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REFLECTIONS

2nd Quarter Newsletter 2014



WINDGATE
WEALTH MANAGEMENT

IS IT TIME TO ENROLL IN MEDICARE?



**Sean Condon CFP®
Financial Planner**

Plan smart to maximize coverage and avoid costly lifetime penalties.

Mark your calendars, it pays to know when to enroll in Medicare. The Medicare enrollment rules are complex and unforgiving. Knowing when to enroll in Medicare can save you from costly lifetime penalties and prevent long periods spent uninsured. Health care expenses are an often overlooked element of retirement planning. In fact, an average 65 year-old couple retiring in 2014 can expect to need an average of \$220,000 to cover medical expenses throughout retirement, according to a study by Fidelity Investments*. Medicare premiums will make up a significant portion of this cost, so it makes sense to understand them. First, let's start with the basics.

The ABC's Of Medicare

Original Medicare - known as Part A and Part B - is administered by the Federal Government and is the way the majority of Americans receive Medicare. Medicare Advantage (Part C) and Prescription Drug Insurance (Part D) were created with the passage of the Balanced Budget Act of 1997. Details on these programs are below.

If you have any questions or comments, or if you know of any friends or family that might benefit from our services, please give us a call at 800.331.8936

- **Your Account Online**

You can log-in to your personal financial website at www.windgatewealth.com by going to the "see all accounts" tab

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- **Medicare Part A (Hospital Insurance)** covers hospital, skilled nursing, and hospice care. Part A is provided at no cost if you (or your spouse) are fully paid into Social Security by working for at least 40 calendar quarters (10 years).
- **Medicare Part B (Medical Insurance)** covers physicians' visits and outpatient care. You pay a monthly premium for this coverage – \$104.90 in 2014 – which is deducted from your Social Security Benefits if you are receiving them. Medicare Part B will generally cover 80% of costs, leaving patients responsible for the remaining 20%. Notably, Part B premiums will be greater for high-income individuals. If modified adjusted gross income exceeds \$85,000 (single filing) or \$170,000 (joint filing), premiums increase on a tiered scale up to a maximum of an additional \$230.80 per month.
- **Medicare Part C: (Medicare Advantage)** allows private health insurance companies to provide Medicare benefits. A Medicare Advantage plan will generally combine the benefits of Parts A and B with supplemental coverage (such as vision, dental or the remaining 20% of costs not covered by Part B). In addition to your Part B monthly premium, you will pay a premium for a Medicare Advantage plan. Medicare Advantage premiums and available benefits are based on the plan and determined by your insurer.
- **Medicare Part D (Prescription Drug Coverage)** provides outpatient drug coverage for an average monthly premium of \$33 in 2014, although premiums can range up to \$100 depending on the type of coverage you choose. Like Medicare Part B, premiums increase for individuals with higher income. Surcharges range from an additional \$12.10 to \$69.30 per month beyond the basic premium.

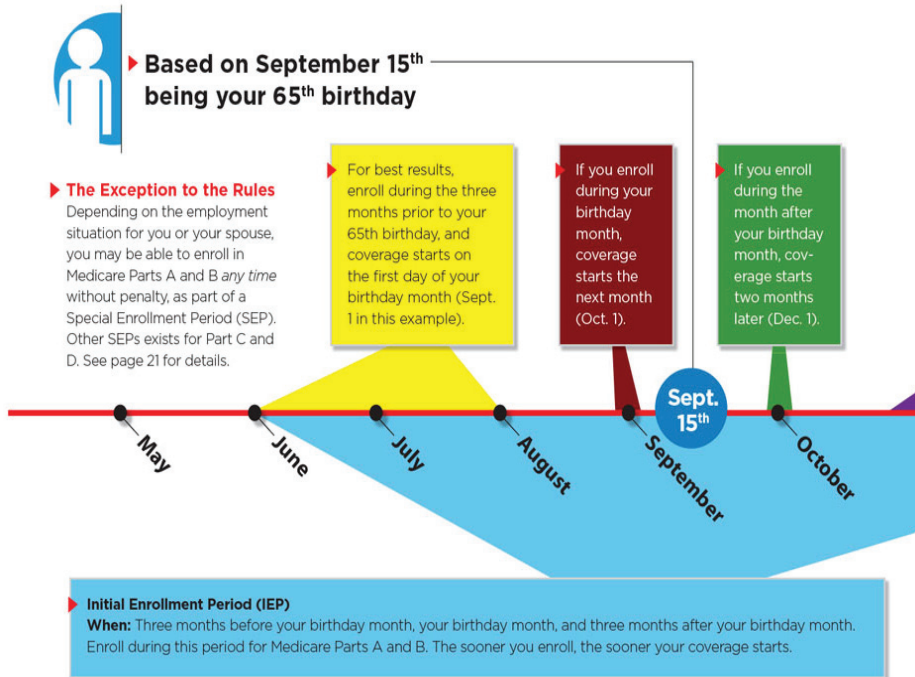
To maximize Medicare coverage and eliminate lifetime penalties, enroll during the three months prior to your 65th birthday.

Understanding Medicare Enrollment Windows

Knowing *what* Medicare Parts you want to enroll in is only half the battle: you need to know *when* to enroll. Medicare offers numerous enrollment periods depending on your situation and you don't want to miss your window. Beneficiaries who miss their enrollment period can face long periods of time without coverage and will be penalized with lifetime increases in premium payments.

IT IS TIME TO ENROLL IN MEDICARE? (CONTINUED)

If you don't enroll on time, for example, your Medicare Part B premiums will be permanently increased by 10% for each year you did not enroll while you were eligible. Understanding Medicare's enrollment windows and how they relate to you is crucial. A synopsis of each period follows:

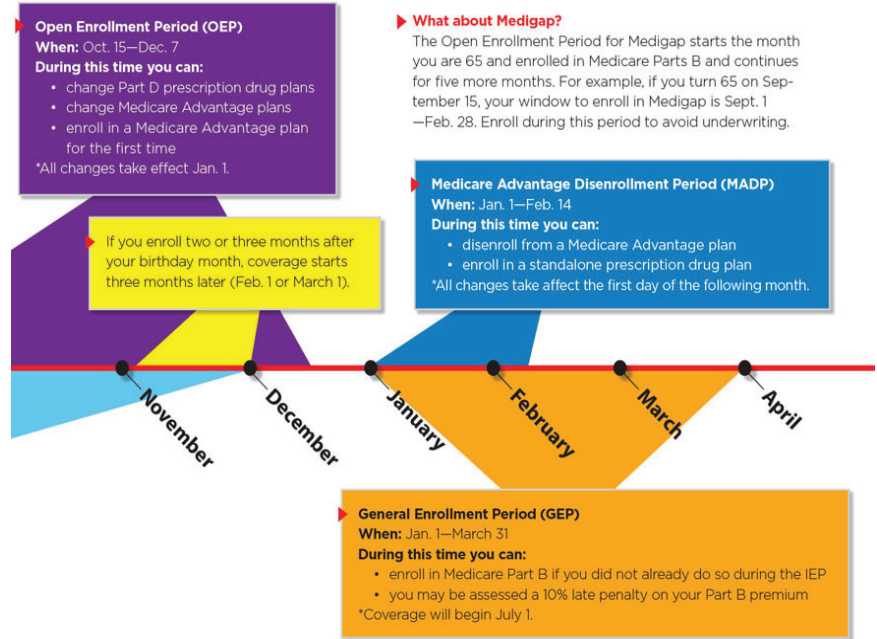


Initial Enrollment Period (IEP)

This is your first opportunity to enroll in Medicare; it is a seven month window which begins three months prior to your 65th birthday and ends the third month following your birthday month. To maximize Medicare coverage and eliminate lifetime penalties, enroll during the three months prior to your 65th birthday. Three months before your 65th birthday is the date you want to circle on your calendar. If you enroll during this period, coverage starts on the first day of your birthday month. The longer you wait after your IEP begins, the less amount of time you will be covered.

If you wait to enroll until your birthday month, coverage starts the following month. Wait until the final two months after your 65th birthday (the end of the IEP), and your coverage begins three months after your enrollment. In this example, by delaying your enrollment until the last minute, you will have lost up to six months of Medicare coverage.

If you miss the IEP outright, you will be subject to penalties and face a long period where you will not be covered. Remember, your Part B premiums are increased by 10% for each year you did not enroll once eligible. In addition, Part D premiums are increased 1% per month for each month you do not enroll. These penalties are permanent: you will continue paying higher monthly Medicare premiums for life. Once the IEP window has closed, you need to wait until the next General Enrollment Period begins to enroll, which is discussed on the next page.



Source: Journal of Financial Planning

IT IS TIME TO ENROLL IN MEDICARE? (CONTINUED)

General Enrollment Period (GEP) This is the window where those who missed their IEP can enroll in Medicare. It runs from Jan. 1 to March 31 of each year. Coverage begins July 1, so if you are forced to wait until the GEP to enroll, in addition to paying penalties you may go many months without coverage.

Special Enrollment Period (SEP) The Special Enrollment Period allows individuals to remain on their employer's health plan past the age of 65 without enrolling in Medicare. To qualify, you (or your spouse) must be working and covered by a group plan through the employer. When you do stop working, you then have an eight-month window to enroll: this is your Special Enrollment Period. There are two important caveats here: first, your employer plan must cover a group of 20 or more members, so for many small businesses you are not eligible for the SEP window and will need to enroll during your IEP. Second, COBRA is not considered a qualifying employer plan. So if you don't enroll in Medicare on time because you are retired but on a COBRA plan, you will be considered to have missed your IEP and forced to pay penalties. Special Enrollment Periods are also offered following certain major life events outside of retirement, such as if you move or you lose other insurance coverage.

Open Enrollment Period (OEP) The Open Enrollment Period is the time of the year when you can change your Part D Prescription Program or Medicare Advantage plans or enroll in a Medicare Advantage plan for the first time. The OEP enrollment window runs from Oct. 15 - Dec. 7 each year. All changes take effect Jan. 1 of the next year.

Medicare Advantage Disenrollment Period (MADP) If you want to cancel your Medicare Advantage plan out right you need to do it during this period. The window runs from Jan 1. To Feb. 14 each year. Beneficiaries who disenroll in a Medicare Advantage plan here can also add a new Part D Prescription Drug plan during this window. Changes begin the first day of the following month.

Knowing when to enroll in Medicare is a crucial element of retirement planning that can save you costly lifetime penalties or long periods without health care coverage. Visit [medicare.gov](https://www.medicare.gov) for even more information and call us for additional assistance about how to fit Medicare into your retirement plan.

MEET THE TEAM: Matthew Brackmann, Director of Trading, Investment Analyst



Matthew joined our firm in 2004 and is a member of the investment committee. As an investment analyst Matt is actively involved in idea-generation for the firm's portfolios and works with the investment team managing client accounts invested in the All Weather Portfolio. As Director of Trading, Matt is responsible for managing the firm's trading desk, which includes overseeing all trading activity, keeping and maintaining all trading records, arranging and managing relationships with sell-side brokerage firms and serving as the liaison between the advisor and the advisors client's custodians. He received his B.B.A. in Finance from the University of Iowa in 2004.

Q. What drew you to Windgate Wealth Management?

I was attracted to working at Windgate due to its small business and entrepreneurial atmosphere. I grew up living and working on a farm in Illinois and have been watching the commodities markets since I was young. This interest, along with being from an environment where you're responsible for carrying out several different tasks, makes Windgate Wealth Management a natural fit for me. Knowing that others are depending on you to "get the job done" so to speak, in a small, close-knit environment makes the job that much more rewarding. The teamwork mentality we approach our work with is my favorite aspect of the firm. My passion for many of our smaller company investments is related to the fact that most of these firms are small businesses themselves, led by like-minded people with a similar culture to our firm.

Q. As Director of Trading, explain how your trading philosophy relates to clients.

We tend to mix diversified, low-cost investments with more dynamic, small company equity holdings. This creates a dual-purpose to our trading desk. Regarding the small company investments, due to the nature of trading in less liquid and smaller companies we spend a lot of time directly communicating with traders when seeking liquidity. We need to stay aware of what is happening in our investments.

I have developed many strong trading relationships over the years because I interface with people directly, as opposed to over an electronic platform. Professionals on the sell-side of the industry understand what your firm is expecting from them much more clearly when you speak with them directly. In regards to the asset allocation segments of client portfolios, our trading goals are to be conscious of tax consequences and to reduce trading costs. This means that our process requires working closely with our planning team to understand a clients' big picture goals before executing a trade.

WINDGATE SUPPORTS LITTLE ANGELS, Teri Corbett

Windgate Wealth Management/Perritt Capital Management, Inc. is a proud Golden Angel sponsor for the 2014 Little Angels Pledge Run. On May 18, 2014, led by former Chicago Bear Roland Harper, over 700 motorcycles and 1,200 participants hit the road for the 27th year to support the Little Angels, a loving home for children and young adults with severe disabilities and complex medical needs.

The event raised over \$158,000, leading to over \$5,000,000 raised in the event's 27 year history. Perritt Capital Management is one of 35 corporate sponsors joining over 900 private donors to support the Pledge Run this year.

Little Angels, Inc., a residential facility for children and young adults with severe disabilities, opened its doors in 1958. Located in Elgin, Illinois, the home provides children and young adults with complex medical and developmental needs a lifetime of loving care and professional support in a place that feels like home. It is a state-of-the-art facility offering round-the-clock skilled nursing therapeutic,

We thank Teri Corbett,
Treasurer of Perritt Capital
Management, Inc. and Michael's
spouse for covering this event
for us in May 2014



Little Angels facility located in Elgin, Illinois

and habilitation services in a warm, caring environment. In addition to the loving medical and personal care the staff provides, educational and developmental programs also help residents progress and live fulfilling lives.

We at Windgate Wealth Management/Perritt Capital Management, Inc. are proud to support wonderful organizations like Little Angels in our community. For more information on this facility or to contribute to the efforts, please contact Little Angels through their website, www.littleangels.org or by phone at (847) 741-1609.

“On a personal note, I was pleased to have the opportunity to tour the home, meet some of the staff and even some of the residents. I was truly inspired by the dedication of the staff, the commitment of the supporters and the wonderful facilities. Everyone is dedicated to making Little Angels a HOME. I could feel the love and compassion that everyone has for the residents.” Teri Corbett



Little Angels on the road

YOUR BRAIN: FRIEND OR FOE?



What Every Investor Must Know About How Your Brain Can Actually Work Against You.

Whichever way you may look at it, when you're wrong, you're wrong. It's a cruel reality that many investors have a hard time admitting, and even more have a hard time moving on from. Your brain, according to some social psychologists, ought to shoulder the blame for this burden. Cognitive biases plague every investor, but perhaps a better understanding of these 10 biases may save you from the next investing blunder you would've otherwise committed.

What exactly is a cognitive bias? A cognitive bias is “a pattern of deviation in judgment that occurs in particular situations, leading to perceptual distortion, inaccurate judgment, illogical interpretation, or what is broadly called “irrationality.” The mere fact that we as humans have developed cognitive biases signifies evolved thinking – and signifies a complex brain that is actively working to exploit a heuristic experience-based technique for problem solving and

discovery. But sometimes those heuristics are wrong – and in the world of investing, these biases can lead our financial portfolios astray. Below are the ten cognitive biases that have the ability to sink your portfolio:

#1 of 10: Confirmation Bias

A **confirmation bias** is something we all can admit to: we like to be around others who agree with us. This can be true in the political world or when arguing about the greatest basketball player of all time. (It's Jordan, not Bird.) Your argument is right, and becomes increasingly stronger when flanked by others who agree and do not challenge you.

#2 of 10: In-Group Bias

In that same vein, **in-group** bias means you tend to favor those in your immediate community. It may result from the urge to strengthen those bonds, or because you would hope those in your community would do the same for you—whatever the reason, it results in you overestimating the abilities of those in your community.

#3 of 10: Gambler's Fallacy

The **gambler's fallacy** may leave you broke, or worse. It's the belief that your luck will turn after so much poor luck, or that the latest hot streak you've had—finding a stray \$20 on the street, another stray \$20 in your jacket pocket—must continue so you purchase a lottery ticket. In reality, none of these events are related, and all are the result of happenstance. Your brain has merely created a narrative that connects them and seeks to deduce larger meaning from what is in actuality statistical noise.

#4 of 10: Neglecting Probability

If you've ever gulped out of anxiety as the plane prepares for liftoff on your latest work trip, there's a good chance you're **neglecting probability**. It is true: you're much more likely to meet your end in a car accident than a plane crash, so breathe easy, and indulge yourself with a second bag of those free peanuts.

A confirmation bias is something we all can admit to: we like to be around others who agree with us

YOUR BRAIN: FRIEND OR FOE? (Continued)

#5 of 10: Observational Selection Bias

Observational selection bias occurs when, after taking your bike to work one Monday morning, you notice that there are many more bicyclists on the road than before. Bicyclists are everywhere, you think, and the paranoia you feel is foolishness: there were just as many two-wheeled commuters before that Monday than after, now you're just acknowledging them.

#6 of 10 Status-Quo Bias

The **status-quo bias** is yet another cognitive bias. We don't like change, we like routines, we find comfort in a kind of stasis, and we perceive a change in our equilibrium to somehow be a "loss," even if it actually beneficial. When your favorite route to work is blocked due to construction and you're forced to take a different path – even if that different path takes you to work four minutes quicker (!!) – you can thank the status-quo bias for your resulting (and factually unjustified) frustration.

#7 of 10 Negativity Bias

On September 29 2008 the Dow lost 777 points and the headlines read loud and clear: "Dow Suffers Worst Day in History." Attention grabbing, yet the day barely cracked the list of worst 15 days on a percentage basis. More interesting is that when the index regained 485 points the following day there were few headlines which read "Dow Enjoys Best Day in History," although that was also true. (2nd best by 3 points at the time, to be fair). This is the result of **negativity bias**—the phenomena that people tend to pay more attention to negative news than good news. Be warned, this is a bias where the media is of course well aware.

Negativity bias - the phenomena that people tend to pay more attention to negative news than good news. Be warned, this is a bias where the media is of course well aware

#8 of 10 Bandwagon Effect

The **bandwagon effect** occurs when you wish to conform to the majority opinion. A prime example is the way you, and everyone else, believes that internet stocks of the 90's can go up forever and ever despite having no earnings. It feels true, and it is comforting knowing you are with the masses.

#9 of 10 Projection Bias

And because you're you, and nobody but you, you're armed with a **projection bias**. You tend to assume others are just like you, think like you and draw conclusions in the same way as you do. And while you may not actually put words in other people's mouths, you tend to think you understand the thought processes that cause those particular words to come out of their mouths. Wrapping your head around the fact that others all think in their own, unique ways is strangely hard.

#10 of 10 Anchoring Effect

And while every investor loves discovering a great deal, before you leap for the 60% OFF - FINAL MARKDOWN - EVERYTHING MUST GO hard-to-find item, think about the total cost, not the savings. The **anchoring effect** leads you to believe that the savings is what makes the purchase worth it, whereas it should be a combination of price, necessity, and more logical reasons that make it a worthwhile purchase.

So, to beat your brain at its own game, keep these 10 biases in your head—or in your gut. Next time you fall into one of these traps, you can only blame yourself. Or you can convince yourself that you were right all along.

The anchoring effect leads you to believe that the savings is what makes the purchase worth it.

FINANCIAL PLANNING RESOURCES

“An Investment in Knowledge Always Pays the Best Interest” - Ben Franklin



Here is a collection of financial planning and investment resources available on the web. Links are also provided in the Resources section of our website at [windgatewealth](http://windgatewealth.com).

SOCIAL SECURITY

Social Security - see your estimated Social Security monthly benefits and earnings record on line. <http://www.socialsecurity.gov/myaccount/>

MEDICARE

The official government website for people with medicare. <http://www.medicare.gov>

AARP Health Care Costs Calculator - Estimate what you may have to pay for health care

<http://www.aarp.org/work/retirement-planning/the-aarp-healthcare-costs-calculator/>

AARP Doughnut Hole Calculator - A four step tool to help you avoid the gap in prescription drug coverage under Medicare Part D. <http://www.doughnuthole.aarp.org/>

ECONOMY and INVESTING

Federal Reserve Economic Data FRED - Chart current and historical trends for GDP, CPI, Payroll and many hundreds more economic data points. <http://www.research.stlouisfed.org/fred2/>

EDUCATION

College Savings Plans Network - Compare 529 Plans across all 50 states with this clearinghouse for information among state-administred college savings programs. <http://www.collegesavings.org/>

TAX

The official Internal Revenue Service website. <http://www.irs.gov>

MISCELLANEOUS

See rating on 5,000+ of the largest U.S. charities based on how effectively they use their money and how they develop their programs. <http://www.CharityNavigator.org>

National Association of Unclaimed Property Administrators - Are you still owed \$250 from the cable company that overcharged you ten years ago? Take a look, you might be surprised at what you can collect. <http://www.unclaimed.org/>

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