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A bond strategy in today's economy

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allow us to manage tax consequences too.

Tealwood's strategy is to purchase formerly private bond placements, with a relatively short maturity (3-5 years on average), on the open market. Private bond placements are transacted between a corporation and an institution (like insurance companies, foundations, etc.). When private transactions like this occur, they are less expensive for the companies involved. One reason they are less expensive transactions is because the issuing company isn't required to have a rating agency (like Standard and Poor's) rate the bond.

Tealwood has the ability (unlike large bond purchasers like PIMCO, Goldman Sachs, etc.) to buy these bonds when the original purchasers want to sell them (these private placements are usually $100M or less, while companies like PIMCO will want to buy hundreds of millions of dollars worth of bonds at a time). While originally the bond may have been issued as a 30 year bond, when Tealwood purchases it they buy the bond when there is only 3 to 5 years left until the bond matures (or a call or a put provision is allowed). Tealwood does their own evaluation of the issuing companies and often finds that the issuing companies' financial situation is exceptional. In other words, Tealwood purchases high quality, short duration bonds, with excellent coupon/interest rates. These bonds' values and yields are easier to manage and will be less likely to be adversely affected if the overall interest rates increase.

In the end, bonds may or may not make sense for you and your investment portfolio. Let us know if we can help you with your bond questions.

– Sara Bohn

Contact Us

Office hours: Monday - Thursday | 8 a.m. - 5 p.m.
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Financial Partner

JSW Financial
A Quarterly Newsletter From JSW Financial
Spring 2013

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In The News

Give it away to get income

We've all heard the saying "You have to give to get." In the case of making gifts to charity, whether it be your time or money, the "get" usually has to do with the good feelings that come with the donation. There are, however, ways to obtain financial rewards as well.

In addition to an income tax deduction, you can structure a significant gift to charity that will pay you an income while you're still alive. I'm talking about a Charitable Remainder Trust, or CRT for short.

The two basic types of CRTs are Charitable Remainder Annuity Trusts (CRAT) and the Charitable Remainder Unitrust (CRUT). These trusts both have the ability to generate an income stream to you during your retirement years and then when you pass, the remaining assets are donated to the charity or charities of your choosing. There are some differences in these types of trusts as well.

A CRAT will generate a fixed payment each year that is based on the initial value of the trust but will be at least 5%. A CRUT's income stream is variable in that the amount paid out each year is still a fixed percentage of at least 5%, but is based on the fair market value of the trust assets as annually revalued. A variation of the CRUT is a Net Income CRUT (NIMCRUT). This type of CRT provides for more flexibility with the payouts, for example, keeping them much smaller during the early years of the CRT, and then adjusting the investments in later years to provide the potential for larger distributions. These CRT models appeal to many people in that the payout has a chance to grow over time.

If you have money sitting in low yielding assets such as CDs, bonds or dividend paying stocks where you are collecting the income and plan on gifting the assets to charity at your death, a CRT may allow you to increase your income, gain recognition from the charity while you are still alive and provide a substantial tax deduction. It's definitely an option worth looking into.

– Mike Jones

A bond strategy in today's economy

As many clients have heard us explain, while holding stock, you are part owner of the company; while holding bonds, you are a lender to that company. Bonds become popular when an investor seeks income, or they want to reduce the risk in their investment portfolio. Bonds typically have a unique correlation with other asset classes. Fundamentally, bonds provide an income in the form of interest paid to the client.

If we think that bonds make sense for your investment portfolio, there are a couple of other things that we consider. Present interest rates are very low and many experts expect interest rates to go up. Bonds typically will have an inverse relationship with interest rates. As interest rates rise, bond values will decrease. This is why many financial experts tell their clients to not be in bonds at this point in time.

One misconception is that many people think that if they have a bond mutual fund, that will help ease the inverse relationship with interest rates. While it may help to some extent, bond mutual funds still will typically have a strong whip-saw effect when interest rates rise.

To mitigate this risk, we look to managers that take a different approach to bond investing. We work with Tealwood Asset Management for just that purpose. Tealwood separately managed accounts allow JSW Financial clients to hold individual bonds which

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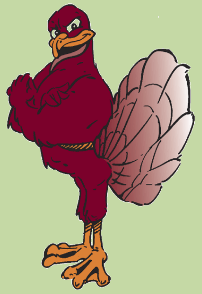
Host Family

If you would be interested in hosting a global university student during VTKnowledgeWorks' Global Partnership week in August, please contact Beth for more details.

Save the date

Please plan to join us at our Tailgate Event on Saturday, September 21, 2013 when the Hokies take on the Marshall Thundering Herd. More details to come.



Joel's Corner

Economy & market are a maze

What to stay focused on…for now

Without a doubt this has been the hardest article to write for some time. The data is very confusing; often cannot be trusted, particularly coming from the government; but there are some patterns that can be identified as certain things emerge. I will make a few short term comments (regarding the next 6-12 months); some long term comments (2014-20); but more importantly things you may consider doing now. For more detail, you need to speak to us about your specific situation. My comments are more general and directed to most clients, but could be an exception in your situation. Here are some of my current thoughts on the market, economy and suggestions of what you may consider:

- Downsize: Particularly if you are entering retirement or in retirement (exceptions for younger families). Sell rarely used real estate or big valued items, such as motor homes, boats, hobby cars, or any expensive asset simply costing you upkeep. Think in terms of "what can I turn to cash" of your assets (not investments) and hold that cash, not spend it. We will discuss "why" over time.
- Residential real estate: If you are planning on selling any real estate within the next 5-10 years, don't wait for higher prices: sell now. Ignore what you are hearing in the media about a real estate recovery leading to higher prices and move those assets into cash or short-term government income funds. (Talk to Mike or Sara)
- For younger families: If you need to expand your living quarters, don't buy or build now. There is a high probability that some great, great deals on larger homes of boomers will be coming up for sale before 2015. Our specific geographic area usually is not as affected as the nation because of Virginia Tech, but nationally we have a good probability of seeing this, in my opinion. I know…this is counter to what you are hearing from the media.
- Investment real estate: For those of you interested in individual residential investment property, I suggest you consider waiting to buy. Those that are planning to get out of local investment property should consider selling now or completing a 1031 exchange within the next year into more liquid REITs. Consider REITs related to health care, boomer lifestyles and strong income plays, including international.
- Gold and precious metals: Hold any gold/metals now. Don't attempt to trade it. In the long run you will need more precious metals (actually in the form of rare coins, not bullion) than you have ever held in most of your life times. So think, "Accumulate." In my opinion, we are not seeing a correction in gold, rather a long-term devaluation. Plan to use the dropping gold prices as opportunities to add to your rare coin (numismatics) base. This is a long term strategy to preserve your wealth. Over time, in my opinion, it would not hurt to have at least a third of your assets you will likely not use in your lifetime or next 15 years in rare coins of precious metals. (I did not say 1/3 of all your assets…please, reread.) Talk to us about buying strategies. Again, this is to protect your wealth. Forget about market fluctuations. This is taking advantage of "possible" opportunities coming. This is the reason for my first bullet.
- Spending/Budgeting: At least for the next five years, reduce your cash outflow. Seriously. Even though you are entering your retirement years that you have saved for your whole life, trim back your plans for the next five years, it may be less. This is also true not just for retirees, but all individuals. This economy will get straightened out, in my opinion. I have little expectation that the government or politicians will have the fortitude to do anything, other than to play politics. BUT, in a similar manner to the invisible hand of Adam Smith, "the market/economy" will get done what the politicians do not have the guts to do. It should come as no surprise that there will be "a period" of hardship for everyone. In my opinion, the hardest part will be sometime within the next five years, and possibly sooner than later. Now is the time for all, not just retirees, to be frugal. Accumulate your cash. Get out of all debt with the exception of younger families with home mortgages; but no auto debt, credit card debt, definitely no home equity debt…and possibly no college debt. Obviously some of this will take time, but move as quickly as possible.

Short term market/economic thoughts:

- Everyone and his brother expect a market correction within the next few months. If this should occur, it could be 10-20%, in my opinion. But that is not something with which we should be concerned. Do not attempt to time corrections because that is a failed strategy. There are many individuals that either have not gotten back into the stock market or are just getting back in from March 2009 market bottom, from where the S&P has recovered over 100% of its lost value. Besides, a good portion of our clients' stock market assets are in the hands of absolute managers, which we have discussed in past newsletters. Absolute managers increase or decrease the amount of exposure to the stock market depending on the perceived risk. That is different than market timing, where all or most of the money is moved in/out of the market at one time.
- The Fed will soon be discussing easing on QE, even before they promised. The promise was that QE was to continue at least until unemployment dropped to 6 ½ %, currently 7 ½ %.
- As the Fed reduces injection of money into the economy (QE) the stock market should go down in my opinion. I am also of the opinion that the market will not go down until QE is reduced.
- Gold is starting to fall: a sign counter to a stock market drop; counter to hyper-inflation; and counter to devaluation of the dollar. Try thinking that prices of many (not all) items may drop. This is a global phenomenon, not just US. Countries around the world have some kind of financial problem with their economy. It is hard to increase demand for goods and services when there is little to no growth in revenues because debt payments are such a large drag. This is somewhat invisible, and also very complex, but there are tectonic shifts going on in the world economy. This is not unusual in the sense that it happens over time in economies: 500 year cycles; 80 year cycles; 40 year cycles and so on. This is the stuff from which demographers and economists that study the history of economies since the beginning of Christ draw conclusions.

"We'll survive; and it will be better for our kids."

Long Term Thoughts:

- The market/economy will reset itself, probably by early 2020s, in my opinion. By resetting, I mean some of the debt globally will be written off. It makes no sense to attempt to avoid difficult decisions: Japan tried it for two decades. In spite of the politicians, in my opinion, the US will not allow that to happen because there is enough true grit among the working class citizens. As a country, we come together when the situation becomes serious enough…but it will take more pain than we have previously experienced. We see some of it on the horizon: i.e. healthcare costs. We'll survive; and it will be better for our kids. I am looking at 10-12 years on the long end; and 3-5 years on the short end.
- Don't expect your politicians to provide leadership because being in front of the impact of these economic changes will be very unpopular. Many people will be upset by the fear caused; but the ability to recognize the possibilities helps one manage through these times.
- Real estate values, nationally, will not get back to normalcy for another decade, in my opinion. See previous comments.
- The market downturn will not happen like the crash in 1987, but gradually, in my opinion, causing many to initially view the downturn as a correction instead of something more serious.
  - We are not going to experience hyper-inflation until AFTER we experience better job growth and a GDP growth rate in the 4-5% range, in my opinion.
  - Meanwhile, we may see falling prices on several basic commodities and goods produced. Demand will be contracting until some of the debt is removed to allow businesses to start afresh.
- The dollar will remain strong until the major economies in the world go through this resetting. Meanwhile currency wars will be a real possibility and the dollar could fluctuate as the Fed equivalents and central banks around the world figure out the best path to stability.

In my opinion, much of the scary stuff is good news because we can take advantage of the changes through various investment strategies. This is not about simply picking the best mutual fund.

Quit believing everything you see in the media. The media, government and Wall Street have a vested interest in you focusing on the fearful issues and not things on which you can do something. Don't worry about the volatility of the markets; not about the macro problems of economies around the world. Focus on your personal situation…and talk to us. Once again, we will get through this.

Until later,

Joel

Markets

May 30, 2013

DOW | 15,324.53

Nasdaq | 3,491.30

S&P 500 | 1,654.41

Thank you

Thank you to our clients and friends for attending our 19th annual Client Appreciation event. Ben Warwick, Chief Investment Officer of Aspen Partners, provided a fascinating overview of how the recent world events are impacting investments. Every year, we strive to bring in national experts to help you better understand global events and investment strategies.