THE ANCORA ADVISORY

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On June 3, 2016 our merger partner and colleagues from Inverness Holdings Inc. move into our combined office located in Mayfield Heights, OH. Together, we will operate Ancora Inverness LLC the family wealth division of Ancora Holdings Inc. As you can see from the below construction photos, we have been busy expanding our space as we continue to grow in ways that will allow us to even better serve our family wealth client's needs. This includes a highly personalized and integrated planning and investment solution that we believe is unique in today's wealth management marketplace. We look forward to welcoming our new Ancora Inverness family wealth clients and colleagues to their new office.

LATEST ARTICLES

The Wall of Worry

John Micklitsch, CFA, CAIA

Chief Investment Officer

The topic of walls has been in the news quite a bit recently and we're not talking about the kind being discussed in the current political season. Rather we are talking about the wall of worry that the equity markets currently face. Federal Reserve policy, Brexit (Great Britain's upcoming vote to possibly exit the European Union), valuations, currency impact on earnings, Middle East tension, negative interest rates, sluggish growth, oil and minimum wage pressures are a few of the more prominent issues facing companies and investors in today's environment. The question, as it always seems to be, is how much should all of these items mean to you in the context of your long-term financial and planning goals. This article is not an attempt to address each mentioned item. Individually or collectively they have the potential to create uncertainty which markets generally dislike. This article is, however, an attempt to provide you with some helpful steps to consider before acting when equity markets find themselves in periods of uncertainty and potentially heightened volatility.

Step 1. Reaffirm your time horizon(s)

Whether you have your assets bucketed into accounts with specific goals associated with them or manage your investments more as a single silo, it is important to have a known time horizon associated with your investment assets. Essentially the longer your time horizon is – until retirement, home purchase, college tuition, etc., the more aggressive your portfolio can be because it has time to recover from bouts of volatility. The opposite is also true with shorter time horizons generally calling for less risk in the portfolio. As a result, it is potentially beneficial to view the events of the day through the context of your time horizon, and their relevance to personal goals that are often ten, twenty or even thirty years into the future, rather than through the emotional thought of should I or shouldn't I be in the market based on today's wall of worry.

Step 2. Match your asset allocation to your time horizon

Your asset allocation should shift with changes in your time horizon. If your time horizon is long, generally speaking you can accept more risk. As time horizons get shorter, the glide path towards more conservative allocations should commence. In the case of known expenditures such as paying for college or a second home, the glide path can end in a portfolio that is nearly all cash or short-term fixed income because the event itself is finite. For retirement, on the other hand a portfolio should gradually become more conservative as it approaches, however, as life expectancies get longer, retirees can begin their retirement with money needing to last another twenty to thirty years or more so growth (equities) and keeping pace with inflation should remain a part of the portfolio's objective. If you follow this adjustment framework and put your energy into accessing where you are in your asset allocation relative to your time horizon(s), the events of the day become less important to your personal planning.

Step 3. Look for opportunities to upgrade the quality of the portfolio

Most of the great investors view volatility as an opportunity to enhance their portfolios rather than a cause for overwhelming concern. This is a mindset that is easier to embrace if you have followed Step #1 and #2 in terms of adjusting your risk exposure to your time horizon. Whether you invest primarily with individual securities or funds, volatility gives you an opportunity to clear out weak or underperforming securities and upgrade to ones with stronger prospects, fundamentals, management teams etc. Not only can this act help from a tax loss harvesting standpoint, but it can clear your mind psychologically from the dead weight associated with disappointing holdings, which in turn helps you prepare for the future and not dwell on the past.

In summary, climbing the proverbial equity market wall of worry has a lot to do with your time horizon and your ability and willingness to take risk. As Warren Buffett has famously reminded investors, "In the short run the market is a voting machine, in the long run it is a weighing machine." What the market is weighing is the measurement of progress in human innovation and achievement that shows up each year in the form of corporate earnings. When that inspiration is nurtured in free-market, capitalist societies, long-term investing is a good bet, in our opinion, regardless of the issues of the day.

John Micklitsch, CFA, CAIA is the Chief Investment Officer at Ancora Advisors LLC a SEC Registered Investment Advisor.

Could Demand by Foreign Investors Drive U.S. Bond Yields Even Lower?

Jim Bernard, CFA

Managing Director, Fixed Income

Much has been written recently about negative interest rates in Europe, Japan, and other markets around the world. Foreign central banks continue to increase the size of their respective balance sheets by buying massive amounts of bonds, and prices continue to increase, driving some interest rates into negative territory. In recent months and years foreign bond investors have significantly increased their purchases of U.S. taxable municipal bonds, corporate bonds, and mortgage backed bonds. In our opinion, bond investors in these countries will continue to seek out relatively attractive risk adjusted returns, and their sights will increasingly focus on U.S. bond markets.

To quantify what these non U.S. investors are analyzing, the 5-year government bonds in Germany, France, and Japan are currently yielding -0.38%, -0.18%, and -0.23% respectively. The U.S. 5-year government bond is currently yielding 1.28%, an average yield advantage of 1.54%. If investors from Germany, France and Japan were to purchase investment grade taxable 5-year AA municipal bonds, A rated corporate bonds, or government agency backed AAA mortgage bonds with a 5-year average life, the yield pickup would be approximately 2.04%, 2.24%, and 2.29% respectively.

If you are a non U.S. bond investor in one of these countries or another similar country, and you are assigned the position of managing bond investments for pension plans, foundations, family offices or other financial institutions, picking up additional investment income of more than 2% in low U.S. credit risk instruments seems like a reasonable investment to consider, even when one considers the additional currency risk, or paying to hedge away this risk.

While the prevailing trends of foreign investor demand are only a portion of the story as it relates to changes in interest rates and credit spreads, and though rates in the U.S. remain near their all-time lows and credit spreads for investment grade issues also remain relatively low, it is still very possible that rates could move even lower in the coming months and years if foreign buyers continue to purchase U.S. bonds.

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Making Charitable Contributions from your IRA

Howard Essner

General Counsel, Managing Director, Family Wealth Advisor

Did you know that you can make a charitable contribution directly from your IRA, avoid Federal (and possibly State) taxation on the distribution, and have the contribution count toward your required minimum distribution? That's right. Last year, the PATH Act of 2015, made this special provision, which has been around in temporary form since 2006, permanent.

How might this opportunity benefit you? Without this special rule, if you took money out of an IRA and contributed it to a charity, you were required to report that distribution as taxable income. Of course, you could deduct the contribution as an itemized deduction, but that deduction might not offset the tax liability on the distribution depending on your tax situation. Now under these rules, a qualifying distribution is excluded completely from your federal taxable income. This can mean significant tax savings in the following situations:

- If you do not itemize. Under the old rules, the corresponding income and deduction would offset each other on your federal return only if you itemized deductions. If you did not itemize, you paid tax on the distribution from the IRA to the charity. Now, non-itemizers will obtain the benefit of a deduction for a charitable distribution from an IRA. This is particularly meaningful for taxpayers who live in states with no income tax (such as Florida), because these taxpayers often do not have enough deductions to warrant itemization.

- If you have maxed out your charitable deductions. Charitable contributions can only be deducted up to 50% of adjusted gross income. If you make a lot of charitable contributions and are subject to this limitation, this new rule provides you with the equivalent of a deduction in excess of the limit.

- If you are subject to alternative minimum tax, pay tax on social security earnings, have large medical or miscellaneous deductions, or have itemized deductions and personal exemptions limited because of high income. Many tax results are measured by a taxpayer's income. For example, medical expenses can be deducted only if they exceed a certain percentage of income. Likewise, itemized deductions are limited for high income taxpayers based on income levels. Because of the new exclusion, qualified charitable distributions from IRAs are not counted as income and can be ignored when analyzing these results.

- If you live in a state that does not allow charitable deductions and/or taxes retirement distributions. Ohio, for example, taxes retirement income and does not allow for charitable deductions. Thus, under the old rules, if took a distribution from an IRA to make a charitable contribution, you paid Ohio tax on the distribution without any corresponding deduction. Now, no Ohio tax will be paid on the distribution since it is never included in federal taxable income.

Of course, the law has some specific requirements. In order for a distribution to be excluded from income, the following requirements must be met:

- The distribution must be made from a traditional or Roth IRA. Distributions from 401(k), 403(b), SEP, Keogh, or defined benefit plans are not eligible for this treatment. However, it may be possible to rollover a distribution from such a plan to an IRA and then make the charitable distribution.

- The owner of the IRA must have reached age 70½ by the date of the contribution.

- The distribution must be made to a qualified charitable organization. Donations to private foundations, donor advised funds, and supporting organizations do not qualify.

- The amount excluded from gross income is limited to $100,000 per year per taxpayer (i.e., a married couple each with their own IRA can exclude up to $200,000 per year).

- The contribution must be made directly by the plan administrator to the charitable organization. This means that the check must be issued by the plan administrator made payable to the charity. If the check is made payable to the taxpayer and then endorsed to the charity, the exclusion does not apply.

A few other comments:

- Generally, distributions from traditional IRAs that hold only deductible contributions or rollover assets will benefit most from these rules, since these distributions are always subject to tax. If you own a traditional IRA that holds both before-tax assets and non-deductible contributions (which are not taxed when distributed), special rules apply that ensure that only the before-tax assets are distributed.

- Most distributions from Roth IRAs do not benefit from the new rules, since these distributions are not normally subject to tax. However, there are some situations where distributions from Roth IRAs are taxed, and in these situations, the new rules will provide the benefits discussed above.

- If you own very low cost basis assets, it may be more advantageous to donate these assets to charity.

The bottom line is this: if you are over age 70½, have assets in an IRA, make charitable contributions, and are in one of the above tax situations, you might consider having the charitable contribution made directly from the IRA, saving your other assets for other uses.

Howard Essner, JD, is the General Counsel at Ancora Holdings Inc.

Firm News:

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About Ancora Holdings Inc.: Ancora Holdings, Inc. is a Cleveland, Ohio based holding company which wholly owns three separate and distinct SEC Registered Investment Advisers, Ancora Advisors, Inc., Ancora Inverness, Inc. and Safeguard Securities, Inc., which oversee assets under management in excess of $4 billion in aggregate. Ancora Advisors, LLC is an institutionally focused investment manager with dedicated equity and fixed income strategies as well as acting as the investment manager to both mutual funds and alternative investments. Ancora Inverness, LLC is a leading, regional investment and wealth advisor managing assets on behalf families and high net-worth individuals. Safeguard Securities is a dual registrant SEC Registered Investment Adviser and FINRA member broker dealer focusing on open architecture Retirement Plan Services. For more information on Ancora or Safeguard, please visit www.ancora.net, and for more information on Ancora Inverness, please visit www.invernesswealth.com.

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