The Summit

for friends and clients of the Crosby Advisory Group, LLC.

September 2018

HOMEOWNER'S INSURANCE FORMS: HO5 vs HO3

The two most common forms of homeowner's insurance are the HO5 and the HO3. Both offer replacement cost on the home and contents but the HO3 is a bit more restrictive as to what perils the home and contents are insured against. The HO3 will specifically name the perils (which is why it is often referred to as a named-peril policy). Those listed perils include fire or lightning, smoke, water, vehicles, riots, explosion, vandalism, freezing, electrical surge, sudden tearing apart or cracking, volcanic eruption, weight of ice and snow, wind, aircraft, theft, accidental discharge or overflow, and falling objects. With an HO3, if the loss is not a direct result of one of these listed perils then the homeowner will likely not have coverage. With an HO5 there is presumed to be coverage unless there is a specific exclusion for the loss. One of the most common losses covered by an HO5 but not an H03 is "mysterious disappearance." Losing an item valued above the deductible can typically be covered on an HO5 but likely will not find coverage under the HO3. We often see this with items such as jewelry or hearing aids. If you have not reviewed your home insurance in a few years, now may be a perfect time to better understand how your home and possessions are insured.

WHY WRITE IT DOWN?

A written investment plan is a vital tool that seasoned investors use. In the beginning when you and your advisor went over things like risk tolerance, growth objectives and when money will be needed for use, that information was then put into a written investment plan. An investment plan spells out the investment strategy and provides reviewable guidelines such as what percentage of the account will be composed of stocks, fixed income, cash, commodities or precious metals. Does it need to be tax-managed? Are there any types of investments that need to be avoided? The plan will list the goals and objectives and the how the account will be invested. This written investment plan is for both you and the advisor and it is not a piece of paper that should get stuffed in a file for years. Instead, you and your advisor should review this plan annually at the very least. Investment markets can change very quickly and without a plan it is very possible to get caught up in the excitement, fear or greed.

If we stated that we were going to create a moderate risk level portfolio, it is important that we maintain that risk level in both good times and bad. Trying to time the market and guess what asset classes will do well is a fool's game. Consider your investment plan a roadmap to your destination. By following it, you have the best chance of achieving the goals you set forth.

achieve

Alternatives FOR TAX-FREE INCOME

"Nate, I am trying to create some balance as to how my investments will be taxed. My wife and I file jointly, and our current income doesn't allow us to contribute to a Roth IRA. Are there any other tax-free alternatives?" Josh R. Toledo, Ohio.

Josh, thanks for your email and your willingness to let us share your question with others in the accumulation stage of life. The Roth IRA is a fantastic vehicle for building wealth that will be free from taxation in retirement years, but there are income limitations as to who can participate. In 2018, the income phase out starts at $120,000 for single tax payers and $189,000 for joint filers. If you are a tax payer under those limits and currently do not participate in a Roth IRA, Crosby Advisory highly recommends you consider if a Roth IRA is right for you. For those who are presently over the income thresholds, you still have a few more options.

For most investors municipal bonds produce interest that is federally tax-free. If you live in the state in which the municipal bond is issued the interest may also be state income tax-free. Municipal bonds can be purchased separately or in a bond fund and are often used as the fixed income portion of a non-qualified investment account. While the interest generated from municipal bonds are federally tax-free for most investors, if you are a high-income earner that pays alternative minimum tax (AMT) municipal bond interest may not be tax-free for you. Note, with the recent tax reform, fewer people are likely to pay AMT in 2018 than in 2017, which should help taxpayers.

For those of you who do pay AMT and will likely continue to do so you may consider the tax-advantaged build up of cash value life insurance. Cash value life insurance can be accumulated without taxation and there are also ways to distribute the cash without taxation or affecting social security benefits. When properly structured, cash value life insurance can provide a real boost to retirement income. Additionally, the death benefit of life insurance is typically tax-free to the beneficiary making it a top choice for passing money from generation to generation.

Lastly, one day your home may be an option. Under current tax law you can shield from taxation up to $250,000 of the sale of a primary residence (assuming you lived there 2 out of the last 5 years) and up to $500,000 for joint filers. This may come into play for retirees looking to downsize.

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book recommendation

"The Obstacle is the Way"

In his book "The Obstacle is the Way", Ryan Holiday writes that each of us face obstacles each day that stand between where we are and where we want to be. Maybe more importantly these obstacles stand between who we are and who we want to become. What if we could train ourselves to look at obstacles from a new perspective? The obstacles before us are not the end to our way, they are in fact the way. By attacking them directly, obstacles force us to grow and become better versions of ourselves. Without obstacles, transformation is not possible. Perhaps after reading the book you may find yourself looking forward to finding and surmounting the next obstacle on your personal journey through life.

SEI is getting a MAKEOVER

On October 1, investment clients will see an upgrade to the platform in which they view their investment account(s). SEI will be sending you new log-on instructions. We believe you will find the new platform more user friendly. It is our hope that the upgrade will enhance your investing experience. As the date draws near we will be in contact with you to make sure you are able to log onto your accounts. Contact our office with any questions.