JSW Financial

E-newsletter

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Ops center – 2011 RMD information

For those of you required to take a minimum distribution from your IRA, Official RMD notices will be mailed by First Clearing in September. Remember to return your form(s) to our office instead of mailing them back to First Clearing. The letter will indicate the amount of money that the IRS is requiring you to withdraw from your traditional IRA account this year. This amount can also be found on your monthly statement on or about page 3 of your monthly statement in the Retirement Summary section. Additional information:

- **First timers** don't worry. If you have just turned 70½ or will by December 31, 2011 you will receive a letter. Clients in this category have until April 1, 2012 to take the RMD for 2011. However, waiting until 2012 to take your first RMD means you can expect to take out two RMD's for 2012, i.e. one for 2011 and one for 2012.
- **Multiple IRA's? –** Individuals with more than one IRA account can use a "combined total" of the RMD amounts and take this **"total RMD amount" from one account**. Note: Husband and wife cannot combine their RMD amounts and take from only one spouse account. IRA's are specific to each individual's social security number.
- **Taxes**: RMD's are considered "income" and are therefore subject to taxes. Clients can elect to have federal and/or state taxes withheld or can opt not to have these taxes withheld**. Make sure you mark the form which option you prefer.**

- **No Letter**? – FCC calculates the remaining RMD amount due for each IRA account held by FCC in August of that year. **No letter would indicate that the RMD for this year has been met for those accounts held by FCC**. Note: It is possible for clients with multiple IRA's to potentially meet their "combined total" RMD amount and still receive a letter indicating an RMD due. RMD letters are account specific. Call us if you have questions.
- **Penalty** – The IRS can impose a 50 % penalty for not taking out the calculated RMD amount.
- **Gift to Charity –** The 2010 Tax Relief Act was extended through 2011. This provision allows individuals to donate up to $100,000 of an RMD to charity.
- **Tips on Form**:
  - Please mail/deliver the RMD form to our office in Blacksburg. Even though the form says to mail to First Clearing Corporation, your investment accounts require a process that JSW Financial needs to initiate to make the cash available.
  - Mark the tax with-holding section to your preference.
  - Check "Immediately" instead of putting a date on the form to simplify the process.
  - Don't forget to sign your form and indicate where/how you would like the RMD funds to be sent.
  - If you prefer a direct deposit to your bank, please include a voided check.
  - If you want to gift your RMD to a charity, please contact us directly for assistance.

Growth vs. value

What's the difference between a "growth" stock versus a "value" stock? These terms get used pretty often when discussing investing, but you may not be clear as to what they mean. Although there is no concrete definition, most investors agree on some general criteria describing these two terms.

Growth stocks tend to have high revenue growth rate, around 10% for that past five years of smaller companies, or 5% to 7% for larger companies. They tend to have strong return on equity compared to other firms in their industry. They also tend to have had strong growth in the price over recent years.

Value stocks are not necessarily cheap stocks – these are stocks where the price is lower than the fundamental or intrinsic value.

Value stocks are considered to be undervalued. Warren Buffett utilizes a value-investing strategy and you will hear him mention the intrinsic value of a company versus what it is selling at. Usually value stocks have a low p/e ratio, which means the price per share divided by earnings per share is low relative to its peers.

There are certainly gray areas where a stock might be thought of as a value stock but have strong growth rates, and vice versa. These quick descriptions are just a basic over view of general criteria that people look to when distinguishing among stocks.

Historically there are time periods such as the late 1990s where growth stocks have outperformed value stocks. There are other times, such as 1975-1995, that value stocks have outperformed.

Your best bet is to hold a bit of both to achieve diversification within your portfolio.

Please give us a call if you would like to speak in greater detail about different styles of stocks or the benefits diversification can have on your portfolio.

- **Patrick Carroll**

Sometimes the best offense is a good defense

As summer winds down here in Blacksburg, the signs of fall begin to emerge. The nights grow cooler, stores and restaurants fill up with returning students and talk turns to Virginia Tech football. Typically, when fans mention their football team, the majority of the conversation is about the offense. Listening to some of them, you would think offense is all that matters. After all, the offense scores the points and usually the quarterback, running back or a wide receiver is the biggest star of the team.

Here at Virginia Tech, however, defense gets at least equal billing and sometimes more.

The same can be said of investing.

VT fans know that a big part of why Virginia Tech football has been very good over the past several years is because the defense has been excellent. In fact, VT has been in the top 3 in the country for scoring defense (allowing the fewest points) for 6 out of the last 12 years. With a great defense, you don’t need a stellar offense to be successful. After all, the point in football isn’t to score as many points as possible, just to score more points than the other team.

Similarly, in the investing world, the less you give back during market downturns, the less you need to make in the next up market to get back to even.

For example, if your account falls 10% you need an 11% gain to get back to even, but if it goes down 33%, you need a 50% gain to make it back.

For the past few years, we have added absolute return managers as a part of many of your portfolios. The purpose of using these managers is that, on paper anyway, they have the ability to play good defense. Similar to football, though, a good defense on paper doesn't always translate to good defense when it's time to play the game. For the managers we use, the most recent "game" began with the current market downturn, which started May 2. During this period, the S&P 500 is down 16% (through August 18) while the average drawdown of the most-used absolute return managers in our client accounts is only 5%.

In our opinion, overall the absolute return managers we're using have played solid defense during this time. Remember, 3 months is a short timeframe to look at, much like only looking at the first quarter of a football game. Just like looking at the score at the end of the first quarter won't tell you who will ultimately win the game, this snapshot of manager performance doesn't tell us how they will perform over the next several months. But if your team is only down a field goal, you feel much better about their chances than if they were down 3 touchdowns.

As always, if you'd like to discuss your specific situation in more detail, please let us know. And Go Hokies!

- **Mike Jones**

Joel's Corner: The Medicine Has Become the Poison

Well folks, I have patiently (and sarcastically) waited for debt ceiling crisis to come and go; and now waited for Bernanke's much-anticipated announcement in Jackson Hole. As predicted (see past newsletters) nothing is going to be done by the politicians until pushed into doing something by the market.

With this column we are announcing that JSW Financial is going to get more aggressive in our advice and strategic planning – more than we have in the past five years. We're focusing on the same themes as before, but increasing the volume: protecting against rising interest rates; rising inflation; and degradation of the U.S. dollar. These are NOT short-term focus areas.

In my opinion, we will have a trading range in the market until the election without any serious budget balance reforms getting done. Then, in my opinion, we will have a difficult three-year period to clean up the mess. By at least 2018, in my opinion, the pain should be subsiding. Oh, and it makes little difference who gets elected. The mess has to be cleaned up.

In the short term, our focus will be maintaining cash/liquid investments to meet cash flow needs over 12-24 months; assets for longer-term needs will be allocated to managers that move among asset classes (absolute return). Note that just because a manager has your money under management does not mean he/she is in or out of the market at any particular time. We employ several managers who may use different strategies to give us diversification. We monitor and manage the money managers. You can learn a great deal from them by coming to the programs when we have them in to speak. I encourage you to get involved for your education and peace of mind.

In my opinion, here is what the tea leaves are telling me now:

Short term:

- Hurricane Irene will provide an economic boost for the Northeast as it rebuilds for the next 6 months

- GDP for the economy is slowing to a dangerous level; and will probably remain that way for 5-7 years, in my opinion.

- The market will continue to be volatile going into the 2012 election, with possibly a run to 13,000 on the Dow Jones as several companies show earnings growth. BUT realize that is the calm before the storm on the economy.

- Job growth is not going to improve without more incentives for small- to medium-businesses to encourage hiring. The government needs to partially guarantee loans to small businesses that banking regulations do not currently allow. Those loans have to be used for job creation, not capital investments. This will eventually happen, but not without a lot of unnecessary pain first.

Longer term

- GDP growth will not improve to the 4% range for probably 5-7 years, in my opinion. We have to accept that and prepare our investment portfolios accordingly. Sector focus by our managers into necessary goods and services will become a major strategy.

- In my opinion, the difficult phase will begin after the elections, in 2013 and continue for 3-5 years thereafter.

- It makes little difference which party gets elected or controls the houses. Seriously, both parties have been and will continue to move the chairs around on the Titanic. The month of August has proven this.

We know you're concerned about how things are developing. That's why we're planning for more regular communications as we wade through these waters – newsletters, e-newsletters, website updates and conference calls. And, as always, contact us at any time for personal counsel.

The good news is we will work our way through this and have a pretty clear vision what measures we will take, based on what happens. We are preparing for a difficult 36 months, after which may begin a strong rebirth of the U.S. economy. I am pleased with the strategies we have used for the past two years. Our managers are doing what they should be doing.

Our strategies will involve many of the following asset classes or strategies:

- Gold, used in multiple forms, not just bullion or coins.

- Individual debt restructuring to take advantage of inflation-deteriorating dollars used to pay-off longer term, higher-interest rate balances, like college or business loans.

- A focus on the strength and stability of life insurance companies holding whole life policies for our clients because portfolios of most insurance companies are mostly bonds.

- Using estate planning strategies to transfer assets to younger generations via tax-efficient assets such as gold bullion.

- Finally, we're taking advantage of capital gain tax strategies that could be eliminated.

And don't forget that solid growing dividends by multi-national companies offer a hedge against currency risk and inflation. Many of these strategies will be employed on a case-by-case basis, which can actually turn stressful times such as these into positive experiences.

A couple of cautions on investments. It is not wise to move out of the market due to the greater risk of inflation that will spark as soon as any stimulus spending stops. One's purchasing power will be at much greater risk than market risk for many equity investments. That will not be difficult to view.

This is also true of long-term bonds, corporate or Treasury. Some exceptions exist in the foreign bond market, but a specialized manager needs to manage that strategy. Now is not too early to begin moving away from bonds. When interest rates turn up, analysts expect it to be much faster than in the past. The market is telling us to get out now.

The stimulus, once viewed as good medicine for the economy, has finally turned toxic and more investors are beginning to communicate that to their elected officials. Expect the market to hammer the politicians to get their attention. But do not let the volatility cause you to mistakenly step out of the market right into the tracks of the train rushing back up.

Again, expect the volatility to continue but know it will not stay down long. Do expect a range of as low as 7,500 on the Dow Jones and then a nice jump as we come out of these years of pain.

So, in summary: inflation will be quick and hard and will annihilate a money market account or CDs; rising interest rates could happen as soon as stimulus is stopped and cause bond prices to free fall. I know it is not comfortable, but the main focus is not to make any BIG mistakes until common sense returns to our leaders. Then the market will stop behaving like it is on crack!

As soon as we stop expecting the medicine to fix the disease and the politicians quit trying to give it out, the patient will begin to heal.

Again, this is not to worry you, but to inform you this is a serious situation, and that JSW Financial has a plan for it. We need your cooperation to tell us how much and what information you would like to see. Simply write us an email and tell us your thoughts, particularly if you are confused by this.

I am kind of excited about the whole thing because, in my opinion, I believe we are going to fare much better than most.

Until next time,

Joel