E-newsletter
February 2014

Table of Contents:

Upcoming events: 20th Annual Client Appreciation

Join us on Tuesday, March 18th at the Blacksburg Country Club for our annual Client Appreciation event. The event begins at 6:30 p.m. and will conclude around 8:30 p.m. Bring a guest. We are confident you will want to share the insights you will learn with friends, relatives and colleagues. Reservations are required and more details will follow soon.

Reserve your spot by responding to betha@joelswilliams.com or by calling the office at 540.961.6706.

Tax tips

1. *Consider filing an extension.* Due to the nature of many of your investments, reporting is delayed. Please work with your accountants and alert them to this issue. Planning ahead will take away the stress.

2. *Wait until March 20th* to take information into your CPA. Allow your accountant to know that some of your tax information may still be outstanding. Ask your accountant what works best for them, whether that is providing the data in stages or some other plan.

3. Check and make sure you have both "original"* and "amended" 1099's if applicable. **Original 1099 have the cost basis information*, *amended do not.*

4. *Look over all data* before taking it to your CPA. If you see that cost basis is missing, call our office immediately. It takes time to research your accounts. *Please do not wait and ask your CPA* to do this…CPAs often notice the missing data at the last minute.

5. *Notify your CPA* that *requests* for missing data need to be into JSW *prior to March 31st to ensure a 3-4 day* response time. Requests in April may take up to 5 to 7 days.

6. *If you are traveling during this tax season:* Please call our office.

JSW Financial's investment style overview: The Yale Endowment Model

2013 was a phenomenal year for the stock market. Nothing seemed to derail the rapid ascent of the market-- not even a government shutdown or a near default on U.S. debt. Major indexes in the United States posted solid double digits gains, with the S&P advancing 29.6% and the Dow increasing 26.5%.While many investors have benefited from the recent bull market, the truth is that this rate of growth is simply unsustainable. At some point, stocks are bound to return to some long-term equilibrium growth rate, often via a correction, or pullback (note: this does not necessarily mean a full blown bear market). We have started to see signs of this correction in the first two months of 2014, as stocks have trimmed off a few percentage points from their recent peaks. With reversing trends comes a great deal of day-to-day volatility, which has the potential to cause undue stress for many investors. To mitigate some of the inherent risk and volatility in the investment process, the advisors at JSW Financial, where appropriate, employ a strategy similar to that of the Yale Endowment Model when constructing client portfolios.

The Yale Endowment Model (YEM) has gained worldwide recognition as an effective method of diversification that, in theory, reduces risk yet increases the potential for higher returns when compared to more traditional portfolio strategies. The model is credited to David Swenson, the manager of Yale University's endowment since 1985. Under his management, the value of the endowment has increased more than twenty-fold, to $20.8 billion as of June 2013.
The underlying goal of the YEM is to reduce excess exposure to traditional asset classes, i.e. domestic stocks and bonds. Modern Portfolio Theory suggests that, in order to reduce unsystematic risk, it is necessary that investors choose assets with low price movement correlation. Swenson took that thinking a step further and expanded the endowment portfolio to include low correlated asset *classes*, not just the assets themselves. Instead of having a portfolio comprised solely of U.S. stocks and bonds (and cash), the new model also included real estate, private equity, natural resources, foreign equity, and absolute return.

Many of these "alternative investments" are illiquid, meaning that they cannot be easily bought or sold on short notice. With the understanding that these investments are designed to be held over the course of years or decades, their values tend to not be as strongly impacted by short-term fluctuations in the financial markets. Of course, it is never possible to reduce *all* risk.

At JSW Financial, our clients' portfolios are constructed with these concepts of the YEM in mind. For some clients, that means investing in Direct Participation Programs (DPPs). DPPs typically have a distinct theme (i.e., oil and gas, commercial real estate, private debt, etc.) and are illiquid. For other clients, the same objectives can be met by investing in mutual funds and ETFs that focus on strategies similar to the alternatives stated above. In the end, we are ultimately seeking to reduce market risk while still leaving room for positive risk-adjusted returns.

Another unique philosophy observed in the YEM that JSW Financial regularly employs with appropriate clients is the use of outside active money managers. An excerpt from the 2009 Annual Report states:

"Because superior stock selection provides the most consistent and reliable opportunity for generating excess returns, the University favors managers with exceptional bottom-up fundamental research capabilities. Managers searching for out-of-favor securities often find stocks that are cheap in relation to current fundamental measures such as book value, earnings, or cash flow." (www.investments.yale.edu)

JSW Financial has an array of money managers that we use to meet various portfolio objectives for our clients. These managers are well positioned to act upon changes taking place in the market; however, no manager is perfect for every economic climate. Some of our managers specialize in absolute return strategies, some in emerging markets, some in quantitative directional strategies…there really are no limits. Our advisors "manage the managers," meaning they can recommend hiring or firing an outside money manager if they feel it will put the client in a better position for success in forecasted upcoming market conditions. There are other aspects that distinguish the Yale Endowment Model, but diversification via alternative assets and the use of outside money managers are by far the most commonly used tools by our advisors. Again, the idea behind using this model is to reduce some of the risk and volatility of client portfolios when compared to more traditional asset allocations. This does not mean that your portfolio is safe from negative returns from time to time, but it does mean that, over the long term, your success is drawn from multiple investment sources, some of which do not directly correlate with the U.S. stock market. As the old saying goes, "don't put all your eggs into one basket."

So, now that we are very likely in the midst of a market correction, rest assured knowing that our team has multiple defensive strategies in place to protect your portfolio. Again, no portfolio is immune to decline, but there are many reasons why the Yale Endowment Model has performed so well over the past 25+ years. If you would like to know more, Mike, Sara, or Joel would be happy to explain the model in more detail.

- **Jeff Proctor**

Disclaimer: The use of diversification and asset allocation does not assure a profit or protect against loss in a declining market.

Sources: http://www.investments.yale.edu; http:// www.yahoo.com/finance

So what is this "myRA" that Obama is talking about?

During last month's State of the Union Address, President Obama unveiled a new 'myRA' retirement account which is aimed at helping the millions of low- and middle-income Americans who don't have access to employer-sponsored retirement plans.

The myRA will be a government-backed, after-tax retirement account, similar to a traditional Roth IRA, which allows savers to invest after-tax dollars and withdraw the money in retirement tax-free. These myRA accounts will be offered by employers for those employees who have direct deposit for their paychecks. All workers may invest in the accounts, including those who would like to supplement an existing 401(k) plan, as long as a couple's income falls below $191,000 a year (for single people, $129,000).

But, unlike traditional Roth IRAs, the myRA accounts will earn interest at the same variable interest rate as the federal employees' Thrift Savings Plan Government Securities Investment Fund, which solely invests in U.S. treasury notes and bonds with maturities of four years or more. The fund earned around 1.5% in 2012, and had an average annual return of 3.6% between 2003 and 2012. And, the accounts will be backed by the U.S. government, meaning that savers can never lose their principal investment.

MyRAs will be free of any fees. The initial investments can be as little as $25, and workers can contribute as little as $5 at a time through automatic payroll deductions. Like a traditional Roth IRA, savers will be allowed to contribute up to $5,500 a year under current limits. A myRA can be transferred to a regular Roth IRA with any financial institution at any time. Contributions can be withdrawn tax-free at any time.

MyRAs will only be available for a select few people this year (as the program is rolled out), but it is expected to be much more readily available in the future. If you have questions about this topic, please contact us and we would be happy to help you understand it.

Stay warm out there….

~ **Sara Bohn**

Disclaimer: The above commentary contains opinions and analysis that are provided by the author for informational purposes only and should not be used as the primary basis for an investment decision. Consider your own investment objectives and risk tolerance prior to investing. Not all strategies discussed may be suitable for all investors.

Sources: http://www.whitehouse.gov/the-press-office/2014/01/28/fact-sheet-opportunity-all-securing-dignified-retirement-all-americans
http://money.cnn.com/2014/01/29/retirement/myra-accounts/

The market has finally exhaled—will it get worse?

The stock market recently has pulled back 5% or so. As we have talked about in the past, the market is overdue for a pullback. Emotions being what they are however, that does little to calm some of us when we open our statements and see a drop in our account values that we haven't experienced in well over a year. Fortunately for us, we have an analytical side to our brains that can help keep the emotional side from taking over. As such, if you've been feeling a bit nervous about the financial markets recently, here is some ammunition your analytical mind can use against your emotions. (Source: Ned Davis Research)

- Since 1928, the market on average has had a dip of 5% or more 3.5 times per year.
- About a third of the time one of those 5% dips turns into a correction of 10% or more.
- Only 9% of the time has one of those dips turned into a bear market drop of 20% or more.

Statistics being what they are, this does not mean that this exhale will not turn into something more significant. However, know that many of the managers we are using have defensive game plans in place to try to reduce the severity of a significant bear market drop.

If you'd like to review how your portfolio is allocated, please contact the office and set-up a phone call or meeting with Sara or myself.

- **Mike Jones**

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Joel's Corner: **Market Outlook… Sleep with One Eye Open!**

Not much new to report since my December thesis that could compete in length with "War and Peace". Mike and Jeff have given a good summary in this newsletter of points you should be contemplating. Go back and read my comments from last month. Call the office if you need a copy.

A review of my basic investment philosophy is, "in the short run, the stock market will make fools out of the greatest number of us." A recent Bloomberg report of the major Wall Street research firms found that 100%, 15 out of 15, are bullish on stocks vs bonds for 2014. Herd mentality is in full swing. It's OK to be bullish, but sleep with one eye open.

A few other non-researched, non-confirmed opinions of mine on the current economic situation:

- The Baltic Dry Index is down over 50% from a high this past fall. This means less goods are being shipped. Not a concern yet, just keep an eye open.
- Earnings growth of the S&P this past period were shaky. When dissected, a significant portion of earnings came from corporate share buy-backs vs. business revenue growth. Again, just an FYI.
- Interest rates could go down before going up, in my opinion. This relates to the complicated relationship of reducing liquidity for emerging markets and particularly struggling European economies. They may not be able to buy as much from the US. So

don’t be surprised that the Fed does not drop rates as fast as unemployment is likely to fall.

- Plywood prices are up domestically. That is good.
- Inflation is not a concern for the US until we get back to normal interest rates. Again, this may be slower than the consensus Wall Street geeks feel.

Keep in mind, despite all the media noise about Obama Care, employment/unemployment and all the meaningless political rhetoric, the market is going to do its thing. That is because it is driven by goods and services being produced and consumed by humans. As long as humans continue to increase in number, the stock market will continue to grow. As Mike mentioned in his “Exhale” piece we have our managers at JSW Financial positioned first protect on the downside, and second to add growth.

Our job as investors and advisors is to manage your cash flow to meet your short-term and long term needs. Update those analyses at least yearly.

Until next time,
Joel

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Sources: http://www.bloomberg.com/quote/BDIY:IND; USDA
