Investor Insights and Outlook

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Moja Maisha

Machu Picchu stands in the middle of a tropical mountain forest, atop a 2,430 meter (that's about 8,000 feet) mountain. Situated on the eastern slope of the Andes in Peru, this amazing urban creation flourished at the height of the Inca Empire.

The walls and terraces look like they were cut from the mountain; yet the truth behind its creation is even more remarkable. Machu Picchu is certainly among the greatest artistic, architectural and land-use achievements anywhere.

Last month, my wife Joanne and I traveled to Peru where we joined our youngest son, Alex. We visited Lima (at sea level on the Pacific coast) and then Cusco (11,200 feet) where we volunteered with Alex at the Azul Wassi orphanage.

Children everywhere are special. Alex has devoted most of this year to volunteering at orphanages around the globe (www.TheVolunteerAdventure.com). His stories inspired us to help.

There is no doubt we are much the richer for our experience. You can't help returning home with a better understanding of what is; fueled by the real hope of what can be.

Moja Maisha is Swahili for "one life".

Standing on the summit of Machu Picchu, enveloped by a history that still defies explanation, I found myself feeling very small and insignificant, and yet very special and very blessed.

Somehow, what seems so important (is the market up today? will the Seahawks win the Super Bowl?) changes. At the orphanage, the children helped me rediscover my "inner-child." What matters; what stands the test of time and place are history and the simple things in life, things that children understand. A smile, a hug, the genuine love and concern for one another.

I invite you to welcome 2014. Celebrate the New Year as a child. See things from a new perspective.

Our one world and our one life are special.

Advisor Corner

Thank you for the opportunity to serve as your advisor.

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Inside this issue:

2014 CALENDARS

We have a few pocket calendars left and several desk calendars. Please stop in to pick up your calendar or let us know if you would like us to drop one (or two) in the mail.

Hallett Advisors
Plan Well • Live Well

Using 529 Plans to Save for College

Looking to save for your child's education? You have a number of tax-advantaged federal and state college savings vehicles at your disposal, including the 529 plan.

Expecting a bundle of joy and wondering if you will be able to afford sending him or her off to college? Fortunately, you have a number of tax-advantaged federal and state college savings vehicles at your disposal, including the 529 plan, which comes in two varieties: the prepaid tuition plan and the savings plan.

The Prepaid 529 Plan

A prepaid plan allows you to pay now at today's rates for school tomorrow. In return, your account is guaranteed to pay for the tuition and fees at the state's public universities and colleges by the time your child graduates from high school. Note that prepaid plans often do not cover the costs for room and board. Your child also may use the prepaid account to attend a private or out-of-state school, but you might risk forfeiting some of its value depending on how the plan values its contracts. Note, too, that most prepaid plans require that you or your child be a resident of the state in which the plan is offered.

The 529 Savings Plan

The 529 college savings plan is far more flexible than the prepaid tuition schemes. The money accumulated may be used at any school you choose and for all qualified higher education expenses, including room and board.

Each state determines what the lifetime contribution limit or account balance cap will be in its 529 plan, but typically such limits range between $100,000 and $270,000. Investment minimums are low (most plans let you sock away as little as $25 a month as long as a minimum of $500 is accumulated within two years of the initial purchase date), and there is no restriction on how much you may contribute every year unless the account is nearing the lifetime cap.

However, since 529 contributions are treated as gifts subject to gift-tax limitations, if you want to make a tax-free contribution, it shouldn't exceed $14,000 annually ($28,000 if you're contributing with your spouse). There's one exception, however: You may contribute as much as $70,000 tax free in one year ($140,000 with your spouse), but that contribution will be treated as if it were being made in $14,000 installments over the next five years. That means you can't make other tax-free gifts to the beneficiary during that time.

Most 529 savings plans offer a menu of age-based portfolios, and some also offer a small selection of stock and bond funds. In the former case, your annual contributions get invested in a pre-selected portfolio of stocks and bonds. Early on, the portfolio is tilted toward stocks, and as the time for college nears, the weighting shifts toward bonds. You can switch investments up to twice a year.

The quality of 529 college savings plans varies by state, but in most instances you may open an account in any state you'd like. All 529 plans offer generous tax breaks, provided you use the money for qualified expenses. While your contribution is not deductible on your federal taxes, your investment will grow tax-deferred and withdrawals will not be subject to federal tax.

You should always compare the 529 plan of your choice with any 529 college savings plan offered by your home state or your beneficiary's home state and consider, before investing, any state tax or other benefits that are only available for investments in the home state's plan. You should always read the Plan Disclosure Document, which includes investment objectives, risks, fees, charges and expenses, and other information. You should read the Plan Disclosure Document carefully before investing.

Investment Risks

Investing in college savings plans comes with some risk. Unlike prepaid tuition plans, they don't lock in tuition prices. Nor does the state back or guarantee the investments. There also is the risk with most college savings plan investment options that you may lose money or your investment may not grow enough to pay for college.

Prepare for Rain

Unless you live in the Atacama Desert in northern Chile, you probably expect rain at some point during the year. To prepare you probably keep an umbrella in your car, a raincoat in your closet and maybe even a pair of galoshes. And if you've prepared adequately, when the rain comes it's a minor annoyance, if any at all.

Just as we prepare knowing that rainy days will come, we need to prepare for rainy days in the stock market, because it's not a question of *if* the stock market will decline but *when*.

The stock market declined 22 out of the 87 years from 1926 through 2012, or roughly 25% of the time[1]. this means that stock market returns were positive three out of every four years and negative one out of every four years. To put this into perspective, think back to the last Presidential election. Between the last time you voted for President and the next time you vote for President, you should expect to see one down year in the stock market.

You're probably asking yourself, why not just sell out of the market after three positive years to avoid the fourth negative year? Unfortunately, it's not that easy. Even though the stock market has been positive three out of every four years on average, the stock market isn't always average. There have been sustained periods of positive and negative returns. The longest positive return streak since 1926 was ten years and the longest negative return streak was four years.

The first is 2008, which experienced a decline of almost 40%. Would you have guessed at the end of 2008 that the return in 2009 would be 28.8% for the year? And after a paltry return in 2011, would you have guessed the double digit returns for 2012? The unpredictable, random nature of stock market returns makes it difficult to predict stock market returns with any type of consistency.

Why are stock market returns so reliably unpredictable? They are because stock markets react to news and information that is reliably unpredictable. Look at what occurred because of a hacked Twitter account at the Associate Press[2]. On April 23, 2013 at approximately 1:07 pm ET, a fake tweet appeared on the AP Twitter account stating that President Obama was injured in one of two explosions at the White House. By 1:08 pm—one minute later—the Dow had plummeted 150 points. $200 billion dollars in value was wiped out. At 1:10 pm an AP employee noticed the fake tweet and took corrective action, posting that the account had been hacked and the tweet was bogus. By 1:13 pm the market had recovered almost all of its losses. This is an example of an efficient market at work, pricing in known information as it comes available. Stock market fluctuations are simply the embodiment of billions of bits of information continually reacted to by investors.

Although stock market returns often will be insane in the short run, the long-run returns have been extremely reliable. In fact, the U.S. stock market earned a positive return in 73 of the 78 10-year periods since 1926. That means if you invested for at least 10 years, there was a 94% chance you earned a positive return.

Just as we prepare for rain, we must prepared for down markets—they are essential to investing. Just like rain is essential for life, risk is essential for stock return. Without short-term risk, there would be no long-term return—you want the risk!

Not all risk is rewarded though. We use our portfolio umbrella, raincoat and galoshes to manage volatility within your portfolio. We do this by diversifying your portfolio across the risk factors that have higher expected returns. Use stocks for potential growth and bonds to help manage volatility to get a portfolio that is right for you. Once we have the correct mix of stocks and bonds, we monitor your portfolio on an ongoing basis and rebalance as needed to keep your portfolio's mix in line with your desired mix.

Despite all of this, when the rain does come your portfolio may get a little wet, but our goal is to make sure it doesn't get soaked.

[1]Source: Morningstar. U.S. stock market returns represented by the CRSP 1-10 Index

[2]Source: http://www.usatoday.com/story/theoval/2013/04/23/obama-carney-associated-press-hack-white-house/2106757/

Adapted from an article by the same name written by Sheldon McFarland, VP Portfolio Strategy & Research, Loring Ward

Six Simple Ways to Value a Stock

Investors are always searching for methods to help them determine whether a company is worth investing in. There are many means of stock valuation, some simple, some more complex.[1] Why is stock valuation so important? If the market price of the company's stock is greater than the company's intrinsic value, an investor might choose to stay away. If the market price of the company's stock is less than the company's intrinsic value, the investor may choose to buy the stock.

Price-to-Earnings Ratio (P/E) - The price-to-earnings ratio (P/E) is a valuation method used to compare a company's current share price with its per-share earnings. Its formula is calculated by dividing its market value per share by its earnings per share. The P/E is one of the most widely used ratios, and it is used to compare the financial performance of different companies, industries, and markets.

Price-to-Earnings Growth Ratio (PEG) - The P/E ratio is a snapshot of where a company is, and the PEG ratio is a graph plotting where it has been. The PEG ratio incorporates the historical growth rate of the company's earnings. This ratio also tells you how your stock stacks up against another stock. The PEG ratio is calculated by taking the P/E ratio of a company and dividing it by the year-over-year growth rate of its earnings.

Price-to-Book Ratio (P/B) - The price-to-book ratio measures a company's market price in relation to its book value. Its formula is calculated by dividing the company's stock by its book value per share. Book value can be found in the company's balance sheet, usually listed as "stockholder equity." It represents the value of a company's total assets subtracted by its total liabilities. The P/B does not consider the actual value of the assets, only the non-depreciated portion of the assets. Like most ratios, it's best to compare P/B ratios within industries.

Price-to-Sales Ratio (P/S) - The price-to-sales ratio helps determine a stock's relative valuation. Its formula is calculated by dividing the company's price per share by its annual net sales per share. Price-to-sales ratio is considered a relative valuation measure because it's only useful when it's compared with the P/S ratio of other firms within the same industry.

Return on Equity (ROE) - The ROE is calculated by dividing a company's earnings per share by its book values per share. The ROE is a measure of how well the company is utilizing its assets to make money. Understanding the trend of ROE is important because it indicates whether the company is improving its financial position or not.

Dividend Payout Ratio—This ratio is calculated by dividing the dividends paid by a company by its earnings. The dividend payout ratio can also be calculated as dividends per share divided by earnings per share. A high dividend payout ratio indicates that the company is returning a large percentage of company profits back to the shareholders. A low dividend payout ratio indicates that the company is retaining most of its profits for internal growth.

[1]*Investing in stock involves risk, including loss of principal.*

Hallett News

Stacey Mishler, our Director of Operations and Registered Paraplanner™, recently finished her MBA. Stacey earned her MBA with a dual concentration in accounting and finance. She maintained a 4.0 grade point average throughout the program. Because of Stacey's academic achievement she was nominated for, and admitted to, the Sigma Beta Delta Honor Society for students in business, management, and administration.

MERRY CHRISTMAS AND HAPPY NEW YEAR

from the Hallett Advisors team:

Jim, Joanne, Stacey and Sulene

and of course, Mika & Maxwell

Hallett Advisors

Plan Well • Live Well

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