Investor Insights and Outlook

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Stay Invested—Keep Long-Term Potential Alive

Inside this issue:

Your Dollar at Work—12 Months of Smart Savings Tips	2
How Do They Get It So Wrong?	3
How Will the One-Per-Year IRA Rollover Rule Apply in 2015?	4

Sometimes human instinct lets us down. Take the natural response some investors have to down markets: Sell to avoid possible losses and stay out of the market until things improve. But while sitting on the sidelines might seem like a smart defensive move, it can actually be hazardous to your wealth. Time and again, statistics have shown that remaining invested through the market's inevitable up and down cycles has been the wiser choice for long-term investors. Those who have tried to time the market have often ended up with lower returns.

Costly Misses

Consider the performance of the S&P 500, a broad measure of U.S. stocks.[1] It appreciated an average of 9.22% annually during the 20-year period ended December 31, 2013.[2] An investment of $10,000 would have grown to $58,353 over the 20 years. However, an investor who missed just the top five days would have ended up with $38,725, which is equal to an average annual gain of 7.0%. Missing the best 10 days in the 20-year period would have left the investor with $29,185, which is equivalent to an average gain of 5.5%. Investors who missed the top 30 days during this period would have ended up with $12,032 on their initial $10,000 investment, which translates to an annual gain of just 0.93%.[2]

Slow and Steady Wins the Race

However well-intentioned their market-timing tactics may be, investors too often end up chasing past winners, buying in just as the price turns down, or making the wrong guess about which will be the next hot stock. In addition to these mistakes, frequent turnover can increase trading costs and trigger unwanted capital gains, which further reduce returns.

Like the fabled race between the tortoise and the hare, the investor who moves steadily forward toward his or her goal may be more likely to succeed than the one who darts in and out of the market. Although past performance cannot guarantee future results, history shows that the patient investor who had held to a well-crafted strategy is likely to have the money available when opportunities emerge to invest in undervalued securities and areas of the market with long-term growth potential.

Source/Disclaimer:

[1]Standard & Poor's Composite Index of 500 Stocks is an unmanaged index that is generally considered representative of the U.S. stock market. It is not possible to invest directly in an index.

[2]SWealth Management Systems Inc. This hypothetical example illustrates how a $10,000 investment would have been affected by missing the market's top-performing days over the 20-year period ended December 31, 2013. Stocks are represented by Standard & Poor's Composite Index of 500 Stocks, an unmanaged index that is generally considered representative of the U.S. stock market.

Advisor Corner

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Your Dollar at Work—12 Months of Smart Savings Tips

Make 2015 "the year of the dollar" by trying some of these smart saving and spending tips all year long.

January ~ After-Christmas sales are a great way to stock up on holiday-themed products such as wrapping paper, candles, cards, and decorations. Most retailers reduce prices on these items by 50% or more. But don't stop there. Many specialty and gourmet food items, and items of clothing ~ sweaters, hats, gloves, and scarves ~ are put on clearance racks and sold for a fraction of their original price.

February ~ Getting a raise? Consider adding the extra money to your retirement savings plan and/or open a special account for next year's holiday shopping or your summer vacation.

March ~ March is considered a low-season travel month to Europe. That's the time of year when tourists are scarce, attractive destinations such as London, Paris, and Rome are quiet, and hotels and airfares are at some of their lowest rates.

April ~ If you are among the majority of Americans who get a tax refund, consider using that money to pay down credit card debt, to make an extra principal-only payment on your mortgage, or to build the foundation of an emergency fund.

May ~ The Department of Energy estimates that water heating can account for 14% to 25% of the energy consumed in your home. Lowering the temperature on your hot-water heater during the summer months will help cut costs. If you take a vacation, turn the temperature down further.

June ~ Vegetables fresh from our garden are less expensive than canned and frozen foods ~ and healthier, too! Start small ~ try a few tomato plants. (Don't forget to water and fertilize regularly!)

July ~ Play sports? Buy your equipment at used sporting goods stores. From catcher's mitts to surfboards, these stores sell their wares at a fraction of the original cost.

August ~ Cash in on summer clearance sales. Spruce up next summer's wardrobe or outfit yourself for a winter cruise. Also, start pricing next winter's cord of wood.

September ~ In September and October auto dealers try to clear their lots to make room for the next year's models. By haggling, you may be able to shave hundreds off a new car's sticker price.

October ~ The Department of Energy estimates that heating and cooling account for 50% to 70% of the energy used in the average American home. Schedule a heating and cooling system tune-up, insulate your attic, replace furnace filters, and have your chimney cleaned.

November ~ Many charities begin active fundraising during this month. Before sending a donation to your favorite charity, check it out with the National Charities Information Bureau or the BBB Wise Giving Alliance.

December ~ Have a few extra dollars to spare? Kick off 2016 by finding new ways to save and spend wisely.

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2014 Tax Reporting Notes

As we all look for our 2014 Tax Documents please remember to allow time for custodians to consolidate accurate information from investment companies. Your tax documents may not arrive until mid-March.

The recent tax law changes are likely to result in longer preparation times for tax preparers. Get started with the tax return process earlier this year to allow for potential delays.

You can still contribute to your IRA or Roth IRA for 2014. Make your contribution before you file taxes or before April 15th, whichever is earlier.

How Do They Get It So Wrong?

By Sheldon McFarland VP, Portfolio Strategy & Research, Loring Ward

Most of us hate uncertainty. And it's our dislike of uncertainty that keeps the weather man and economic forecasters employed. But when was the last time you checked your favorite forecaster's track record before acting on his or her prognostication? Chances are never.

I believe much of the trust placed in professional forecasters is misplaced, especially when it comes to economic forecasts. I'm not alone. John Cochrane, a University of Chicago professor, describes economic forecasting as inaccurate and financial forecasting as next to useless.[1] And he does clarify that his comments pertain to "real" forecasters as opposed to the "clowns" on TV.

Consider the following example. In December of 2013, The Wall Street Journal published the interest rate forecasts of 46 economists.[2] All but one predicted that rates would be higher in 2014 — and the other one predicted that rates would be flat. Fast forward 12 months and all of the experts were wrong. Rates actually declined.

Unfortunately, forecast errors seem to be the norm among market prognosticators. The chart at the right shows the forecasts of 18 investment strategists and money managers — the so-called experts — for the price of oil at the end of 2014. As you can see in the chart the experts were all wrong and the closest forecast was almost double the current price. Only three of the forecasters predicted the direction right (i.e., that the price would decline), but most forecasts were so far off that I'm not quite sure how they stay employed.

These forecasts were part of a CNN Money survey taken at the end of 2013. The experts ranked several other market indicators and whiffed them all. It's time to think twice before putting your faith in professional forecasts.

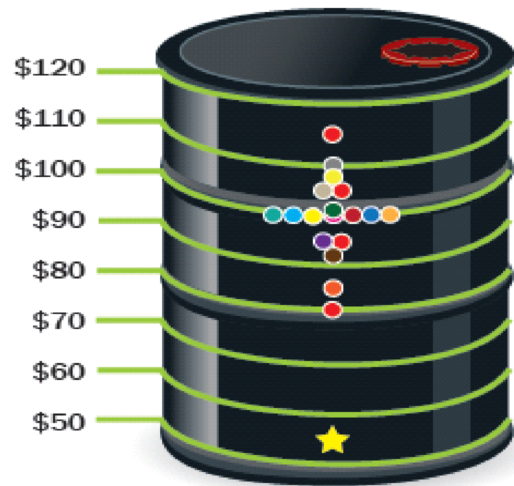
If you're wondering why it's so hard to accurately predict the movement of the markets it may be because market movements are random, or at least that is the idea behind the theory of random walks.

Random-walk theorists believe that markets are efficient. An efficient market is defined as a market with many participants and freely available information. Competition among the many intelligent participants leads to a situation where actual prices reflect the effects of all known information.

The key is information.

Most professional forecasters are all working with the same information, which results in them coming up with similar forecasts. In order to truly have an edge in making predictions, a forecaster must have information that isn't available to other market participants. And that would violate our market efficiency assumption.

18 Expert 2014 Predictions for the Price of Oil vs. Actual



2014 Expert Forecasts (circles) & 2014 Actual (star)

Source: http://money.cnn.com/infographic/markets/stock-market-predictions-april-2014/

The dark side of forecasting is the wealth destruction that can result due to investors moving in and out of the market based on these predictions. So what do you do when the industry experts show less forecasting accuracy than a coin flip? Start flipping coins yourself? No, you stop trying to time markets. You have the courage that it takes to ignore economic forecasts from experts with very impressive credentials. Their logic is compelling and their rational seems sound but don't let that fool you into making an investment mistake that may put at jeopardy your long-term investment goals.

Source:

[1] *Cochrane, John H., In Defense of the Hedgehogs, CATO Unbound, July 15, 2011*

[2] *Reddy, Sudeep, Economists Split on Start of Fed Pullback, December 13, 2013*

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How Will the One-Per-Year IRA Rollover Rule Apply in 2015?

In 2014 the U.S. Tax Court ruled that the "one-per-year" IRA rollover rule applies to all of an individual's IRAs, in aggregate, not to each separately. The IRS has backed the court's decision and offered guidance as to how the new rule will affect rollovers completed in 2014 as well as new rollovers initiated in 2015.

Timing and Transition

The IRS's latest announcement clarifies that the once-a-year rule will take effect on January 1, 2015, putting to rest any uncertainty that investors and advisers may have had regarding the status of rollovers made in 2014. In a news brief, the IRS stated that "a distribution from an IRA received during 2014 and properly rolled over (normally within 60 days) to another IRA will have no impact on any distributions and rollovers during 2015 involving any other IRAs owned by the same individual."1 The key here is that new rollovers initiated in 2015 must involve different IRAs than those included in rollover activity in 2014.

The IRS statement went on to explain that, "Although an eligible IRA distribution received on or after January 1, 2015, and properly rolled over to another IRA will still get tax-free treatment, subsequent distributions from any of an individual's IRAs -- including both traditional and Roth IRAs -- received within one year after that distribution will not get tax-free rollover treatment."[1]

This statement further clarifies the point that the rule applies to all of an individual's IRAs -- whether traditional or Roth -- in aggregate, not separately as some may have previously assumed.

Exceptions to the Rule

It should be noted that the rule applies only to indirect IRA rollovers, in which the account holder initiates a distribution from an IRA and receives a check for the distributed amount, which is deposited into his or her personal account. It is then up to the individual to redeposit the funds into the new IRA within the allotted 60-day period to avoid possible taxation and penalties on the amount distributed.

If individuals want to move money more frequently, they can still use the direct rollover approach -- also known as a trustee-to-trustee rollover -- anytime without regard for the new once-per-year rule. With a direct rollover, the money goes directly from the former IRA custodian/trustee to the new custodian without the account holder ever touching it. The Tax Court was clear in its ruling that individuals who have more than one IRA may make multiple direct rollovers from the trustee of one IRA to the trustee of another IRA without triggering the one-year limit. Other advantages of a direct rollover include simplicity and continued tax deferral on the full amount of the account holder's retirement savings.

Also excluded from the new rule are Roth IRA conversions (rollovers from traditional IRAs to Roth IRAs) as well as rollovers between qualified retirement plans and IRAs.

These latest developments may have an impact on individual investors' retirement planning decisions. To play it safe, consult with a qualified financial and/or tax adviser before making any IRA moves. For their part, advisers should exercise caution in managing clients' rollover activity, being careful to question the rollover history of a given IRA.

Source/Disclaimer:

[1]Internal Revenue Service, "IRS Clarifies Application of One-Year Limit on IRA Rollovers, Allows Owners of Multiple IRAs a Fresh Start in 2015," November 10, 2014.

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