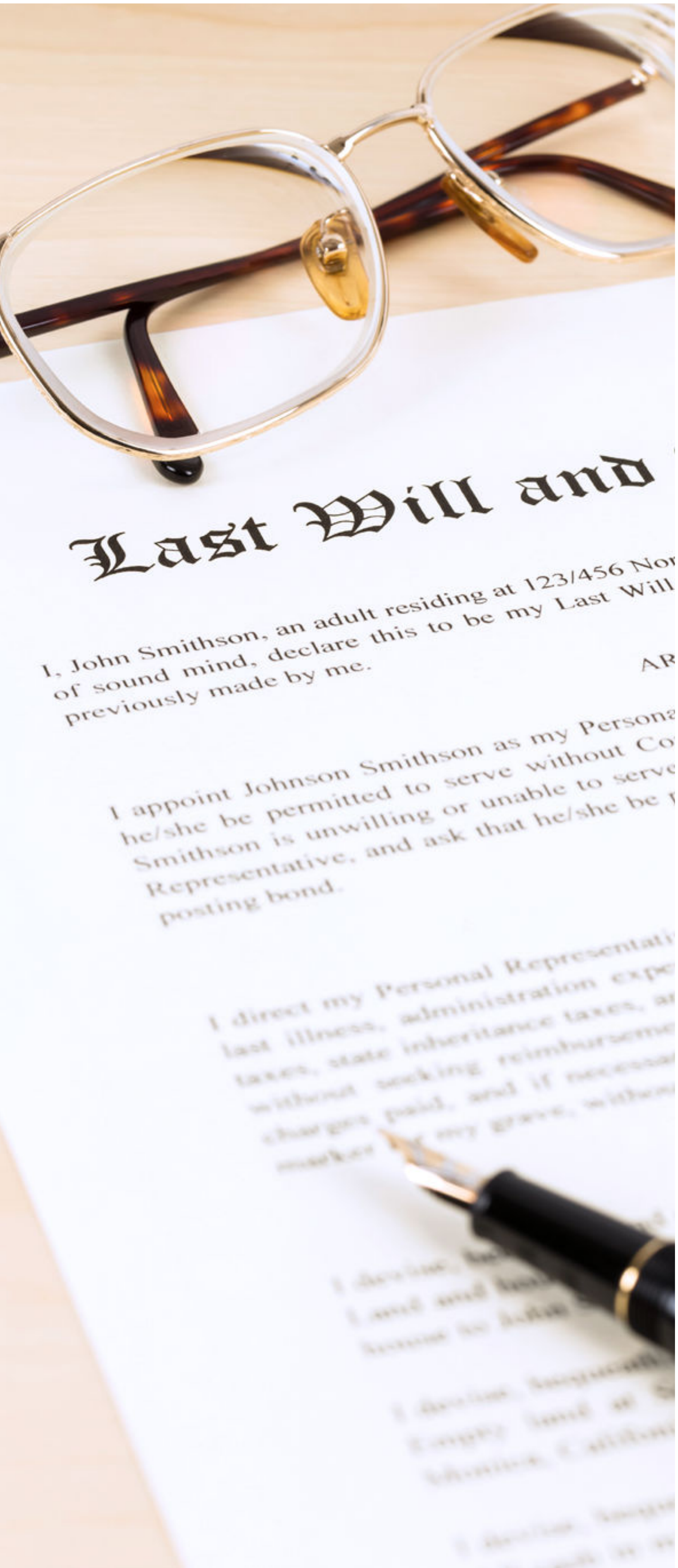
What to Do with an Inheritance

A FINANCIAL ADVISOR'S STEP-BY-STEP GUIDE

MORGAN ROSEL
WEALTH MANAGEMENT



Coming into a large lump sum of money, such as with an inheritance, can be very overwhelming. From understanding your tax implications to developing an investing strategy for your inheritance, deciding what to do with an inheritance is a complicated and intricate process to undertake, especially without guidance. Here at Morgan Rosel, our investment advisors and wealth managers work hard to provide our clients with peace of mind by creating a strategy and managing large sums of money with thoughtful and personalized consideration.

While everyone's individual situation differs, there are a few things we believe everyone should keep in mind when they are deciding how to move forward after getting an inheritance. Here is our step-by-step guide to help you make the most of it.

Take Time to Grieve

This is an especially important thing to keep in mind when you receive an inheritance. In many cases, inherited wealth comes along with a sense of guilt and sorrow. After all, it can seem as though the only reason you have the inheritance in the first place is because someone you loved dearly has passed away. This kind of emotional response can have a debilitating effect on what financial decisions you make.

We recommend shifting your perspective during this difficult time. Your loved one left behind something for you because they cared for you—they would want you to make the best of their gift. Take the time you need to come to terms with your feelings and grief before making any financial decisions.

Get Organized & Assess Your Financial Situation

After you feel ready to make the most of your inheritance, we believe it's a great first step to assess your current financial situation—from your debts to your monthly financial commitments.

After getting organized on where your finances stand, an equally important step comes next, familiarizing yourself with the details of your inheritance.

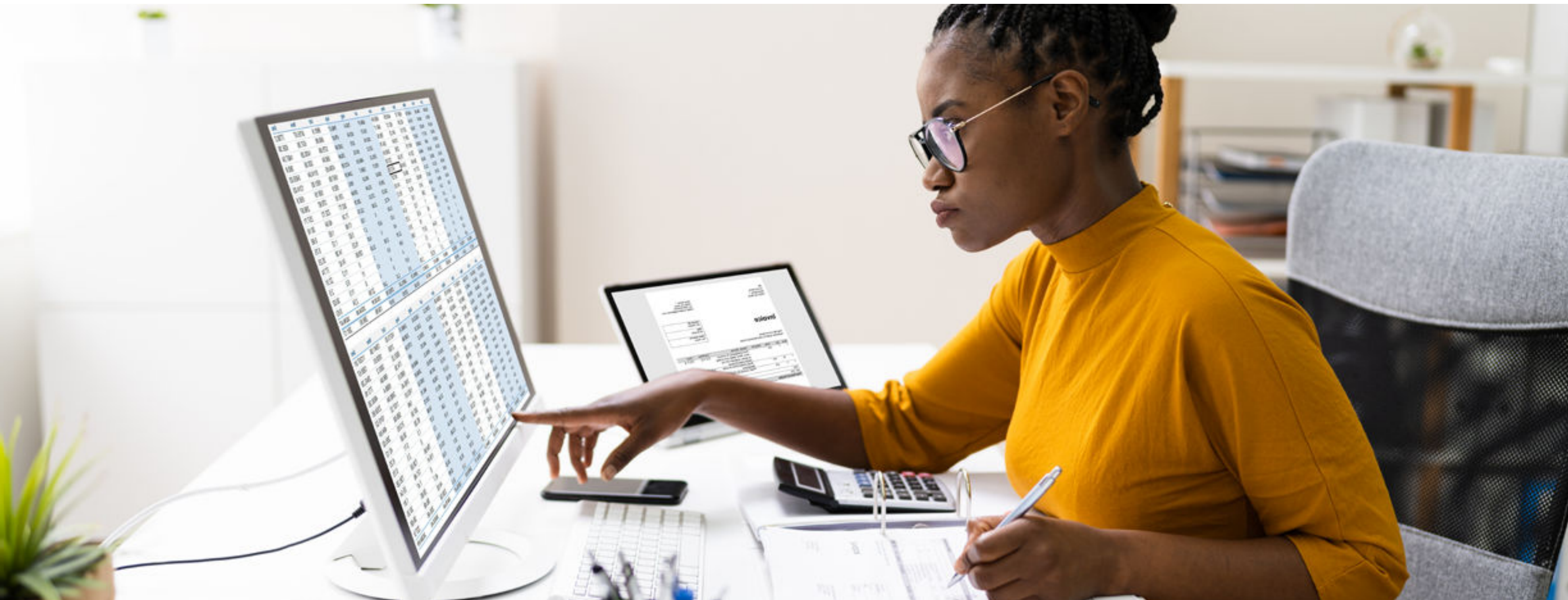
Consider This

Everyone's financial situation is unique, but there are a few key questions our wealth management team likes to discuss with all our clients during this stage.

- Are you free of high-interest debt?
- What does your retirement plan look like?
- Is your emergency fund squared away?
- Can you easily cover your regular financial obligations with your current income?

Understand the Details of Your Inheritance

Inheritances come in many forms, from cash, stocks, bonds, retirement accounts, and life insurance to businesses, houses, or other real estate properties. It is likely to be a combination of some or all the above. Assets may be available to draw on immediately (liquid) while others may require more effort if you need to cash them in (illiquid). Some may even produce very complicated tax situations.



Now that you understand where you stand financially as well as the details of your inheritance, you can start developing a strategy for how to meet your immediate obligations, both old and new. For example, if you inherited a house alongside some cash, you may need to use the cash to pay for home repairs, maintenance, and taxes. Before making any major investments or spending large sums, it's now time to plan for taxes.

Consider Your Tax Implications

With any large influx of money, there will be tax implications to consider. Especially if you are dealing with an inheritance, you may be subject to new tax liabilities depending on the types of assets your inheritance includes.

State Taxes – Residents of certain states will be subject to inheritance taxes. Colorado does not have an inheritance tax (at the time of this writing) but if the deceased is from one of the states that does have one, a tax liability may occur. Its best to talk to an estate planner or tax professional about your specific situation.

Federal Estate Taxes – You may have to pay federal estate taxes on your inheritance if the value of the estate exceeds the allowable estate tax exemption. The taxable amounts can change with the election cycle, so we recommend reaching out to a wealth management professional for advice. The tax is applied to the whole estate instead of individual beneficiary amounts. Tax rates can be 40% or greater, so engaging a wealth advisor to shield as much of it as possible from being taxable can save you a considerable sum.

IRA Inheritances – Withdrawals from standard IRAs will be deemed as taxable income. However, Roth IRA withdrawals are exempt because the tax was paid when the money was invested. To get the most accurate information, we recommend consulting with a tax professional.

Capital Gains Tax – This kind of tax is assessed when you make the decision to sell an inherited asset. A capital gains tax is levied on the profit from the sale of an asset, like stocks or real estate. The tax rate depends on several factors, like how long you owned the asset and your overall tax bracket. If you are inheriting assets that have appreciated in value, it's important to understand how a capital gains tax could impact your inheritance. Working with a qualified, experienced wealth manager as well as a tax professional can help point you in the right direction for your personal situation.

We typically recommend sitting down with the tax professional on your wealth management team to leaf through all the nitty gritty details of the potential tax liabilities you'll be facing. This will not only save you money in the long run, but will also give you valuable information that can help steer you in the right direction when it comes to putting together your overall strategy.

Outline Your Goals for What to Do with the Inheritance

After understanding your current financial situation, the details of your inheritance, and considering the possible tax implications you'll have to face, it's now time to push forward and put together a solid list of goals for your inheritance. Do you want to grow your wealth? Give it away? Preserve your capital? Start a business? Buy a house? Figuring out an end-goal from the get-go is a must so your wealth management team can put the most personalized, numbers-backed plan in place to help fulfill your goals.

Here are some common things to do with an inheritance. Most people do some combination of the ideas below. A wealth manager is a great resource and will help you develop a strategy for how to manage an inheritance.

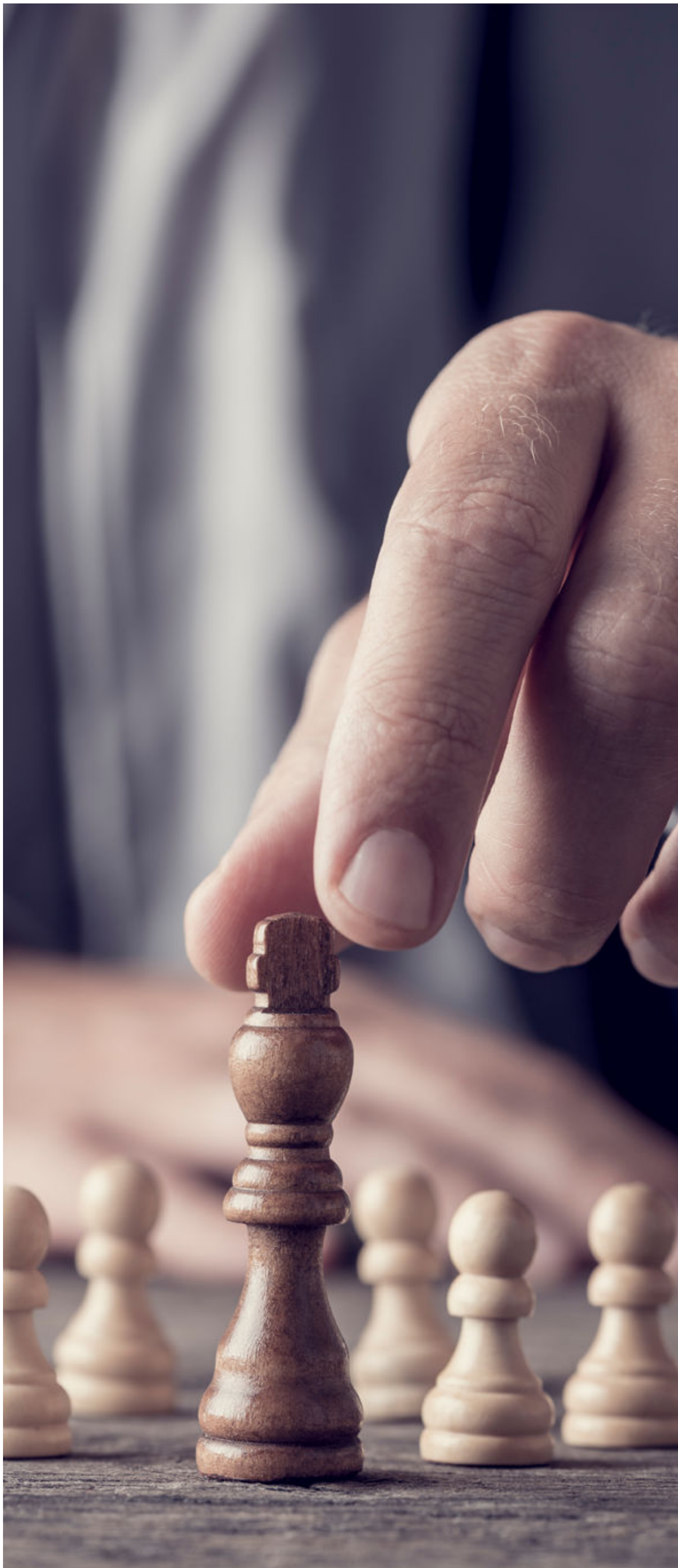
- Pay down debt
- Spend and enjoy it
- Save it
- Make traditional investments
- Make alternative investments
- Donate it
- Buy a house
- Buy a vacation home
- Buy an investment property
- Buy a commercial property
- Pay for a child's education
- Start a business

Develop Your Strategy

Once you know what your goals are, it's time to get the ball rolling on your strategy. In most cases, one's inheritance investment strategy incorporates one or more of the following.

Invest It

While some folks may feel as though they can handle investing their inheritance on their own, we strongly recommend working with a wealth management team if possible—especially one that has access to tax professionals and estate



planners. Investing a lump sum of money like an inheritance has a lot of risks. For example, if you put it all in stocks and the market drops, you could lose a large portion of your inheritance very quickly. An investment advisor can provide valuable expertise and strategy to hedge against these risks.

In addition, if there's one thing we know for certain, it's that life is unpredictable. Something may come up that prompts you to shift your goals for your investments, such as having a child, getting married, going through a divorce, or selling a property. The economy may take an unprecedented turn which necessitates a re-assessment of the level of risk you're willing to act on when it comes to your investments. Whatever the case may be, having wealth managers, tax planning professionals, estate planners, and financial advisors in your corner will help you make the best decisions with whatever comes around the bend (and give you peace of mind!).

Pro Tip

Make sure you know your risk tolerance so you and your wealth management team can determine the right investment options for you. Understanding and sticking to your risk tolerance will help you and your wealth management team determine the right investment options for you.

Now let's take a closer look at some investment vehicles you can choose from.

Mutual Funds

If you're looking to grow your wealth over time, then investing in mutual funds may be a good option to consider.

A mutual fund is an investment vehicle made up of a pool of money from different investors. The money in the mutual fund is then used to purchase a variety of securities, such as stocks, bonds, and other investments. One of the biggest advantages of mutual funds is that they offer professional management. When you invest in a mutual fund, you are hiring a team of professionals to manage your money and make investment decisions on your behalf. This can be especially helpful if you don't have the time or expertise to manage your investments yourself.

Another benefit of mutual funds is that they offer diversification. By investing in a mutual fund, you're able to spread your money across a variety of different investments, which can help reduce your overall risk. And because mutual funds are designed to offer long-term growth, they can be a great way to grow your wealth over time.

Two Things to Keep in Mind When it Comes to Investing

1. **There are risks involved with any kind of investment.** If you invest a large amount of money all at once and the markets go down, then you could potentially lose a lot of money very quickly. This is a key reason many investment advisors recommend diversifying your investments as opposed to putting all your eggs in one basket. Diversifying your investments means investing in different kinds of assets so if one particular investment goes down in value, you won't be facing as substantial of a loss.
2. **Don't put the horse before the cart.** Even the most seasoned investors can make impulsive, costly mistakes due to lack of preparation. Work with your wealth management team to conduct as much research as possible before investing in anything.

Exchange-Traded Fund (ETFs)

An ETF, or exchange-traded fund, is a type of investment that allows you to diversify your portfolio without having to buy multiple stocks or bonds. ETFs are traded on stock exchanges, and they can be bought and sold like any other stock. Because ETFs are traded on stock exchanges, they are subject to the same rules and regulations as other stocks. There are many different types of ETFs, but all of them offer investors the opportunity to diversify their portfolios without incurring higher fees sometimes associated with traditional mutual funds.

Bonds

If you're looking for steady income, then investing in bonds could be an advantageous addition to your investment strategy. When you invest in bonds, you are essentially lending money to a government or corporation. In exchange for this loan, the borrower agrees to pay you interest over a period of time. The longer the loan period, the higher the interest rate will be.

Pro Tip

Not sure how to invest in bonds? An investment advisor can manage buying bonds on your behalf. Still not looking to hire an investment advisor? There are mutual funds and ETFs that incorporate bonds exclusively or are a mix of stocks and bonds.

Real Estate

Investing in real estate is another historically reliable way to accumulate wealth. As anyone who has invested in real estate knows, property values can go up over time, providing you with a healthy return on your investment. In addition, when you own real estate, you own a tangible investment, meaning you have physical property that will most likely, always have value. Plus, if you choose to invest in rental properties, you can generate passive income through rental payments.

The downside? Since real estate is a tangible asset, it requires capital to maintain. For example, you'll need to pay for maintenance, repairs, property management, taxes, and more. Most real estate should be seen as long term investments.

Pay Down Debt

One of the wisest ways to leverage your newly acquired wealth is to pay down your debts. Now, there are two different kinds of debt to consider. One is high-interest debt, and the other is low-interest debt.

We recommend taking care of your high-interest debts, like credit cards or private

Our Two Cents

When it comes to investing, there is no one-size-fits-all approach. What works for one person may not be the best strategy for another. We recommend diversifying your investments by spreading them across different asset classes, such as stocks, bonds, and real estate. This strategy helps to buffer your portfolio against market fluctuations. Another example of diversification is to invest in both developed and emerging markets. This can give you exposure to a wider range of economic conditions and help diversify risk.

Moreover, you can also diversify your investment strategy by using both active and passive investment vehicles. Active investment vehicles, such as mutual funds, give you the opportunity—via a fund manager-to choose specific investments. Passive investment vehicles, such as index funds, track a specific market or index. By using a mix of both active and passive investment vehicles, you can build a well-rounded investment portfolio that is less likely to experience drastic swings in value.

student loans, first. High-interest debt is typically defined as any debt with an interest rate above 10%. We encourage our clients to consider making this kind of debt a top priority to pay off because it costs them the most money in the long run.

Consider This

Let's say you have $10,000 in credit card debt with an interest rate of 15%. If you only make the minimum payment each month (interest plus 1% of balance), it will take you almost 28 years to pay off the debt and you will end up paying almost $12,000 in interest.

After paying off your high-interest debt, focusing on taking care of your low-interest debt, such as your home's mortgage, your auto loan debt, or your federal student loans, is a great next step.

Debt takes its toll on people—physically, logistically, and emotionally. Making the decision to take care of a chunk of your debt, or even all of it, can give you a boost in your credit score, will save you money in the long run, and will give you a sense of financial freedom.

Pro Tip

In some cases, it may make sense not to pay down low interest debt. This strategy works if you can see a better return on that money in a different investment. For example, if your mortgage is at 3% APR but Treasury I-bonds are paying 6% APR, you might want to buy the bonds instead of paying down the debt. An investment advisor can make recommendations and help you make these types of inheritance investing decisions.

Charitable Giving

Charitable giving is an incredibly rewarding and impactful way to utilize your inheritance and reduce your tax burden. One of the main reasons people gravitate towards charitable giving is because it not only helps causes that they care about, but it can also strengthen their own emotional wellbeing.

"Evidence suggests that prosocial spending — loosely defined as spending money on other people, rather than on yourself (charitable giving is an example of it) — can boost your emotional well-being and provide other health benefits." – Everyday Health

In addition, if you approach it from an estate planning perspective, any assets that you gift to charity will automatically be excluded from your taxable estate. So long as the charity is a qualified 501c3 organization, you won't pay any estate taxes on your donation!

Emergency Fund

If you don't have an emergency fund squared away, utilizing some of your inheritance to do so is a sure-fire way to reduce stress and give yourself peace of mind. Our wealth managers firmly believe that having an emergency fund is a fundamental component of any financial wellness plan, and we like to recommend that all our clients have one in place should unexpected circumstances arise.

Pro Tip

A good rule of thumb is to have at least six months of living expenses saved up in an emergency fund.

Treat Yourself

If you're like most people, you'll probably want to spend at least some of your inheritance on yourself. Whether you're eyeing a long-sought-after vacation with your family, are looking to invest in getting a degree, or are perhaps in the market for something that you've been itching to purchase, make sure to have a quick conversation with your wealth manager first. They'll provide valuable advice as to how much you can realistically spend while still staying within the boundaries of your financial plan.

Consult with an Experienced Denver Wealth Manager

When you receive an inheritance it can be a substantial amount of money. Many people are quick to hire a wealth manager, others try to invest the inheritance themselves, and some people just aren't sure what to do—and that is okay. Taking your time is encouraged. However, if you're feeling overwhelmed, partnering with an experienced local wealth manager near you could potentially add a lot of value.

When our clients come to us for wealth management advice and what to do with an inheritance, our investment advisors do all that they can to grow and preserve your newfound wealth. If you're wondering what to do with your inheritance, rest assured that Morgan Rosel Wealth Management has a team of financial professionals that would be happy to help. Reach out to us on our contact page or give us a call at 303.647.3801.

About Morgan Rosel Wealth Management

At Morgan Rosel, you don't have to press 0 to speak to a representative. We just pick up. We're stubbornly committed to bringing the human element back to financial planning and investment management. That means promptly answering your questions, thoroughly understanding your goals, and expertly implementing a strategy based on your best interests. We know that earning your trust requires producing exceptional results and continually exceeding your expectations. And that is just what we'll do. Because we're in your corner.

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