JSW Financial

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Holiday Blues? Give a gift!

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the company that holds your IRA account. Since IRAs transfer outside of your will at death, you won't need to change your will. When you update the beneficiary form, it's a good idea to include the organization's Tax ID number so there's no confusion when the time comes to make the distribution.

Gifts from Life Insurance. Similar to adding the organization as an IRA beneficiary, you can add them as a life insurance beneficiary. Insurance policy proceeds also pass outside your will. In addition to adding them to your main policy, you may have a small "burial" policy that your parents took out on you as a child or you bought many years ago. These policies are often forgotten about as they have long been paid up and are usually worth $10,000 or less. If you have one of these and have no need for it, why not make an organization you care about the primary beneficiary.

These are just a few ideas for you to consider when planning your charitable gifts. If you would like to discuss your individual gifting strategy in more detail, please let us know.

– Mike Jones

Contact Us
Office hours: Monday - Thursday | 8 a.m. - 5 p.m.
Friday | 8 a.m. - noon

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Financial Partner

JSW Financial
A Quarterly Newsletter From JSW Financial
Fall/Winter 2013

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In The News

2013 tax document mailing schedule

As we prepare to turn the calendar to a new year, it's also time to turn our attention to year-end tax returns.

First Clearing will once again use an IRS-approved extension to mail 1099 forms by February 15. Because of the increasing complexity of tax reporting, this extention has been helpful in reducing amendment rates.

The mailing will be done in batches. You may receive 1099 forms as early as late January, but not receive 1099s for all accounts until mid- to late February. Please allow adequate time for mailing before contacting our office for missing 1099 forms. March 1 might be a good target date to see if you have received all of your 1099s.

As you gather your tax documents for your CPA, please keep the following in mind:

- You will not receive a 1099 for an IRA unless you received a distribution from the account.
- If you do receive an amended 1099, please make sure you provide your CPA with both the amended and original 1099. Capital gain / loss information, as well as cost basis, is only reported on the original 1099.
- Schedule K-1s (for some mutual funds and partnerships such as oil & gas, Triton Pacific, note programs, some managed futures like Aspen) are mailed by the general partner, not First Clearing. The mailing deadline for Schedule K-1s is March 15.

Our advisors stronly encourage you to talk to your CPA about your situation and consider filing an extension. Please remember that even if you file for an extension, you must still estimate and pay any taxes owed by April 15, not the extension date.

– Robin Hoback

Holiday blues? Give a gift!

The holiday season is not just a make or break time for retailers, it's also very important to charitable organizations. According to a recent study, 25% of all donations happen between Thanksgiving and Christmas. As you reflect back on the year and the blessings you've received, in addition to gifts out of current cash flow, or "checkbook charity," consider making a more substantial current or planned gift. These gifts don't have to be painful. In fact, it's been scientifically proven that giving causes your body to release Oxytocin, the hormone that gives you that warm fuzzy feeling. Of course, for those left-brained dominant folks, including myself, there could also be some tax benefits. As always, consult your tax professional.

Highly Appreciated Stock. An oldie but a goodie, gifting an investment asset that has increased in value is a terrific way to benefit both the organization and yourself. The charity, of course, receives the gift. You get 2 benefits. First, you get to deduct the full value of the gift, not the amount you paid for it. Second, by getting appreciated stock out of your portfolio, you prevent a potential future taxable event if you ever sold it. If the charitable organization you wish to donate stock to is not set-up to accept it, let us know and we may be able to help.

Gifts from IRAs. There are a couple of ways to make a gift from your IRA. The first is a current gift and the other is a planned gift. If you are over 70 ½, you can make a Qualified Charitable Distribution (QCD) of up to $100,000 directly from your IRA to a church or other nonprofit organization. Making the gift directly from your IRA may provide a better tax benefit than taking the distribution for yourself and then giving it to the organization. If you want to do this, you need to hurry as this provision in the tax code expires at the end of this year.

You can also add the organization as a beneficiary to your IRA. Although the organization won't benefit until you pass, you'll still have full use of the money while you're alive. Updating the beneficiary is as easy as contacting

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Ops Center

Manager spotlight: James Investment Research

Our clients often hear us say, "We like to participate as the market goes up, but not when the markets go down." James Investment Research (James) is one company that helps us do just that. As a small family owned and run company out of Alpha, Ohio, they take pride in not being on Wall Street. Barry and David James, and their father and founder Dr. Frank James, lead a team of professionals that strive to methodically invest your money in safe, and yet, an appreciating way.

Those of us who use James' investments, like the Golden Rainbow mutual fund or the separately managed account All Cap portoflios (Balanced/60+/Equity), get to take advantage of their market research and techniques for managing the assets defensively and offensively.

When Dr. James started the company 40 years ago, he instituted a weekly practice of tracking over two hundred risk indicators that evaluate economic, technical, sentiment, interest rates, inflation, trend lines, etc. James evaluates their investment holdings against these indicators, and the fundamentals of the stocks that they hold, to determine which stock or bond stays, comes or goes in their portfolios.

The Golden Rainbow fund and the All Cap Balanced separately managed account are two investment choices that our clients use to "not lose money" (James' investment objective for these strategies), and year over year get very respectable growth. In 2008 and 2009, the Golden Rainbow fund lost less than 6% while the markets were down well over 40%. (Source: Federal Reserve Bank of Atlanta) And, subsequent year returns are very respectably positive. Please note, past performance is no guarantee of future results.

The All Cap 60+ has a "floor" of 60% stocks, while the All Cap Equity is 100% equity. These separately managed accounts tend to fluctuate more because of the quantity and proportion of stocks within each account.

The amount of small to middle sized companies within their portfolios is somewhat unique. Often companies have good fundamental aspects, but because of one reason or another, the price of their stock is down. James sees the value in such companies and buys, and typically holds these types of stocks.

When they purchase bonds (or other debt instruments), James tends to buy quality and safety like U.S. government securities and high grade corporate bonds.

With all of these techniques, James is able to help many of our clients achieve their goals. Ask us if James may be a good fit for you.

– Sara Bohn

Investing in mutual funds or separately managed accounts involves risk, including loss of principal and may not be suitable for all investors. This is not an offer. Carefully consider your personal objectives and risk tolerance before investing. Mutual funds are offered by prospectus. Please review the prospectus carefully for a complete listing of the objectives, risks, fees and expenses prior to investing.

Quotables

"Americans say they plan to spend an average of just $704 on holiday giving in 2013."

Source: 2013 Gallup Poll

Happy holidays!

During this holiday season, we at JSW Financial would like to express our gratitude to you for your friendship. 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!

Tax Tips

- We must have your consent on file to release information to a tax professional. Please notify us if your CPA's information has changed.
- Consider filing an extension. Due to the nature of many of your investments, reporting is often delayed.
- Review your information. If you see that cost basis is missing from your 1099 report, call our office immediately. It takes time to research your accounts. Tax information requests can take at least 3-5 business days.
- If you are traveling during this tax season, please notify our office.

Save the date

Please plan to join us for our 20th Annual Client Appreciation Event on Tuesday, March 18, 2014 at the Blacksburg Country Club. Stay tuned for more details!

A (healthy) market correction in 2014

As of the date of this writing, the S&P 500 is up 27% for the year, and the Dow Jones Industrial Average is up 23% (Source: Standard & Poors, Dow Jones). This year's exceptional performance has been largely attributed to improved corporate earnings, an expansionary monetary environment created by the Federal Reserve and a recovering housing market, among other things. While most investors have benefitted from remaining in the market this year despite significant domestic political turmoil and global instability, there is a strong case to be made for an upcoming market correction.

First, a definition. Corrections are not crashes. Most are 5% - 10% pullbacks in the market and are healthy pauses during market advances. These mild corrections happen, on average, 2 – 3 times per year. Drops of 10% or more happen once every 18 months or so, and less than half of these go on to become bear markets, defined as a drop of 20%. The last market correction happened in late spring of 2012. Corrections normally happen when stocks are seen as fully valued and then some unfavorable economic or political news hits.

So let's begin by taking a look at current fundamental market valuations. One important measure is the S&P 500 Shiller P/E (price to earnings) 10 ratio. This ratio is based on current stock prices and the average inflation-adjusted index earnings from the previous ten years. The historical mean of the Shiller P/E is 16.5, (Source: www.irrationalexuberance.com) meaning that investors have been willing to "pay" $16.50 for every $1.00 of a company's inflation-adjusted earnings, on average. Right now, the Shiller P/E 10 ratio is sitting just above 25 (Source: www.irrationalexuberance.com) which is about 54% higher than the historical average. This means that investors are essentially paying more for stocks (when compared to earnings), than they have historically. As a reference, the S&P 500 Shiller P/E 10 ratio was in the low 40s before the dot-com bubble burst, and was approaching 30 before the '07-'08 financial crisis. (Source: www.irrationalexuberance.com) While one ratio alone cannot depict a complete view of the market, this data does seem to provide evidence of a relatively overvalued equity market.

If stocks are currently overvalued, as some indicators suggest, what could potentially trigger a correction? There are several events coming up in early 2014 that could:

Markets
December 6, 2013

DOW | 16,020.20

Nasdaq | 4,062.52

S&P 500 | 1,805.09

Affordable Care Act Provisions, January 1, 2014: Many key provisions of the Affordable Care Act, or Obamacare, go into effect on January 1st of next year. One of the more significant provisions is the "Individual Mandate," which makes it a requirement for all Americans to either purchase health insurance or pay a yearly penalty for being uninsured. The long term economic impact of the Individual Mandate is up for debate. The Employer Requirement has been postponed by the Treasury Department until January 2015, which will require certain employers to offer coverage to full time employees. This will likely have a stronger impact than the Individual Mandate. Stay tuned in 2015.

Sequester, January 15, 2014: As part of the government budget cuts that started in March 2013, even more cuts will go into effect in January 2014. Sequestration will reduce the yearly government budget by an additional $24 billion, on top of the approximately $80 billion reduction seen in 2013. While the effects of budget cuts in 2013 did not have as harmful results as expected, some experts believe the additional cuts in 2014 could have a greater effect than 2013's cuts.

Debt Ceiling Expiration, February 7, 2014: This could potentially be the biggest driving factor for a market correction. The recent government shutdown and debt ceiling crisis only ended October 17th, but it appears that investors are quick to forget the significant underlying debt issues that our country faces. The short term extension of the deadline from October to February is just a way for Republicans and Democrats to point fingers at each other, and it has become almost routine. The market essentially yawned during this last game of chicken, but if Congress does not raise the ceiling in time, it could very easily trigger a significant market correction.

Corrections are a very normal part of the stock market and should be expected. Unfortunately, not every year can be a 27% up year, as much as we would like that to be true. With current market valuations at elevated levels, plus upcoming political and economic events that could temporarily derail the upward progress we have seen throughout 2013, it is reasonable to expect a correction in our somewhat near future. Of course, attempting to "time the market" is generally a losing battle. In the very long term, the stock market will always go up (see Joel's article for why that is). If a downturn does happen soon, it may provide investors with a valuable opportunity to add to their portfolios while stocks are on sale.

As always, the advisors at JSW Financial are here to help you "stay the course" towards pursuing your financial goals, in up markets and down. Integrating market information to your situation is only a small part of what the JSW team does to serve you. Mike, Sara, and Joel always welcome the opportunity to further discuss your financial planning needs and help you meet your goals.

– Jeff Proctor

Joel's Corner

The noise of the political media vs. the quietness of Adam Smith's invisible hand

I feel your confusion and frustration: a government where both parties are more self-serving than working for the American public; an economy that is not producing enough jobs to sustain the lifestyle of its citizens; out-of-control government spending; one of the highest periods of distrust of our US government and decreasing hope, by young and old, for a quality medical care system. Oh, and the expectation that the stock market will crash any day; and if not, the dollar will be worthless in the not too distant future. And on and on and on: inflation, deflation, mortgage rates skyrocketing, China buying our US food producers, Europe going bankrupt, Iran blowing up the world.

And as the old country song goes, "…my feet stink and I don't love Jesus." It doesn't get any worse and the media loves to spew this NOISE. Actually, Jesus' words to the storm in Mark 4:39, "Peace, be still!" are very appropriate here. Be still…and listen to the quietness of the workings of an improving economy and overall situation.

"…I am excited about the future."

I do not claim our economy is out of the woods or that the above issues are not real concerns. But several important facts (not simply MEDIA NOISE) suggest there are better times ahead, in the short-run and in the longer term for our economy. As a country and as individuals, in my opinion, we are looking at a brighter future. There is enough material for a book here, but I will simply point you in the direction for us to have a continued conversation or you research my statements on your own.

Short-Term Outlook:

The stock market will not crash, in my opinion. Between the government stimulus (QE) and the unemployment numbers, it will be difficult to have a major market drop. REASON: the Fed has stated that interests rates will not be raised unless a) inflation rises to 2 ½%; AND b) unemployment drops to 6 ½%. According to a study by Federal Reserve Bank of Atlanta, it would take until November 2014 before unemployment would drop that low based on the rate of jobs being created at 177,000 currently.

Currently inflation is 1.2% and the official unemployment rate is 7.3%. Go figure. The only fly in the ointment is if one can trust that the government will not monkey with the figures….surely, not this government! (Source: BLS)

Also, upcoming Mid-Term elections tend to put a floor under the market as incumbents manipulate the data to put the best possible face on the economy. But again…this group of politicians may be different? Right!

Finally, other central governments around the world are getting into the act of a form of printing their own money… basically providing low interest rates and more liquidity to spur their own economies. This should temporarily have a positive effect on global economies.

So for the imminent future, in my opinion, the market is likely to remain high or continue to break records. Most investors are concerned about a major correction or even a crash. Sure, a catastrophic event could trigger such, but anything short of that is not likely to do anything but allow a normal correction, which is usually around 10%.

Remember: "The market will make fools out of the greatest number of investors." What direction for the market are most investors thinking now? Hummm…

Long-Term Outlook:

This is where things get real exciting. The invisible hand of Adam Smith is quietly at work, benefitting from the work of another of my favorite 20th century economist, Joseph Schumpeter. Joe coined the term "creative destruction" (think health care system). Creative destruction describes the continuous convergence of obsolescence and innovation. Schumpeter espoused how important this process is to maintaining a strong economy. This was part of the cycle creating a system for entrepreneurship to exist. Remember, the private sector (entrepreneurs) produces long-term economic growth and raises the standard of living for its citizens, NOT government. And within the private sector, small businesses produce 70% of the jobs. So the scary aspects of what the media presents to us and the impression that the wheels are falling off the US economy is actually a "normal" part of a growing economy.

As we discuss this, keep two important facts in mind that distinguish the US from most other developed economies: First, Americans are an independent and innovative culture. Second, the stock market in its basic form is simply a representation of what goods and services are produced and traded by a society, whether domestic or globally.

In the long run (really long), the stock market will always go up. It has a 9% slope or positive rate of change. The simple reason is that the global population is increasing. So as one thinks about the risks of the stock market going down, know that there is an upward bias. It's the in-between times that we struggle to manage.

That is why our basic model at JSW for managing a client's money starts with a cash flow plan to determine when cash

(continued on back)

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will be needed and invest accordingly. Sure the market is a consideration, but it is not as important as the customized plan. The difficult part for clients and advisors is sticking to the plan. There's a lot more to it than picking stocks and mutual funds, and holding for the long term.

With these thoughts in mind the following points are why I am excited about the future.

Digitization of our Society: e-commerce; the cloud; hosted software from its source; social networks. Mobility brings commerce to all corners of the globe and is a major growth engine for economies.

US Mass Consumerism: The internet has not only opened up sales in emerging markets, but domestically, social networking as a marketing tool is making consumers' lives more convenient and economical. Two recent examples are Keurig coffee makers and Roomba floor cleaning robots. But technology is not only making life better for the affluent; in the U.S. there are more mobile phones than people.

Growing Global Middle-Class: The superior growth rates of emerging nations, relative to the developed world, are giving rise to a growing middle class in these nations. The implications for increased spending are staggering. Over the next 20 years, the global middle class will grow by 3 billion, mostly from the emerging world. And the middle class in emerging nations are already happily "downloading" the attributes of U.S. consumerism. US entrepreneurs have the DNA to innovate and supply those goods and services to this exploding new market.

Modern Medicine: Obama Care may not be repealed, but the health care service system in the US will definitely be different and better. Three areas of innovation that have fueled growth in health care include genomics, biotechnology and minimally invasive devices and procedures. In genomics, significant progress in identifying genetic defects has led to breakthrough diagnostics, targeted drug therapies and preventive medicine. Scientists at biotechnology companies are using genomics to fundamentally change the drug-discovery process. In the meantime, minimally invasive surgery has become one of the fastest-growing segments in health care. Among the benefits are smaller incisions, less pain, fewer complications and quicker recovery.

The new field of "biologics," which is personalized medicine, has enormous growth potential, including job growth. It is feasible now to produce drugs for a targeted few individuals resulting in much fewer side effects because DNA can tell us exactly who will benefit and who will not.

Human genome research, plus advanced computer technology in imaging, diagnostics and testing all mean more effective drugs, costing less money and a healthier society and world. Again, think about the rapid changes in these areas in the past decade; then think about the explosive changes in the next decade. We just need to get our educational systems aligned to take advantage of the opportunities rapidly approaching.

US Manufacturing Will Be Back: Due to the growth of emerging nations, American manufacturers now have much bigger markets to sell into. U.S. exports to China alone have accelerated a whopping 583% between 2000 and 2012. (Source: U.S. Department of Commerce)

Energy Dependence Is A Dying Foe: Thanks to horizontal drilling and hydro-fracking technology that breaks open shale rock by pumping high-pressure fluids into the ground, this unconventional energy source is now abundantly accessible. According to some experts, the United States alone has a 200-year supply of shale gas.

With natural gas in abundance, the economics of cars running on natural gas are increasingly attractive to consumers. Shale producers have been so prodigious that they have created a supply/demand imbalance. For now, users of the cheap natural gas such as chemical companies are the biggest beneficiaries.

Solar and wind will also be growing manufacturing industries. The era of being held hostage by mid-eastern countries due to oil is coming to an end. As they say, "That dog won't hunt anymore."

Think about the above discussion. Think about what makes Americans different. Think about what the stock market represents. Yes, there are several economic and social headwinds. There always have been for the US. How would you like to have been around dealing with the economic problems of the early 1770s?

Try not to listen to all the noise going around you in the media, but understand it is just that: "noise." Further understand the reason the referral to the "invisible" hand of Adam Smith is because the good that comes from creative destruction (as obsolesce and innovation converge) is not seen until we look back. It is difficult to see while we are in the midst of chaos.

We have a lot for which to be thankful as we celebrate the holidays!

Until next time,

Joel