

## What's happening in 2014?

*(continued from page 3)*

technology vs steel parts). Consumer debt is decreasing rather than increasing. Young people are realizing that learning about the world around them and giving back is just as important as climbing the corporate ladder. True, none of these facts would be highlighted on the network news because negative news makes more money than positive news for the talking heads. The domestic situation and global situation has a lot of good things happening. For example, domestically, college students are beginning to realize just "getting a college degree" no longer entitles them to a comfortable life or successful job. Internationally countries are cooperating

on issues they can, like protecting the environment: examples Iran and the US. Again, in my opinion, there is a lot more good going on in the world than bad...even if we have to look harder to find it.

Finally, we will make it through our retirement years for the seniors and through the growth years for the millennials and everyone in between, BUT we are going to have to embrace some new facts about the future as it evolves. JSW Financial is always planning and preparing. Without a doubt, it will be interesting, to say the least.

Until later,  
**Joel**

These are the opinions of the experts at JSW Financial, see our bios at [www.joelwilliams.com](http://www.joelwilliams.com). These are not necessarily the opinions of VSR, First Clearing or any of our money managers. These comments are based on various sources of information including: Dow Jones, Economic Cycle Research Institute, Federal Reserve, Kiplinger, HS Dent, and various U.S. Government Agencies. These sources are believed to be reliable but the accuracy cannot be guaranteed. Past performance does not guarantee future results. One should view particularly near-term opinions, as not statistically reliable and purely "our best guess." Keep in mind most of our focus is on what will happen in the next five years and beyond; not the near term. This should not be considered individual investment advice. Consider your individual investment objectives and risk tolerances before making investment decisions.

### Contact Us

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

- Beth Ashe | [betha@joelwilliams.com](mailto:betha@joelwilliams.com)
- Joel Williams | [info@joelwilliams.com](mailto:info@joelwilliams.com)
- Mike Jones | [mikej@joelwilliams.com](mailto:mikej@joelwilliams.com)
- David Harder | [davidh@joelwilliams.com](mailto:davidh@joelwilliams.com)
- Robin Hoback | [robinh@joelwilliams.com](mailto:robinh@joelwilliams.com)
- Jeff Proctor | [jeffp@joelwilliams.com](mailto:jeffp@joelwilliams.com)
- Andrew Cialek | [andrewc@joelwilliams.com](mailto:andrewc@joelwilliams.com)

Securities & Advisory Services Offered through VSR Financial Services, Inc., a Registered Investment Adviser member FINRA/SIPC.

JSW Financial is not owned or controlled by VSR Financial Services, Inc.

## In The News

### Estate planning 201 - gifting strategies



Since my kids have gone back to school, I thought the rest of us could do so as well. Take good notes as there may be a quiz next week.

In the past, you've no doubt heard us and others tell you to make sure your Wills, Advanced Medical Directives (aka living wills) and Medical Powers of Attorney are up to date. I'm sure you have taken care of these documents. You have, haven't you?

Since you've got the basics down, let's talk in a little more detail about how to gift assets.

**Gifts to Individuals.** If you're making a gift to your kids, grandkids, etc., cash is king. The reason is that if you gift an appreciated asset to someone, then you also are gifting them the price you paid for the asset (cost basis). If they sell that asset, then they will

owe tax on the gain from the price you paid for it. If you bequest it to them at your death, however, the cost basis is "stepped up" to its current value. If they then decide to sell it soon after, they may not owe any tax on the sale.

I see this happen most often with elderly parents wanting to give their kids shares of stock they've held for decades or the deed to their home they've lived in for 40 years. There may be a valid reason the gift should be made, but everyone should understand the tax implications.

**Gifts to Charity.** For all the reasons you should hesitate to gift appreciated assets to a person, those are exactly the reasons you should make gifts of appreciated assets to charity. They won't have to pay tax on the gain, you may get a tax deduction for the full value of the asset and you have removed a potential future tax liability.

For example, let's say you have some Apple stock that you bought 10 years ago for \$2.50 per share. Instead of writing that check for \$1,000 to your favorite charity, you give them 10 shares of stock instead. Since it's worth \$100/share, the charity gets \$1,000, you get a \$1,000 tax deduction, and you won't have to pay taxes on \$975 of gains.

But you say, "I'm attached to my Apple stock, it's going to \$5,000/share!" Okay, then take the \$1,000 cash you were going to give and buy the 10 shares back. Now you have the same amount of stock as before and you've gotten rid of a future tax liability.

There's the bell; time for you to go to recess. If you have a particular gifting strategy you'd like to discuss in more detail, let me or Joel know. Class dismissed.

– Mike Jones

### Year-end deadlines: IRAs & charitable gifts



A few reminders as we get closer to the end of the year.

RMDs. IRS rules require everyone who will be 70.5 or older

by December 31, 2014 to take a Required Minimum Distribution (RMD) annually from your IRA. The IRS can impose a 50% penalty for not taking out the calculated RMD amount. If you have not satisfied your

RMD for this year, please contact us.

The end of the year also marks deadlines for Roth IRA conversions and charitable gifts. These need to be in our office by December 19th to ensure processing by year-end.

## The more you know: The information ratio

The Information Ratio is a valuable tool for assessing the skill level of investment managers. It is a measure of the risk-adjusted return of a portfolio and is often used for comparing the performance of various mutual funds. The Information Ratio (IR) is defined as:

$$IR = \frac{R_p - R_b}{\sigma [R_p - R_b]}$$

where  $R_p$  is the portfolio return,  $R_b$  is the benchmark return and  $\sigma [R_p - R_b]$  is the standard deviation of the active return (also called the "tracking error"). In essence, the ratio is looking at a manager's ability to outperform a benchmark per unit of risk. The higher the ratio is, the better. The output can be increased from one of two ways: a larger numerator (indicating absolute outperformance relative to the benchmark), or a smaller denominator (indicating low variance relative to benchmark returns).

While no one ratio can be used as a sole justification for an investment decision, the Information Ratio can serve as an insightful indicator of how well a manager is performing that takes into account the level of risk being taken. When determining which mutual funds or third party managers to use to implement an overall asset allocation, it is certainly a good piece of data with which to start.

If you would like to learn more about this ratio or any other risk metrics that our advisors use when investing your portfolios, please feel free to email or call the office.

– Jeff Proctor

### Definitions:

Standard deviation: a measure of the amount of variation from the average.

Risk adjusted return: a comparative measure used to relate return information to the amount of risk taken.

## Quotables

"In the 20th century, the United States endured two world wars and other traumatic and expensive military conflicts; the Depression; a dozen or so recessions and financial panics; oil shocks; a flu epidemic; and the resignation of a disgraced president. Yet the Dow rose from 66 to 11,497." – Warren Buffet

## A season of Thanksgiving

This Thanksgiving season, while you celebrate with friends and family, let's take a moment to reflect and be thankful for the many blessings we've all been given. The JSW Financial team would like to thank you for old and new relationships and for your support and loyalty this year.

"Thanksgiving Day comes, by statute, once a year; to the honest man, it comes as frequently as the heart of gratitude will allow." – Edward Sanford Martin

## Welcome Andrew

JSW would like to welcome Andrew Cialek as our newest team member. Andrew is a recent University of Vermont graduate with dual degrees in Economics and Philosophy. We look forward to him helping us continue to provide the service you have come to expect from our team.

## Contact information

If your address, email or phone numbers have changed, please email or call Beth. Having updated contact information helps us serve you better.

## What's happening in 2014?

Believe it or not, nothing has changed much since the last newsletter. The market has pretty much continued to plod along upwards, Washington remains stagnant and the economy is creeping along in the right direction. Even with the shocking events around the world, the stock market seems to be holding steady. Here is my opinion on the current state of affairs.

In regards to the economy, single family home sales are still dragging and slowing while multi-family sales are improving. Great improvement is not expected in 2015. The GDP is only "creeping up" because first time home buyers cannot afford to buy a house so the economy remains anemic.

70% of growth in GDP comes from consumers

purchasing "stuff" to fill their new houses. This has to come mostly from the young first time home buyers, not the boomers.

The good news is that jobs ARE increasing; bad news is that most jobs are part-time. This is a major variable to watch going forward but don't expect significant improvement until 2016.

There is some good news about the market. Because of all the problems above AND the political agenda of the current Fed Chairwoman (Janet Yellen), interest rates will remain low until consumers start buying more. Again, no sign of significant increases until 2016 or beyond. Also note that analysts simply can't reliably see that far out from the data. These low interest rates will continue to support a higher stock market valuation as companies invest in "capital expenditures" (technology, infrastructure) and NOT more jobs. Companies are building cash on the balance sheets and strategically positioning themselves as the global economy picks up.

Many investors have not benefitted from the rise in the market over the past five years and they cannot continue to accept the 1-2% income levels on their bonds, CDs and money markets. These investors provide a bottom support to any market correction.

Having said that, the range of expectations from a market correction to a major crash is continually the theme of

many of the media talking heads. In my opinion, a five percent market correction would be healthy. It would allow a lot of the cash being held by investors/money managers to be reemployed into the stock market.

In other news, inflation will not be an issue related to your investments until the jobs picture improves. However, inflation in areas such as drugs and medical care will be higher than the normal (CPI) inflation rates.

The value of the dollar will remain relatively strong as long as the geopolitical world economy has issues. Having said that, in my opinion, one should consider numismatic

coins as protection for wealth being transferred to younger generations. This is an estate planning strategy that you can discuss with me or Mike.

Longevity of life is going to be one of the more serious issues with which we will be addressing in years to come. Financial planning will be focused more on our behaviors related to cash flow rather than performance of our investments. This goes for the young too, not just the seniors. New research is showing that 70% of first generation wealth (you earned, not inherited) is due to wise financial choices in consumption, rather than superior investment strategies. JSW Financial will be bringing more of this thinking to you in the coming months.

Domestic political policy will continue to be a challenge, regardless of the party in control. Bipartisanship is what is needed, and until the people decide to change this partisanship environment, government will remain the same. Did you vote?

Without a doubt there are terrible things happening in the US and in the world abroad, but there are also some great things happening in the US and abroad. Domestically, our education system will become less expensive as technology drives down costs of getting a job. Manufacturing is moving back into the US, albeit in a different form than the previous century (i.e. wind

(continued on page 4)

"...there is a lot more good going on in the world than bad."