required to file a tax return, or if you were eligible for refundable tax credits (where the amount of the credit you qualify for exceeds the amount of tax you owe). Even if you did file a tax return, your refund may have been undeliverable if your address was incorrect.

For more information on finding and claiming missing federal income tax refunds, visit [irs.gov](http://irs.gov).

## **Finding and Claiming Forgotten Funds**

As a child, you may have dreamed about finding buried treasure, but you probably realized at an early age that it was unlikely you would discover a chest full of pirate booty. However, the possibility that you have unclaimed funds or other assets waiting for you is not a fantasy.

According to the National Association of Unclaimed Property Administrators (NAUPA), \$41.7 billion is waiting to be returned by state unclaimed property programs. So how do you find what is owed to you, even if it's not a fortune?

### **State unclaimed property programs**

Every state has an unclaimed property program that requires companies and financial institutions to turn account assets over to the state if they have lost contact with the rightful owner for one year or longer (such as when the account has been inactive). It then becomes the state's responsibility to locate the owner. State-held property generally can be claimed in perpetuity by original owners and heirs.

For state programs, unclaimed property might include the following:

- Financial accounts
- Stocks
- Uncashed dividend or payroll checks
- Utility deposits
- Insurance payments and policies
- Trust distributions
- Mineral royalty payments
- Contents of safe-deposit boxes

To see whether you have unclaimed assets, you may have to search your state's database and the databases of states where you formerly lived or worked. It's possible that funds or assets are still waiting for you even if you moved away years ago. Fortunately, most states participate in a national database that you can search for free at [MissingMoney.com](http://MissingMoney.com).

Finding "lost" life insurance policies might take some legwork. Life insurance companies that can't locate a beneficiary must generally turn over benefits from an individual policy to state unclaimed property programs, but might not do so if the company does not know that the policy owner has passed away. If you believe that a family member owned life insurance but can't find the physical policy, you may need to look for evidence of it by searching personal records and files (assuming you have the authority to do so) or by contacting the policy owner's insurance agent, attorney, or other financial professionals.

### **Federal unclaimed property programs**

The federal government also tracks unclaimed property, including:

- Tax refunds
- Pension funds
- Funds from failed banks and credit unions
- Funds owed investors from U.S. SEC enforcement cases
- Refunds from FHA-insured mortgages
- Unredeemed savings bonds that are no longer earning interest

Unlike states, the federal government does not have a central website for finding unclaimed money or assets, so you'll need to check a number of sources, including one of the biggest sources of unclaimed funds--the IRS--at [irs.gov](http://irs.gov). To find out more about other federal programs that may hold unclaimed property, visit the NAUPA website, [unclaimed.org](http://unclaimed.org).

### **Submitting a claim**

To claim property, follow the instructions given, which will vary by the type of asset and where the property is held. You'll need to verify ownership, typically by providing information about yourself (such as your Social Security number and proof of address), and submit a claim form either online or by mail.

What if the listed property owner is deceased? A claim may be made by a survivor and will be payable according to state or federal law. For life insurance, you may need the full name and Social Security number of the deceased individual, a copy of the death certificate, and in some cases proof that you were the named beneficiary.

### **Be careful**

Private companies may be paid to locate rightful owners and/or offer to help rightful owners obtain property for a fee, but legitimate companies will ask you to pay only after you receive your property. State laws limit fees companies charge, so check with your state before you sign any agreement. However, in most cases you should be able to find the same property for free by checking state or federal databases. Carefully check out anyone who contacts you, because some scammers will claim to have property or represent that they are from a government agency in order to obtain other information about you or your finances. For more information about protecting yourself, visit the Federal Trade Commission's consumer information site, [consumer.ftc.gov](http://consumer.ftc.gov).



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## I have matured U.S. savings bonds. Are they still earning interest and, if not, can I roll them over to another savings bond?

Once U.S. savings bonds have reached maturity, they stop earning interest. Prior to 2004, you could convert your Series E or EE savings bonds for Series HH bonds. This would have allowed you to continue earning tax-deferred interest. However, after August 31, 2004, the government discontinued the exchange of any form of savings bonds for HH bonds, so that option is no longer available.

Since matured savings bonds no longer earn interest, there is no financial benefit to holding on to them. If you have paper bonds, you can cash them in at most financial institutions, such as banks or credit unions. However, it's a good idea to call a specific institution before going there to be sure it will redeem your bonds. As an alternative, you can mail them to the Treasury Retail Securities Site, PO Box 214, Minneapolis, MN 55480, where they will be redeemed. If you have electronic bonds, log on to [treasurydirect.gov](http://treasurydirect.gov) and follow the directions there. The proceeds from your redeemed bonds can be deposited directly into your checking or savings account for a relatively

quick turnover.

Another important reason to redeem your matured savings bonds may be because savings bond interest earnings, which can be deferred, are subject to federal income tax when the bond matures or is otherwise redeemed, whichever occurs first. So if you haven't previously reported savings bond interest earnings, you must do so when the bond matures, even if you don't redeem the bonds.

Using the money for higher education may keep you from paying federal income tax on your savings bond interest. The savings bond education tax exclusion permits qualified taxpayers to exclude from their gross income all or part of the interest paid upon the redemption of eligible Series EE and I bonds issued after 1989 when the bond owner pays qualified higher-education expenses at an eligible institution. However, there are very specific requirements that must be met in order to qualify, so consult with your tax professional.



## How many types of government savings bonds are there, and what's the difference between them?

While the U.S. government has issued 13 types of savings bonds, there are currently only two series available for

purchase through the U.S. Treasury Department: Series EE bonds and Series I bonds. U.S. savings bonds are nonmarketable securities, which means you can't resell them unless you're authorized as an issuing or redeeming agent by the U.S. Treasury Department. Savings bonds are guaranteed by the federal government as to the timely payment of principal and interest.

You can buy Series EE bonds and I bonds in any amount from \$25 up to \$10,000, which is the maximum amount you can purchase for each bond type per calendar year. In other words, you may buy a total of \$10,000 annually in both EE and I bonds, for an annual total of \$20,000 for the two types combined.

Series EE bonds earn a fixed rate of interest as long as you hold them, up to 30 years. You'll know the interest rate the bond will earn when you buy it. The U.S. Treasury announces the rate each May 1 (for new EE bonds issued between May 1 and October 31) and November

1 (for new EE bonds issued between November 1 and April 30).

Series I bonds are similar to EE bonds, but I bonds offer some protection against inflation by paying interest based on a combination of a fixed rate and a rate tied to the semi-annual inflation rate. The fixed rate component doesn't change, whereas the rate tied to inflation is recalculated and can change every six months. The total interest (fixed and inflation adjusted) compounds semi-annually.

In any case, the interest on EE or I savings bonds isn't paid to you until you cash in the bonds. You can cash in EE bonds or I bonds any time after one year, but if you cash them out before five years, you lose the last three months of interest.

The interest earned on both EE and I bonds is generally exempt from state income tax but subject to federal income tax. Interest income may be excluded from federal income tax when bonds are used to finance higher-education expenses, although restrictions may apply.

