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The sky is falling

(continued from page 3)

- IF there is a slight pull back in the economy (the big 'R' word), prices of secondary housing may pull back. So to mortgage investors, I would keep my money safe, like 90-day treasury bills if you are looking to buy a house or finance anything.

In closing, again we will be fine. Here are some more positive economic facts that the media just... seems to overlook, let's say:

- Baltic Dry Index is up 55% since August. This is one of my three favorite leading indicators of the direction of the global economy. This is an index that represents the cost of shipping dry bulk goods like grains, steel and various basic goods needed to run economies. This is a good sign. Forget about trying to figure out Greece. They will be bailed out and put on formula.
- Plywood prices for the US are up 46% over last year; my second favorite leading indicator. This is a very good sign...and
- Supporting the recent news of new housing market (my third favorite) increasing so much as to cause the GDP forecasts in the 4th quarter to run at 2%, rather than the estimated 1 ½%.

Granted, this recovery has been very difficult and is still fragile, but the wheels are beginning to turn on this enormous economy; even a fiscal cliff type of recession cannot keep the goods and services for this growing population from moving for any lengthy period of time. Our investments are positioned to take advantage of these scenarios discussed. We are going to push through this.

Until later, have peaceful and thankful holidays.

- Joel

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Financial Partner

JSW Financial
A Quarterly Newsletter From JSW Financial
Fall 2012

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In The News

Your fiscal "Cliff Notes"

With the election season now behind us, there is a recognizable shift in focus to the December 31st "Fiscal Cliff," a combination of income tax cut and Alternative Minimum Tax (AMT) patch expirations, estate tax and payroll tax increases and implementation of The Patient Protection and Affordable Care Act, more commonly known as Obamacare. Additionally, automatic budget reductions, also called "sequestration" are also scheduled to take effect beginning January 1, 2013.

The Tax Foundation, a nonpartisan tax research group, has published a detailed paper on all the changes scheduled to happen over the next few months. The link to the PDF version is listed at the bottom of this page. It is 15 pages long and, in my opinion, a worthwhile read that includes some hints on what sort of compromises we might see to avert the cliff. However, for those of you who found yourself getting drowsy just reading to this point, here's the Cliff Notes version.

Income tax cuts of 2001 and 2003 are set to expire. The table below taken from the Tax Foundation report summarizes it nicely.

What's not shown in the chart is that Obama would like to save some of the expiring tax cuts, such as the 15% rates for capital gains and dividends, for families which earn less than $250,000 per year. Obviously Republicans are against any tax increases for anyone.

Estate Taxes are set to increase. Currently there is no estate tax on the first $5.12 million of estate value for individuals who pass before the end of the year and then the rate is 35% on anything above that amount. If nothing is done, the estate tax reverts back to 55% tax on anything over $1 million. President Obama has stated he would like to see a 45% tax on anything over $3.5 million while Republicans would like to see a full repeal.

Obamacare's implementation is also on the horizon. In addition to the 10% excise tax on tanning bed services that took effect in 2010 (you did notice that on your bill, didn't you?), January 1st brings a raft of tax increases designed to help pay for this law. A few notable ones include increases in Medicare payroll taxes for those earning more than $200,000, a 3.8% Medicare tax on investment capital gains and dividends for those same high income earners, and an increase in the threshold (from 7.5% to 10%) for deducting medical expenses.

Sequestration was intended to get Congress and the President to compromise on deficit reduction by automatically cutting the budget $1.2 trillion over the next 10 years, divided equally between defense and non-defense spending. The thinking was that these were cuts nobody wanted, Democrats or Republicans, so they would work out their differences enough to secure a balanced budget. It's important to note that these "cuts" are actually reductions in spending increases. The budget still grows every year, just not as much. The mainstream media tends to leave out this little detail.

Once we ring in the New Year and either stop short of or go over the cliff, we can all breathe a sigh of relief that this political crisis is over. Don't be concerned that your favorite political pundit is going to lose their job, though. The debt ceiling is projected to hit in February and the budget expires in March.

– Mike Jones

Table 2: Major Bush Tax Cut Income Tax Provisions, 2001-2013

Tax Category	2000	2001	2002	2003	2004-2005	2006-2007	2008-2009	2010-2012	2013*
Income Tax Brackets	-- 15% 28% 31% 36% 39.6%	10% 15% 27.5% 30.5% 35.5% 39.1%	10% 15% 27% 30% 35% 38.6%	10% 15% 25% 28% 33% 35%					-- 15% 28% 31% 36% 39.6%
Capital Gains Tax (max)	20%			16.7%	15%				23.8%
Dividend Tax (max)	39.6%	39.1%	38.6%	15%					43.4%
PEP & Pease	Full					Minus 1/3	Minus 2/3	Repealed	Full
Marriage Penalty	Joint Filer = 1.67 x Single			Joint Filer = 2 x Single					Joint Filer = 1.67 x Single
Child Tax Credit	$500	$600		$1,000					$500

Source: Tax Foundation
*Absent further congressional action.

http://taxfoundation.org/sites/taxfoundation.org/files/docs/sr204.pdf.

Ops Center

Long term care insurance vs. medicare & medicaid

Many people think that Medicare and Medicaid cover long-term care expenses. There is certainly some truth to that, but it's not as cut-and-dry as it may appear. Normally, people over 65 years-old choose Medicare to be their primary health insurance. Many people also choose to purchase an additional individual supplemental health insurance, and drug coverage, to complement Medicare. Medicare takes the place of the health insurance you may have had previously.

On the other hand, Medicaid is a health insurance for people who are less than 65 years-old, and it typically covers people at the poverty level who can't afford health insurance.

About five years ago, a woman (let's call her Wanda, age 65) was referred to me. Her husband (let's call him Joe, age 72) was in a long-term care facility. He had been in the nursing home for several years and the cost of the nursing home was depleting their assets. She came to me to see if there was anything that she could do to prevent the further expenses.

In their instance, Joe had fallen and broken his hip. At first, Medicare covered Joe's health care expenses. In fact, Medicare could have covered some portion of his nursing home expenses up to 100 days. But, from the 101st day on, they had to pay all of the nursing home expenses. Since they had other assets, including a home, he was not eligible for Medicaid coverage. Unfortunately, Joe's health turned for the worse and he passed away two years later.

The loss of Joe was devastating. They had been married for 44 years. In turn, Wanda was a very healthy 65 year-old woman, and she had a lot of years ahead and a lot of living to do. In addition to her mourning she was concerned for her financial future.

These days, a typical nursing home stay costs approximately $6,000 per month. You can see how an additional monthly expense of $6,000 would easily deplete a couple's savings. Fortunately, Joe and Wanda's home was paid off, and they had done a good job in saving for retirement. But, after two years of paying for a nursing home, their savings were compromised.

Please help us help you plan to avoid this situation. There are several things you can do to prevent this from happening to you. One key thing is to consider purchasing long-term care insurance. If you are 40 years old or older (and it's never too late), please ask us to help you evaluate how your financial plan will accommodate your future health care needs.

Footnote: Health care reform may affect Medicare's role in long-term health care coverage. But, most experts recommend not depending on the federal government to close this long-term care cost gap any time soon. There are ways to manage your future health care needs (and expenses) regardless of future federal government health care changes. Ask us how.

– Sara Bohn

Mobile access on the go

First Clearing Access Online is launching Mobile Brokerage! Call us for more details or visit www.vsrfinancialfccaccessonline.com

Happy holidays!

During this holiday season, we at JSW Financial would like to express our gratitude to you for continued confidence and trust. Although the holidays are certainly a busy time, we would urge you to take a moment; stop, reflect, and be thankful for the many blessings we've all been given, as well as remember the true importance of the season. Happy holidays from the JSW team!

Thank you!

For all of those who stopped by our Tail Gate during the Virginia Tech vs. Florida State game, we want to thank you! It was great being able to spend time with you, as well as meeting the family and friends you brought by. Also, we certainly want to thank CNL who graciously sponsored the event. We look forward to seeing you at our next Tail Gate during the 2013 football season!

Save the date

Mark your calendar for Tuesday, March 19, 2013 for our 19th annual Client Appreciation event at the Blacksburg Country Club.

Joel's Corner

The sky is falling

Obama's re-election, fiscal cliff a certainty & inflation will gobble us!

As usual the cable media is having a field day playing with our minds. You are very normal if you feel stress over your investments and retirement future. Without trying to pontificate as the "eternal optimist" (as some of you refer to me), allow me to simply present the facts (maybe with a little editorializing) and you tell me if the sky is falling. You have my email address and I would love to hear from all of you.

Reminder: The economy of the US and world will ALWAYS grow (albeit in fits and spurts…cycles). The simple reason is that since the beginning of mankind goods have been produced and consumed (as have services) by an ever increasing population. Adam and Eve were the first entrepreneurs… fashioning fig leaves. Think of them as the Victoria's Secret and Ralph Lauren of the new world.

The stock market(s) are simply a representation of the value of companies that trade publically…that sell goods and services. Depending on management and a host of other things, they increase and decrease in value in the shorter term, but in aggregate the market will always go up in the longer term… because the population is always increasing.

> "Rarely do wise investors waste a good crisis."

Wise investors take advantage of the downward cycles which usually happen when a multitude of crises occur… when the sky is falling. Rarely do wise investors waste a good crisis.

In My Opinion, the following facts should be considered.

Obama's Re-Election:

- There will be no need for an 18 month honeymoon. So expect politicians to hit the ground running… to kick the can down the street. I will make a small wager that one may actually see some cooperation from both sides… maybe by June 2013.
- Obama wants to leave a legacy other than the most divided electorate in history. He will not be as constrained by a re-election bid or his party as a second term president. So don't be surprised to see different leadership, in my opinion.
- Members of both parties for the House and Senate have elections coming up in two years. The American people have become more active in politics and will throw the bums out if they don't start working together.
- The election is over and besides the President doesn't run the country. Let's focus on moving forward.

Fiscal Cliff:

- The definition of falling off a cliff in most investors' minds is that you will be killed. We are not going to be killed if we go over this fiscal cliff for several reasons:
  1. It is just $600 billion (JUST!!). Seriously, it is about 1/30th of our $15 trillion debt…3%. and…
  2. It is spread over 7-8 years.
- Do expect us to go over the cliff. Emergency measures will be taken to keep all government employees and necessary functions of the government running. Yes, the government will print more money to do that so look for an increase in Treasury Bond sales.
- A recession possible? See the following comments.

The Cookie Inflation Monster:

- Yes, ultimately we will have to worry about hyper-inflation, and it will come pretty fast when it comes. But we have several issues that have to be overcome before inflation becomes a problem. So we have some time, and there will be warnings.
- To be clear, there are several types of inflation which space prohibits for this discussion. But the one we hear about is consumer inflation, usually referred to as the CPI. The cost of producing the goods and services we buy will up.

What most investors do not realize is that 70% of that cost is due to wages. You can take it from here… Yes, that is correct. Until we have jobs coming back, wages are not likely to increase. So when you see unemployment below 7%, then maybe we will see consumer inflation beginning to raise its ugly head.

- BUT don't take this as I am being less hawkish on inflation. Any investments for time horizons of three years or more should be positioned to target hyper-inflation, in my opinion. But the sky will not be falling soon because of inflation.

Interest Rate Warnings: (a double-edged sword)

- As bond holders, stay alert. There is investment risk beyond any three year maturity. This is where sudden changes can happen…meaning bonds prices can fall rapidly.
- As borrowers, do not be scared into rushing into lower interest rates now. Yes, they are low, but until we have unemployment below 7% the Fed (for now, Bernanke) will keep interest rates low.

(continue on page 4)

Markets

December 7, 2012

DOW | 13,155.13

Nasdaq | 2,978.04

S&P 500 | 1,418.07