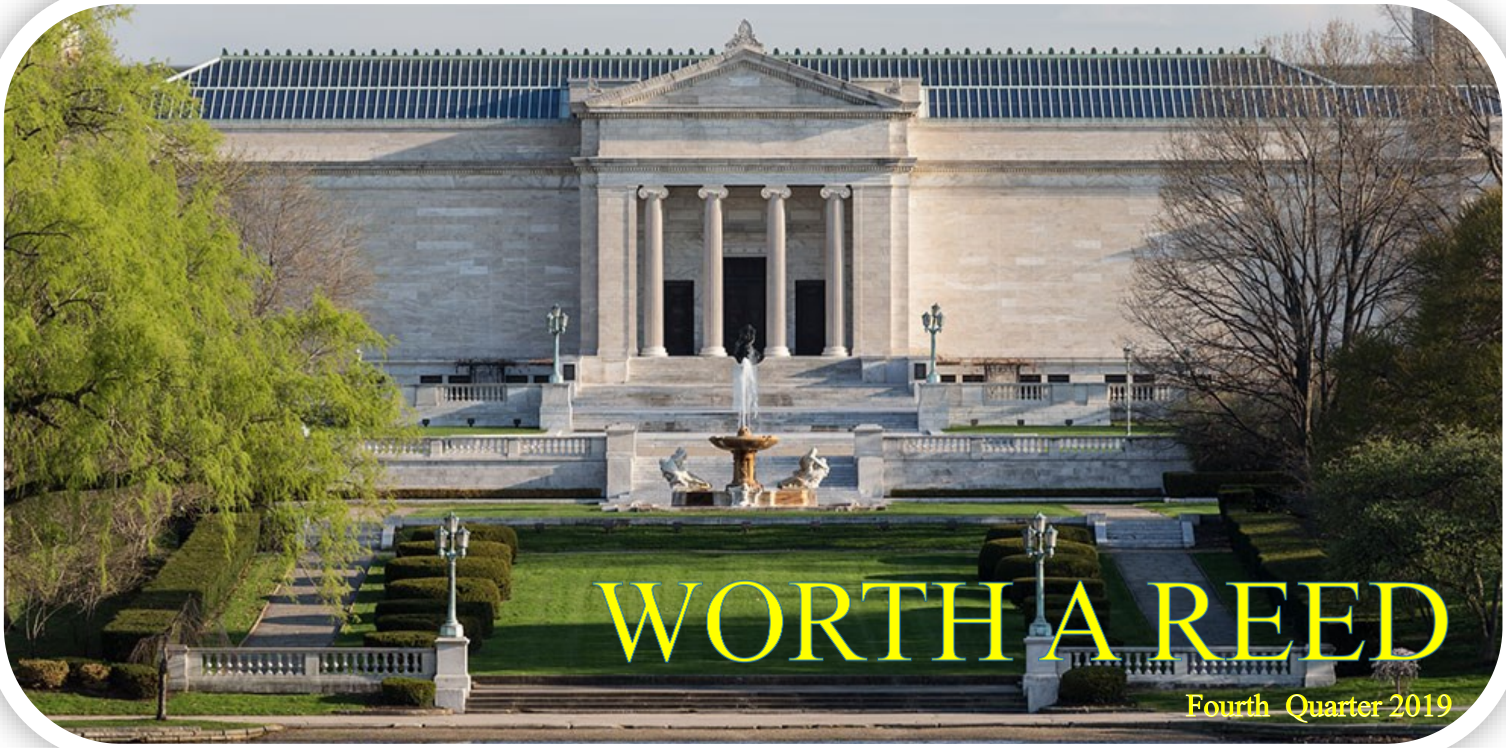


Adapting to the Pace of Life

James M. Reed, CPA, CFP, President

Throughout the 35 years of the firm, we have embraced changes in technology. New software and tools have allowed us to continually improve not only how we manage the portfolios, but also how we communicate. Highlighted below are some of the changes you may have noticed.

Website

We recently announced a redesigned company website. This is our third iteration since the late 90's. Early on, our website was little more than an online brochure with simple financial planning language, a few pictures and a little about the staff. Our next version in 2010 added some depth to the information provided, but also allowed hyperlinks to other sites.

This brings us to today. Our goal with the new website is to convey our approach of focusing on our level of client care. We also want to make sure we can connect with our clients on any device whether they are at home, work or on-the-go. We want it to be the place where clients can get updated commentary and information on upcoming events. Soon, we plan to add video to the site to improve our communication.

Communication

Historically, our communication has been through letter, email, phone or face to face meetings. Recently, we tried something new, a live webinar. This allowed us to communicate with voice and graphs rather than a long letter. We also recorded the webinar so it could be viewed later on your phone, tablet or laptop at a place and time of your choosing. Analytics showed about a third of our clients viewed at least some of the content, which is probably more than my long-winded market letters. We are trying to adapt to the pace of life.

Investing

If you were able to view the webinar you know that technology has also changed investing through data gathering, improving computer processor speed to analyze massive amounts of data, and applying artificial intelligence to create predictive analytics. This has significantly changed stock selection for large companies. We recognized this trend several years ago and started using passive investing in 2012, gradually increasing until we recently announced going 100% passive for large-size companies. We also repositioned some of the portfolios to take advantage of the new ideas being developed in both technology and healthcare.

Portal

When we upgraded our portfolio reporting software in 2015, we looked for features that could help simplify life for our clients. A key feature is our portal, which is accessible on your phone, tablet or laptop via browser or our app. Currently it allows the following:

- Daily tracking of performance results

-continued -

Adapting to the Pace of Life (continued from page 1)

- Receiving your quarterly reports from RFS in a secure manner rather than by mail
- Sending and receiving documents in a secure manner
- This year, we added your tax documents and statements from Pershing to the portal. With your written approval, your accountant can now also directly access this information from the portal (accountant view is restricted to the tax information only).

Aggregation

Clients sometimes have money invested in several places. With our portal aggregation software, you can view a consolidated report of all your holdings. There is no charge for this service.

The pace of life seemingly goes faster and faster each day. The challenge of keeping the firm current with technology at times seems daunting, but fortunately we have good tech savvy employees that makes the job easier. ■

You're Invited

Reed Financial Services

Friends and Family Event

THURSDAY, DECEMBER 26, 2019
1:00 – 5:00 PM

The Cleveland Art Museum
11150 East Boulevard
Cleveland, Ohio 44106

Please RSVP by December 18th
to reserve your spot:
Michelle@Reed-Financial.com
Or (216) 464-2090

Most of our clients take their Required Minimum Distribution (RMD) in one of the three ways-

1. Distributed on a monthly basis throughout the year.
2. Scheduled to go out automatically towards year-end.
3. Set up to journal over to a taxable account towards year-end.

If you would like to change your election for 2020, let us know!

The ABC's of IRAs, RMDs and QCDs

Janet Edwards, Director of Client Services

Tis the season to start thinking about year-end and if there are other ways to reduce the taxes you are paying.

Many of our clients have spent years building up a nest egg of tax-advantaged retirement accounts. However once you turn 70½, you must take a required minimum distribution (RMD) annually even if you do not need the funds. For some people, this may boost a taxpayer's annual income, sometimes even into a higher tax bracket, which is not necessarily ideal. However, one strategy that can lessen the impact of RMDs while also allowing you to make charitable contributions is known as a Qualified Charitable Distribution (QCD).

If you regularly give to charity or church, you can use part or all of your RMD for their charitable contribution. The donation **must go directly from your IRA to the charity.** It will count for your RMD, but it won't count as income, so you don't pay any taxes on that withdrawal. A win-win!

Additionally, QCDs may offer other tax advantages. For example, since the QCD amount is not included in your adjusted gross income (AGI), it may allow the donor to stay in a lower tax bracket. This can make a difference in several other tax items such as Roth IRA contribution eligibility, itemized deductions and exemptions, Medicare premiums and the net investment income tax.

The important thing to remember when it comes to QCDs is it must be made directly from your IRA to the charity. This means the check must be made out to the charity to be counted as a QCD. You can send a check periodically by signing a distribution form or **we can even set you up with a checking account on your IRA so you can write the checks as needed.** Call us today if you would like to discuss further or get this set up for next year! ■

Key Points

- The qualified charitable distribution (QCD) rule allows traditional IRA owners to deduct their required minimum distributions on their tax returns if they give the money to a charity.
- By lowering your adjusted gross income, the QCD rule can effectively reduce your income taxes and provide other tax advantages.
- QCDs are capped at $100,000 annually, per person.
- QCDs must be made directly to the charity.

Exchange Traded Funds and Taxes

Evan Watson, Investment Analyst

In our recent webinar, we discussed the changes to our portfolio and some of the effects of those changes. One of those effects was how taxes would change, particularly capital gains distributions. This can impact how we manage the taxes for you and how we treat your overall portfolio. This impact is possible because of the structure of ETFs compared to Mutual Funds.

Mutual Funds are structured in a simple way. Investors provide these managers their assets to invest in a portfolio they implement. In turn, investors receive a share which entitles the investor to a portion of the returns in that portfolio. In order to comply with the Securities and Exchange Commission (SEC), mutual funds must pay out at least 90% of their realized gains. This occurs when a mutual fund sells their shares in a company at a gain.

In contrast, Exchange Traded Funds or ETFs use a different structure that allows them to take advantage of a tax rule. These products have one extra step in their process. ETFs track an index that is either created or that already exists, like the S&P 500. When an ETF is started, the ETF manager lists the stocks and their allocations to a group of people that are called the market makers. These are the individuals that trade in markets to provide investors someone who is willing to buy and sell stocks within a reasonable time for a reasonable price.

Once the market makers are made aware of the holdings, they will come to ETF Managers with the basket of stocks. In exchange for the basket of stocks, the ETF will provide what is called a creation unit which is essentially a share of the ETF. Like the mutual fund, this share gives a claim on the basket of stocks that are held by the ETF Manager.

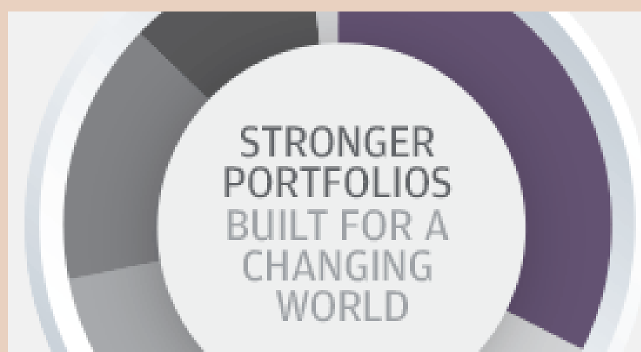
However, because of this structure of creation, they can actively manage the tax basis on their accounts. They can trade out the lower basis shares to the market makers in order to raise the basis and essentially never realize a gain. The effect to the consumer is the ability to trigger when the gains are realized versus having them steadily paid out over time at the discretion of the mutual fund.

This structure gives you more discretion and control over your taxes. Going forward, we will review these gains that are accrued in your portfolios and have discussions with you and your accountants on when and how much gain to trigger. ■

Out and About with RFS

In September, Amanda and Janet travelled to Nashville to attend Bob Veres' Insider's Forum to learn from high caliber, established thought leaders in the profession. Over the three-day conference, we heard a host of topics including current issues and themes that advisors are facing, how to better serve clients and advancing technical content.

In September, the team at RFS enjoyed the afternoon with quite a few clients getting to know more about our wonderful city of Cleveland!



Jim and Evan went to JPMorgan in New York to discuss trends and strategies with Managers and Economists from the JPM Team at the Wealth Management Summit.

As we mentioned in our recent webinar, we have created a growth-oriented portfolio that focuses on the Healthcare and Technology sectors. These are technologies of tomorrow that will change how we live and do business. We are going to highlight a new technology in each of our newsletters starting with this one.

For the initial highlight, we are going to look at the Electric Vehicle. This product has grown in popularity and has shifted how the automotive industry is thinking about their fleet. Recently, Ford announced its version of the EV called the Mach E. This is just another one of the big automakers noticing the change and entering the space.

The growing demand is driving many automakers to offer at least one option for the space, but how do these vehicles compare to a combustion engine vehicle? These vehicles obviously provide a different source of energy consumption, but also require a different infrastructure for that energy and a different maintenance schedule.

The big drive for transitioning from a traditional internal combustion engine to the electric vehicle is the emissions and efficiency of energy usage. Currently, internal combustion engines are inefficient when it comes to the conversion of energy. As you think back to your high school physics class, one thing that most of us remember is that energy can neither be created nor destroyed, only converted. When an internal combustion engine converts the potential energy of gas into energy to move the pistons, it also creates thermal energy. In fact, 80% of the energy conversion process goes to just creating heat. This means that for every gallon of gas you put in your car, only 20% of it is producing energy to move the wheels, according to the EPA.

In contrast, batteries and battery powered cars are much more efficient in converting power. The EPA states that the efficiency of conversion from grid power to turning the wheels is at about 60%. This means that the amount of energy needed to move the vehicle the same distance is significantly less. As battery technology improves, the distance that these vehicles can cover will steadily increase. Currently, the average range is about 200-300 miles per charge.

The infrastructure for these electric vehicles also needs some time to catch up. As you drive down a main street, take the time to count the number of gas stations you pass. Now do the same thing for charging stations. Unless you pass a store like Walmart, you probably counted zero. The infrastructure to support charging is still blossoming. Additionally, the time required to charge a vehicle is quite extensive. Even with the fastest chargers, from empty, it would take about one hour to get a full charge. However, most electric vehicle drivers can charge in their own home. As you park your car overnight, you can plug it in to charge. This is good for local commutes, but extended travel would still have issues. This is a piece of the EV puzzle that needs some work.

The last big shift is the maintenance required on these vehicles. Unlike the internal combustion engine, the number of parts is in the dozens instead of the hundreds. The EV engine does not require things like oil changes because of the way the engine is constructed. The engine itself can have as little as 6 moving parts. This obviously reduces the amount of parts that need to be maintained and the costs associated with these vehicles.

These vehicles obviously have significant upside when it comes to the amount of maintenance and the energy efficiency they provide. However, the slow charging speeds and lack of charging infrastructure are challenges this market must overcome. As these vehicles continue to grow in popularity, we will continue to see how they improve and create the next automotive generation. ■

Safe Tips for Communicating With Reed Financial Services, Inc. (RFS)

-Amanda Lisachenko, Chief Operating Officer

Forbes magazine predicts the cost of cybercrime will rise to $6 trillion by 2021. Be it ransomware, phishing, vishing, malware, social engineering, or spoofing, criminals are relentless and all of us are constantly under attack.

We wanted to take a few minutes to remind everyone of some best practices and tips when dealing with any communication from us.

- You will never receive a text message from RFS, or one of its employees.
- RFS will never ask you for a User ID or password.
- RFS will never send you a web link or directions that requires you to log in to a personal site.
- Always be aware that it is possible for someone to spoof an e-mail from us (an e-mail that appears to be from someone with the domain name of reed-financial.com). As a rule of thumb if you were not expecting the e-mail or it is asking for something unusual please call us for verbal verification before doing any actions suggested by the e-mail.
- Always be aware that our phone number can be spoofed. If you receive a phone call from someone claiming to be from RFS, even displaying our caller ID, and you don't recognize the individual, we encourage you to immediately call us back at our main phone number of (216) 464-2090.
- As a best practice, if you need to access our client web portal or the Pershing Investor portal type the known URL in a browser (rather than clicking a link – even it appears to be from us) or as an alternative access the portal from our 'Client Center' on our website (www.reed-financial.com).
- Be aware that email can be insecure and it is not advisable to send personally identifiable information (such as a SSN, DOB, account numbers, etc.) to us via email. If you need to send us personal information (such as outside account statements, tax returns, etc.), the best practice is to upload them to our secure portal or send them through a secure email.
- RFS does require verbal verification for all email requests for cash distributions for your protection.

We hope that by following these tips we can all stay safe and protected from cybercrime. ■