THE ADVISOR

HOW DIFFERENT COULD YOUR LIFE BE?

FRAGASSO FINANCIAL ADVISORS

610 Smithfield Street, Suite 400 • Pittsburgh, PA 15222 • 412-227-3200 • 1-800-900-4492 • Fax: 412-227-3210
Email: fgi@fragassoadvisors.com • www.fragassoadvisors.com

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Add to Your Portfolio's Return by Being Tax-Wise

BOB FRAGASSO, CFP®, AIF®
Chairman and Chief Executive Officer

Justice Learned Hand of the United States Court of Appeals for the Second Circuit rendered many opinions during his tenure from 1924 to 1951 that serve as the basis of today's jurisprudence. He has been called one of our most quoted judges. Notably for this piece, his decision in Helvering v. Gregory, 69 F.2d 809, 810-11 (2d Cir. 1934) offers commonsensical guidance for each of us today. He said, "*Anyone may so arrange his affairs that his taxes shall be as low as possible; he is not bound to choose that pattern which will best pay the Treasury; there is not even a patriotic duty to increase one's taxes.*" That is both commonsensical and profitable.

A dollar that you do not unnecessarily pay in taxes today remains available to generate more dollars throughout your lifetime if handled properly. Creating those additional funds to add to your future financial security does not require a master's degree in taxation, though you will want to seek guidance from knowledgeable professionals so that you will properly create tax savings. But you can seek those opportunities to harvest money for yourself that otherwise would have gone for taxes by being aware of tactics to employ and opportunities to seize. Here are some of them. These examples are not recommendations but are meant to spur your thinking and discussion with your financial and tax advisor to see what is right for you.

Understand your top tax bracket. We pay taxes in layers beginning at 10 percent and rising incrementally through the 15 percent, 25 percent, 28 percent, 33 percent, 35 percent and 39.6 percent brackets. Where you top out on that rising scale is where all of your investment action occurs. If you add or remove one dollar to or from the top of the pile, it is taxed or saved in your highest bracket. Even the simplest financial decision cannot be properly made without an understanding of this concept. For example, the contributor's top tax bracket must be considered when deciding to increase one's 401(k) contribution. If you decide to take the dollar to the consumer goods store rather than contribute it to your pretax retirement plan, you must first pay your top bracket in income tax, say, 25 percent. Thus you have only 75 cents left to buy furniture, entertainment or clothing. But if you decide to contribute it to your retirement plan, the entire dollar goes to work for you and remains there, growing tax deferred, until you withdraw it years or decades later. An extra 25 cents on every dollar saved is a big incentive to do so, but not if you remain unaware of these dynamics.

Consider all income when making retirement plan contributions. If you earn extra income from self-employment activities, reading, writing, consulting, etc., you may be able to start an additional retirement plan based solely on that income. That may be in addition to the plan your employer maintains on your primary income. So more dollars go to work for you, as described in the above paragraph, instead of flowing through to the federal government.

Earn tax-free interest instead of taxable. Understanding your top tax bracket will allow you to make the tax-wise decision between higher taxable interest income vs. somewhat lower tax-free income. Have you done this calculation? We can illustrate the difference and make the individually correct recommendation for each of our clients.

Engineer your portfolio for capital gains tax rather than ordinary income tax rates. Securities held for a year qualify for lower capital gains tax rates when sold at a profit. Those in the 10 percent and 15 percent ordinary income tax brackets have a 0 percent capital gains rate. Those in the 25 percent through 35 percent top ordinary income

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Tax-Wise

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tax brackets pay a 15 percent capital gains tax. And even the top 39.6 percent bracket payer enjoys a 20 percent capital gains rate. Saving 10 cents through 20 cents on every dollar of gain is a big deal and those tax dollars saved can remain in your portfolio to grow. But if you choose to ignore this beneficial strategy, you will unnecessarily pay tax. Consider the benefit, for example, of giving an appreciated security to a child or grandchild who can sell it without any tax at all because of his or her 0 percent capital gains rate.

Prefund college expense with 529 plans. While there is no federal tax savings in gifting to a 529 plan, it grows tax deferred and, if the child uses it for an accredited post-secondary school's tuition and fees, it comes out totally tax free. Pennsylvania residents who contribute to a 529 plan may receive a state income tax deduction of up to $14,000 "per beneficiary" in 2014.

Defer taxes or advance them to a lower, top tax bracket year. Turn lemons into lemonade by accelerating or deferring tax recognition of portfolio or other income to a year when, for example, you may experience a period of unemployment or underemployment. Dropping tax recognition from, say, a 33 percent top bracket to 28 percent saves 5 cents of every dollar in taxation. What if you dropped from a 15 percent capital gains rate to 0 percent? That may be the right time to reorient your portfolio tax free. That savings is yours to keep.

Match gains and losses in your portfolio. We do this routinely for our clients. We even harvest losses by themselves when available so we can use them against future gains. And we helpfully report, with permission, that action to our client's accountants, so they can intelligently plan and guide our common clients.

Charitable giving can equal tax savings. Gifts that you make to charities during your lifetime and after death may be tax-deductible, a fact we often forget. This example illustrates the point. Many of our clients gift regularly to their religious institution or favorite charity and they do it by cash or check. Have you considered gifting, instead, an appreciated security? For those of you who itemize deductions, you not only gain the charitable gifting deduction but you also save the capital gains tax you would have paid on the appreciated security when it is sold. The charity sells the security at a gain and pays no tax. Remember Justice Hand? You must organize your affairs so as to keep your taxes at their lowest level. Charitable gifting also lends itself to specialized trusts that can provide lifetime income coupled with income tax deductions and estate tax avoidance. Don't overlook this wonderful opportunity to benefit your community by redirecting tax dollars to your favorite charities.

If you are not getting this type of client-oriented, holistic planning from your current financial advisor, shouldn't you talk to us now? We welcome your call.

Caution and disclaimer: All of the above are examples to get you thinking about tax savings. None are recommendations and should only be considered in the context of a total financial analysis and plan with the guidance of your financial and tax advisors.

Mark Your Calendars!

On Monday, **May 12,** golfers will gather to support two vital local organizations. The Hope in One Charity Golf Classic will raise money to support the mission of **Animal Friends and Homeless Children's Education Fund (HCEF)**. With your help, HCEF is able to serve as a voice for the homeless children of Allegheny County and to ensure that they are afforded equal access to the same educational opportunities and experiences as their peers. Your contribution will also support the no-kill mission of Animal Friends, making it possible for them to ensure the well-being of companion animals, while ending overpopulation, abuse and unwarranted euthanasia.

Fragasso Financial Advisors is dedicated to helping children and pets in our community and is proud to be a sponsor of the event. If you would like more details and the opportunity to attend, please visit http://bit.ly/hopeinone

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Destroy your outdated confidential papers securely at our **Shredding Party on Saturday, May 10**! A representative from Shred It will be parked in front of our Smithfield Street location with a truck to shred your documents.

Also mark your calendars for our annual sponsorship of the **Pittsburgh Vintage Grand Prix, Saturday, July 19 and Sunday, July 20**. Join us at the Fragasso tent for refreshments. To RSVP to either of the Fragasso events, contact Jennae Backo at jacko@fragassoadvisors.com or 412-227-3238.

Financial Planning Strategies

BRIANNE KING, AIF®
Manager, Financial Planning

Consider the start of a new year a good time to give your personal financial planning situation a checkup. Your financial advisor should review your established goals with you at your annual meeting to make sure they are still appropriate for you and your family. We can all be certain of one thing – life is a constant exercise in adapting to change. Your goals and your financial plan should adjust accordingly.

After you have established your goals, it is important that you create or re-evaluate your budget. Your personal financial plan can be thrown off course if you don't have a handle on your expenses. Your financial advisor can work with you to help create a budget that fits in with your family's needs while keeping your goals in mind.

Once you have established what you can save for the year, your next question should be where do I save my surplus money? For those who are eligible, saving into a qualified retirement plan through work has many benefits. The money that goes into the retirement plan is a pretax contribution, therefore you will benefit from the growth on a larger amount of money that will not be taxed until distribution. Furthermore your contribution to your 401(k) is tax deductible, which means you are actually lowering your taxable income by making the contribution. Finally, many employers offer a 401(k) match for employees who are contributing to their plan. This means that your employer will put money, usually a percentage of your salary, into your 401(k). You are entitled to those additional contributions from your employer after you become fully vested in your retirement plan. A typical vesting period is five years.

It is important to note that there are some disadvantages to 401(k) savings. The IRS establishes contribution limits every year. In 2014 the maximum contribution into a 401(k) is $17,500 per year for investors age 49 years and younger, and $23,000 per year for investors age 50 and older. If you do not qualify for an employer-sponsored 401(k), or if you have additional money that can be saved after you maximize your retirement plan contributions, your financial advisor can work with you to determine the most advantageous way for you to save for retirement given your unique situation and goals.

Many of our clients have paid or plan to pay for some or all of their children's college education. This costly life event can hinder your ability to save for retirement. As college tuition continues to rise, it can be a hardship for people to fund this expense directly out of cash flow when their child leaves for college. Depending on your personal situation, we may recommend prefunding this expense by establishing and contributing to a 529 plan. A 529 plan is an education investment that benefits from tax-deferred growth before your child reaches college age and tax-free distributions for qualified costs. Depending on your state of residence, you may also benefit from a state tax deduction by contributing to a 529 plan. The amount varies from state to state so please consult your trusted tax professional who can advise you on this benefit.

Finally if you have not done so in a long time, your life insurance coverage needs should be re-evaluated. Insufficient life insurance can create much hardship for your family in the event that you pass away unexpectedly. Fragasso Financial Advisors can evaluate your current life insurance and also determine the amount that your family might need, taking into consideration your personal goals and expenses.

Life moves quickly and this year is no exception. Fragasso Financial Advisors is here to work with you to help ensure that your financial plan is on track to meet both your short, mid and long-term goals.

Profiles in Progress: Lee and Barbara Hicks

This quarter's client profile was written by Michael Fertig, AIF®, Vice President

Lee and Barbara Hicks enjoying their favorite hobby, sailing.

Barbara Hicks grew up in Turtle Creek, Pa. Her father, Bill Smetana, owned and operated a small trucking company and her mother, Marie Smetana, was a licensed practical nurse who worked for Mercy Hospital.

After finishing high school in Turtle Creek, Barbara attended Robert Morris College. Upon graduation she worked for Federated Investors in the comptroller's office and then for Westinghouse Electric in the communications department. Once she had children, Barbara chose to stay at home and be a full-time mom. When her children were older, she became an active volunteer at the Regent Square Elementary School where they attended.

Lee Hicks' parents met at Denison University. They married and eventually had Lee while living in Canton, Ohio. Lee's mother was a stay-at-home mom for her three sons and one daughter. His dad was an accountant with the Army Signal Corps. Lee's father was first stationed in the Panama Canal Zone. Due to his position with the Army, the Hicks family bounced around to several locations, including Brooklyn and Philadelphia, before settling near Hatfield, Pa., where Lee attended high school.

Lee was heavily involved in the church as a youth. He attended college in Rhode Island and seminary in Chicago, eventually landing on his first career as a Baptist minister. Working with the church was an exceptionally good fit for Lee, who spent 30 years as a Baptist clergyman, five years in parish ministry and 25 years in ecumenical work. Lee continues to be deeply involved with the church community, serving on several committees at Calvary Church, was on the standing committee of the Episcopal Diocese of Pittsburgh and represented the Diocese on the board of the Episcopal Appalachian Ministries.

Lee is proud of his involvement with initiating conversations between Roman Catholics in Pittsburgh and Southwest Pennsylvania in 1968, which led to the creation of Christian Associates of Southwest Pennsylvania, then the largest metropolitan ecumenical organization with Roman Catholic membership in America. Since its creation in 1970, Christian Associates of Southwest Pennsylvania has been considered a model of inter-church cooperation.

Barbara serves at Calvary Episcopal Church as co-chair of the Altar Flower Delivery Team and also works on the annual church bazaar held in November each year. She has also served and worked on boards for the Regent Square Civic Association and Group Recycling in Pennsylvania (GRIP), now part of Group Against Smog & Pollution (GASP).

Barbara is particularly proud of the three years she spent working as one of three founders of the Environmental Charter School at Frick Park. The school's mission is to educate each student to high academic learning standards using a themed curriculum that fosters knowledge of, love of and respect for the environment and the will to preserve it for future generations.

Lee and Barbara met while serving on a Pulpit Committee for the First Baptist Church of Pittsburgh, in Oakland in 1978. Their marriage was the second for both of them and brought together their family of six, including Lee's children Steve and Cathy and Barbara's children, Jennifer and Kathleen. Lee and Barbara celebrate their 24th wedding anniversary this July as grandparents to eight children - Darren, Lisa, Robbie, Xavier, Samuel, Lydia, Lucas and Elliot.

Sailing has long been a part of life for Lee and Barbara. In fact, one of their most memorable accomplishments occurred in 2001, when they left their home port of Lion's Head, Ontario in August and traveled 3,000 miles south exclusively through waterways to Miami. Their excursion took them through the Great Lakes, the Erie Barge Canal, down the Hudson River, around New Jersey, into the C&D Canal, Chesapeake Bay and finally into the Intracoastal waterway arriving in Miami in early January. Living on the boat for a year was a great experience that included meeting new friends, seeing the United States coastal area from the water and experiencing almost as many weather changes as a typical year in Pittsburgh.

Lee and Barbara live rich lives full of adventure. They are a delightful couple who we are proud to call our clients.

Cycling into the City

This article was written by
Terra McBride, Marketing Manager

On any given day, administrative specialist Rachel Weaver is one of the first employees to arrive at Fragasso Financial Advisors. There is a crispness in her eyes at that early hour that tells you she has already accomplished something. Like she rode lightening to work rather than sat in a car staring at a long row of tail lights. The analogy isn't too far off the mark.

Weaver, 41, rides her bike from Stanton Heights to Downtown Pittsburgh every day in almost any weather and describes it as her favorite thing in the world. "Being on a bike is a huge emotional lift," Weaver said. "Even a horrible day on my bike is better than sitting in a chair all day."

The trip can be tough, especially when you factor in the big hill at the end and the 10 to 15 pounds of gear she straps on each day. Toss in a down pour or temperatures dropping below freezing and the 30-minute ride can be downright agonizing. But it takes a lot more than some rain and a Goliath-like hill to deter Weaver from hopping on her bike.

Riding isn't something new to Weaver. She has been a competitive cyclist for years. In fact, she spent two years competing as a triathlete. Running and swimming were never her strong events. It was cycling where she truly excelled. So for the last five years, Weaver has focused on riding. She joined a newly-formed Pittsburgh women's bicycling team in 2008, competing in scores of races each year. Just last year, Weaver competed with her new team NuGo/Koeles in more than 40 races throughout the Mid-Atlantic, including Ohio, West Virginia and Washington, D.C.

"Between March and December, you can race pretty much every single weekend," said Weaver.

In February, she traveled to Georgia for a race, an opportunity in addition to her daily riding regimen that helps keep her motivated to train even when the weather is less than her ideal 50 to 70 degrees.

Commuting on a bicycle is not for the faint of heart. While the city has made huge strides in the last few years through the advocacy group BikePGH by adding bike lanes and increasing public and political support for bicycling and walking, there is a lot more that can be done.

"Cyclists need to help the process by respecting traffic laws. And drivers need to recognize that cyclists have a legal right to share the road with cars, so have a little patience," Weaver said.

Weaver, who believes the essential piece of gear for every rider is a helmet, is excited to see more people gravitating to bikes as their primary vehicle. With new programs like bike sharing arriving in major cities including Pittsburgh and the connection of bike trails across several states, Weaver foresees city cycling as more commonplace in the next few years.

Whether you ride to go green, get fit or just for the love of it, there is a palpable camaraderie among bikers and even the spectators who spot them. "There is a crossing guard who cheers for me every day when I ride through Lawrenceville," said Weaver. Between her high-octane commute and her cheering section, it is no wonder she arrives at the office with a spark in her eye.

Five Reasons to Hold Onto Your Bonds in 2014

ANDREI VOICU, CFP® , AIF®
Chief Investment Officer

A historical perspective
During the last 30 years, bonds have been a rewarding investment, especially when adjusting for the lower risk they carry compared to stocks.

From 1950 to 1980, bond investors faced the headwind of rising interest rates.

Interest rates have been declining since 1980, allowing investors to benefit from the capital appreciation of their bonds in addition to interest payments.[1]

Current rates are hovering around historic lows. So it is logical to surmise that, bond returns may once again face the of rising rates headwind.

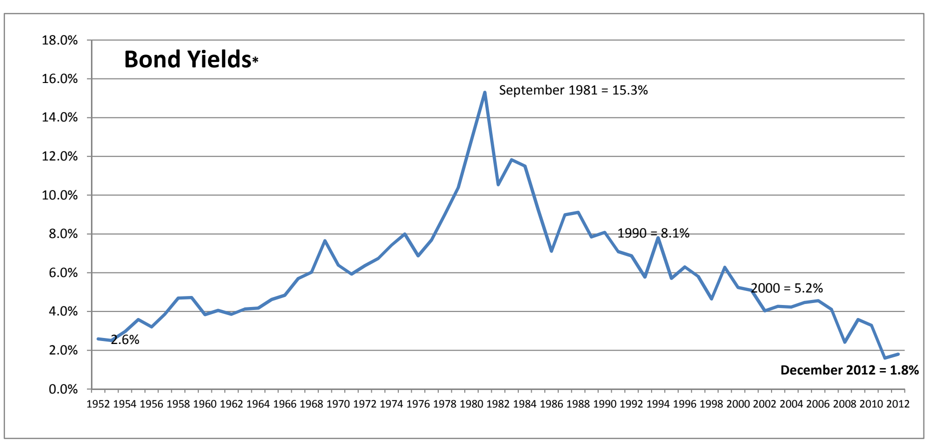
For bond investors, the next 30 years do not look as promising as the last 30 years have been.

However, interest rates and bond prices neither increase nor decrease in a straight line. There were many positive years for bonds during the 50s, 60s and 70s despite the general upward trend in rates (see annual return chart for long-term government bonds to the right).

Investors who are expecting rates to increase and bonds to lose value every year for the next 30 years may be in for a surprise.

Current environment
Barring significant negative economic surprises, the Federal Reserve seems poised to gradually cut back its bond-buying program and possibly end it before 2015.

Conventional wisdom suggests the Fed's declining support will be negative for bond prices because yields will have to adjust upwards in order to attract new buyers.



* 10-Year Treasury Bond Yields Source: Board of Governors of the Federal Reserve System

Year	LT Gov Bonds Returns[2]	Year	LT Gov Bonds Returns[2]
1946	-0.10	1964	3.51
1947	-2.62	1965	0.71
1948	3.40	1966	3.65
1949	6.45	1967	-9.18
1950	0.06	1968	-0.26
1951	-3.93	1969	-5.07
1952	1.16	1970	12.11
1953	3.64	1971	13.23
1954	7.19	1972	5.69
1955	-1.29	1973	-1.11
1956	-5.59	1974	4.35
1957	7.46	1975	9.20
1958	-6.09	1976	16.75
1959	-2.26	1977	-0.69
1960	13.78	1978	-1.18
1961	0.97	1979	-1.23
1962	6.89	1980	-3.95
1963	1.21	1981	1.86

Conventional wisdom's fallacy
When it comes to investing, conventional wisdom has often been proven wrong.

Here is an example of conventional wisdom failing to be wise.

In August of 2011, the rating agency Standard & Poor's downgraded the U.S. Treasury bonds because of congressional bickering over the debt ceiling.[3]

Conventional wisdom at the time suggested investors would dump U.S. Treasury bonds and yields would spike. What actually happened was the opposite in the form of capital flight. Investors rushed to buy Treasury bonds as a safe haven, after dumping riskier assets from U.S. to Emerging Markets stocks.

If January 2014 is any indication, the same phenomenon seems to be repeating itself. As the Fed withdrew its support for bonds, the S&P 500 stock lost 3.5 percent while the Barclays U.S. Aggregate Bond Index gained 1.5 percent during the month.[4]

As prudent stewards of our clients' capital, we must consider the possibility that bonds may not necessarily lose value in 2014.

Here are five reasons to hold on to bonds in 2014:

1. Bonds had many positive years throughout periods of rising rates. Even if rates rise in the long run, bonds may again experience many years of positive returns.

2. The end of the Fed's quantitative easing may result in lower bond. As some investors continue to exit riskier assets such as Emerging Markets stocks, they may flock to the safety of U.S. Treasuries.

3. Many institutional investors, including pension funds, endowments and foundations, need to rebalance to bonds from stocks to lock in their improved funding position and adhere to their asset allocation policies.

4. Investors who sell U.S. Treasuries short may be caught in a short squeeze and be forced to cover their short positions, adding to the buying pressure on Treasuries.

5. There is no inflation in the pipeline. While U.S. unemployment has decreased, wages remain stagnant and labor force participation is at a 30-year low.[5]

Additionally, Europe is still fraught with deflationary fears. The absence of inflation is keeping interest rates there low.

We do not view these arguments in favor of bonds as a way to predict the markets for the remainder of the year. Rather they should serve as counterbalancing points against conventional wisdom and as a reminder for the need to maintain a well-diversified and balanced approach to investing.

Clairvoyance is not a prerequisite to proper investing. Rebalancing your portfolio serves as a relatively automatic method for buying low and selling high.

Trim investments that have become over extended and for which expectations are high. Use the proceeds to add to investments that have trailed and for which expectations are low.

Most importantly, keep in mind that your individual circumstances and long-term life goals will ultimately dictate what your portfolio composition should look like.

[1]Bond prices and bond yields move in opposite directions. When rates decline, bond prices rise and when rates rise, bond prices decline.
[2]Long Term Govt Bonds – as defined by Morningstar / Ibbotson. A one-bond portfolio with a maturity of 20 years. Source: Morningstar Ibbotson
[3]http://www.standardandpoors.com/ratings/articles/en/us/?assetID=1245316529563
[4]Source: Morningstar / Ibbotson
[5]Source: U.S. Bureau of Labor Statistics

Baby Boomers Driving Need for Business Succession Planning

The Estate Planning Council of Pittsburgh sponsored a panel discussion on Jan. 23 at the Duquesne Club. Bob Fragasso served on the panel along with noted consultants, Krishna Pendyala and Bernie Wetzel, Ph.D. The psychological, financial and family considerations of business transition were dissected before an audience of legal and financial practitioners. It is apparent that the Baby Boomer generation that has given us rock 'n' roll, blue jeans, suburban housing and alternative lifestyles is now leading us into a burgeoning industry of business succession planning.

Like the work that we do for family financial planning, business planning must also start with the objectives of the owner. A mistake is made when the process begins with business valuation. The goal for the business, lifestyle considerations, plans for continued work, need for immediate liquidity, income generation and tax considerations all must be considered to reach a uniquely correct positioning for the sale.

Fragasso Financial Advisors is well-equipped to guide business and professional corporation owners in this exercise. Call us now to make your success personal.

FRAGASSO
FINANCIAL ADVISORS
610 SMITHFIELD STREET
SUITE 400
PITTSBURGH, PA 15222

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Congratulations and Welcome!

CHUCK MATTIUCCI

BRENT SUTHERLAND

DOTTI BECHTOL

BARRON'S

Fragasso welcomed a new financial advisor this quarter. Chuck Mattiucci joined us in January as a financial advisor, after working for several years as a financial advisor at two local firms. As a financial advisor, Chuck is responsible for helping clients reach their goals by working directly in the management and monitoring of their investment portfolios. He earned his B.S. from Pennsylvania State University.

Congratulations to **Brent Sutherland** for passing his Certified Financial Planning licensing certification! Brent was required to pass several extensive exams, as well as the comprehensive CFP® certification exam, which tests his ability to apply his financial planning knowledge to real-life situations.

Dotti Bechtol has been elected to the Board of Directors of the Pittsburgh Vintage Grand Prix. Congratulations Dotti!

Fragasso Financial Advisors was recently named one of the "**Top 1200 Financial Advisors in America**" by Barron's magazine, a leading financial magazine. Fragasso was ranked #6 in the Pennsylvania State-by-State list.

Factors included in the rankings: assets under management, revenue produced for the firm, client satisfaction, regulatory record, and philanthropic work.

Feel free to pass this newsletter along to any friends and family members who might find it useful and contact us with any questions.