Look at that Yo-Yo

Market volatility is back and with it comes nervous investors. The VIX (a commonly used measure of stock market volatility) increased this quarter from the low teens to a high in the 30's as concerns about Chinese economic growth, oil prices, interest rates, and a potential Puerto Rican default has depressed the overall market sentiment. During these times I believe it is critical for investors to focus on their long term financial goals and leave the trading to others. Consider the following analogy.

The stock market is like a man going up an escalator playing with a yo-yo. Although the yo-yo goes up and down, the escalator gradually and slowly heads up. The yo-yo in this example is the short term movements of the market. Traders and gamblers buy and sell based on whether they believe the yo-yo will continue down, or go back up. Investors, on the other hand, should focus on the escalator which is like the stock market in the long run, and historically moves higher over time.

The temptation for *investors* is to focus on the yo-yo and forget they are on an escalator. It is easy to see stocks decline and conclude that they will continue to fall. If that is the case, the logical step is to sell. Although this approach may seem rational, it is quite emotional. Selling out of fear because you are focused on a yo-yo is a mistake that small investors make repeatedly.

How about the escalator? I like to say that investing money in mutual funds is like planting grass. If you watch the grass after you plant it, there doesn't seem to be any growth. Go on vacation for a couple of weeks and check that same lawn and you better grab a mower, assuming of course you don't have a gardner.

(Continued on page 4)

I am back and would like to thank those who helped me recover my health.

To our clients who sent me well wishes, cards and phone calls: It brings tears of joy to my eyes to see how kind, and caring our clients are. Coming back to work after battling - and winning- my health issues, to find so many messages and cards was so special to me. THANK YOU ALL SO MUCH.

THANK YOU to Tamar for stepping in and filling my shoes.

THANK YOU to Lynn for overseeing and assisting with my job duties on top of all of her own. Lynn is so incredibly reliable and I am so grateful for her help before and during my health issue battle.

THANK YOU to Kumbie for all of his well wishes from Minnesota.

THANK YOU to Allen for his very touching and personal message to me that I carried with me and referred to during the difficult times of my recovery.

THANK YOU to Doug for his continued support, understanding and his prayers.

Today I stand grateful, humble, strong, and with a great awareness of how fortunate I am to have amazing people surrounding me in my life.

"Gratitude is a currency that we can mint for ourselves, and spend without fear of bankruptcy." Fred De Witt Van Amburgh

Andrea Baird

IRA Rules

If you have reached the age of 70 1/2 and have a retirement account, or if you have inherited a retirement account, you are required to take a minimum distribution (RMD). A retirement account can be a traditional IRA, SEP IRA, Rollover IRA or employer sponsored plan like 401K or profit sharing. These RMD's must be taken by 12/31 the year in which you turn age 70 1/2 or the year you inherit the IRA if you are a beneficiary.

Calculating the amount can be confusing. The IRS publishes detailed instructions and three charts to aid you in the calculation. The IRS assess a penalty of 50% of any required amount that was not taken.

Here at Private Wealth Solutions I make sure the required amount is distributed rom your accounts. If you have any questions, please call me.

Lynn Hillyard

Volatility and Income

We are never as happy or as unhappy as we think we are, said the French sage La Rochefoucauld. This principle can be applied to money as well. You are never as rich or as poor as you think you are. Understand this, and you will be less likely to behave foolishly during a bull market and less likely to swoon during corrections. In other words, you won't be making constant adjustments to your lifestyle.

One instinct, of course, is to measure wealth by the bottom line on a brokerage statement. When the markets go up, by dint of either irrational exuberance or a Federal Reserve asset-inflation scheme, people think they are richer. They think they can spend more. And when markets correct, they start worrying about their vacation budget. A wiser way to live: Pay less attention to the *prices* of assets and more to the *income* they generate.

A well-diversified properly allocated portfolio should generate a reasonable income stream of 3-4% over time. During a market correction, the companies you are invested in aren't necessarily making less money for you. The key here is the sustainability of their income stream. If this sounds radical, think about real estate. Suppose you have just retired and downsized to a house that you plan to live in until you pass away. Then a flood of exuberant buyers comes into the neighborhood, and the valuation of the house doubles. Does this make you better off? NO. Your income (the right to occupy the house in this case) is not higher.

I certainly don't want to discount the fact that a prolonged market downturn that kills corporate profitability would hurt portfolios and the income they generate. A Wall Street panic attack or a correction, on the other hand, does not. Corrections happen for many reasons, tend to be short in timeframe, and banner an overburdening story that soon becomes the forgotten story. The key here is to not let market corrections and volatility overshadow the sustainability and corporate profitability of the companies generating the income stream being used to live on every month.

Allen Minassian

Tax Time is Year Round

Tax season has a way of installing anxiety in all of us partially due to the ensuing deadline and the possibility of writing a large check for something we cannot see or feel immediately in return. Unfortunately after the clock strikes midnight on December 31st, there's very little one can do to change the outcome of their tax filings. Tax filing occurs during tax season, tax planning is on going and a detailed account should be administered during the final months of the year.

Start off with reviewing what's come in, income, dividends, and capital gains. Recent market volatility has led to above average mutual fund flows and fund holdings which could potentially lead to large capital gains from some funds. Each fund reports capital gains towards the end of the year, for some investors large capital gains can subject them to the 3.8% Medicare surtax. Fortunately. there are strategies to reduce the Medicare surtax and in some cases eliminate it but they must be implemented prior to year-end.

Charitable giving is another simple yet important tax planning tool. Writing a check to your most dear charitable institution is the easiest way to support a cause and take a deduction but consider gift assets as well. If there are shares in your portfolio that have appreciated substantially, consider gifting the shares versus selling them. Trustees often disregard charitable giving beyond the specified direct gift from the estate. If the estate in trust has earned a substantial amount of income before the proceeds are disbursed, skip the estate sale and gift some assets if you can or make an early distribution to beneficiaries.

> **Tax filing occurs during tax season, but tax planning is on-going.**

If you retired this year or are planning on retiring in the next year, a thorough year end tax plan is critical at this juncture, Today most individuals approaching retirement have the majority of their assets in retirement plans and or company stock. A retirement income plan that relies solely on income distributions from these type of accounts are taxed at higher marginal tax rates and increase the taxable portion of ones social security.

Certain conversion strategies and portfolio reallocation should be considered and it starts with assessment of potential tax liability. For individuals and families with fluctuating incomes, if this year was a bountiful year prepaying future expenses will help reduce current tax liability, while in a way managing future cash flow by reducing future expenses.

Lastly, tax planning now will grant you peace of mind when the rest of the country is restless during tax season.

Kumbie Mtunga

Political Picture

From the start it appeared as though the Democratic primary would be boring. Everybody knew Hillary Clinton was going to win. Political pundits predicted drama on the Republican primary. Clearly there are more actors on the Republican ticket. More than can fit on one debate stage as a matter of fact. However, the surprise so far has been the lack of clarity on the Democratic side. The emergence of Bernie Sanders as a legitimate challenger to Hillary Clinton (He leads in New Hampshire and is closing in Iowa) and the potential of a Joe Biden candidacy is creating more suspense than was previously expected.

Visions of America vary greatly on the issue of economics in the primary contests. It appears as though the focus of the Democratic candidates is on economic fairness (minimum wage, free college tuition, health care for all, etc..) The focus of most Republican candidates appears to be, not on economic fairness, but on economic growth. Tax cuts, regulation reform and simplification of our tax code has been dominating their economic debate.

Interestingly the debt and deficit has not been a primary economic issue for any candidate running for office. The front runners are focused on economic plans (tax cuts, free college) that would probably add to our national debt. No candidate is talking about reducing the benefits we are currently paying out. Apparently the politics of offering fewer benefits to voters is not an appealing strategy.

Of course no political analysis would be complete without mentioning Donald Trump. And now we have done that.

Look at that Yo-Yo (continued)

How does this apply to you?

The history of the stock market clearly illustrates the benefits of holding through periods of crisis. Even investors who could miraculously predict the stock market decline in 2008 would have to ultimately find the right time to get back in. If you've listened to the news over the past six years you'd realize there was never a news story telling you it was the right time to buy. In fact, the economic news has been generally bad. The stock market, however, has exploded from a low on the S&P 500 of 666 to a recent high over 2100!

The yo-yo may be entertaining. It may make for great daily news. It is a very poor instrument to focus on when managing a long term investment strategy.

Doug Lagerstrom

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Fall 2015 Volume 2, Issue 3

PRIVATE WEALTH SOLUTIONS

Generational Wealth Management

Will they or won't they? When will they? How much will they? 25bps? 10bps? Maybe 15bps? How about the language after the meeting? For those of you who don't know what I am referring to, the Federal Reserve Bank (FRB) has been debating the merits of the first interest rate increase in the federal funds rate in nearly a decade. The financial analysts reviewed every potential outcome of the FRB Jackson Hole meeting last month. The markets (stock and bond) held their collective breaths. In the end the committee decided to do nothing.

> ...the financial markets should have welcomed this news.

What does this mean?

First the reason for holding rates steady. Although the US economy has met the target rate of unemployment (5.1% if you're keeping score) and is close to the target core inflation rate, the global financial markets weighed on Yellen and company and they decided to hold rates steady until they are SURE the economy could withstand an interest rate hike. Of note, the Fed relied mostly on global weakness and financial market instability to support their dovish stance. This would seem to support the theory that the US economy is strong. Given this lower than expected interest rate environment the financial markets should have welcomed this news. Au contraire. After an initial rise of 100 points, the Dow has dropped after the announcement by 600 points!

So what gives? Perhaps the market is concerned that the Fed may be concerned about the world economy which is very, well concerning. China is slow, Puerto Rico is in trouble, Greek problems haven't gone away, and we still have $18 trillion in debt.

So what is good about our economy today?

Unemployment, as I said above is 5.1%, corporate profits are at record levels, Corporate balance sheets are healthy (and financed with very cheap debt), and commodity prices (oil, wheat etc.) are low. Lower commodity prices should help consumers and stimulate the economy in the long run. The global slowdown has led to tough times for investors, but consumers should reap some benefits.

Markets Today

HUGE - The US stock market was worth $24.7 trillion as of 6/30/15. The S&P 500 made up 78% of the total US stock market capitalization as of 6/30/15, equal to $19.2 trillion (source: BTN Research).

BIGGER THAN HUGE - The US bond market (including treasury, municipal, corporate, mortgage and asset-backed debt) was worth $39.49 trillion as of 6/30/15. The US bond market was worth $11.60 trillion as of 12/31/95 (source: Securities Industry and Financial Markets Association).

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