Investor Insights and Outlook

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Do Justice. Love Mercy. Walk Humbly.

Beginning in early April of this year our youngest son, Alex, embarked on a multi-country, self-directed volunteer mission. His purpose is to make a difference in the lives of the world's children. His journey commenced in Vietnam and has since encompassed Cambodia, Nepal, Kenya, South Africa, and most recently, Romania.

In each country, Alex works in orphanages devoted to the care of children. His days are filled with a diverse range of activities. From the simple one-on-one time with a child or teaching a group of kids to sing for the first time, to helping build a library, creating a clean water system, or roofing a dormitory. Each day has its moments. Emotions span the full spectrum from heartbreak to profound joy.

Joanne and I will be joining Alex in Peru for much of November. We will be in Lima and Cusco with time off for a visit to Machu Picchu (our office will be fully

operational; Stacey and Sulene will take care of you and I will be in contact as needed).

We all find ourselves caught up from time-to-time worrying about sequestration, the debt ceiling, or rising interest rates. Of course these things can be troublesome and present challenges in adhering to a well-crafted financial plan. Still, if we pause once in a while and consider all that we have to be thankful for like clean drinking water, fresh vegetables and a safe place to sleep; simple things denied to many of the world's children; then perhaps we'll appreciate today as a good day.

We appreciate your continued confidence and trust and look forward to sharing more with you.

(You can check out more about Alex at **www.TheVolunteerAdventure.com**)

Advisor Corner

Thank you for the opportunity to serve as your advisor.

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Plan Well • Live Well

Year-End Planning to Help You Lower Your Tax Bill

By planning ahead and taking advantage of these time-proven tax strategies before year-end, you may be able to lessen your tax bite come April 15.

As the end of the year draws near, the last thing anyone wants to think about is taxes. But if you are looking for ways to minimize your tax bill, there's no better time for tax planning than before year-end. That's because there are a number of tax-smart strategies you can implement now that will reduce your tax bill come April 15. And, with the higher rates put in place with the passage of the American Taxpayer Relief Act of 2012, being tax efficient is more important than ever.

Put Losses to Work

If you expect to realize either short- or long-term capital gains, the IRS allows you to offset these gains with capital losses. Short-term gains (gains on assets held less than a year) are taxed at ordinary rates, which range from 10% to 39.6%, and can be offset with short-term losses. Long-term gains (gains on assets held longer than a year) are taxed at a top rate of 20% and can be reduced by long-term capital losses.[1] To the extent that losses exceed gains, you can deduct up to $3,000 in capital losses against ordinary income on that year's tax return and carry forward any unused losses for future years.

Given these rules, there are several actions you should consider:

Avoid short-term gains when possible, as these are taxed at higher ordinary rates. Unless you have short-term losses to offset them, try holding the assets for at least one year.

Take a good look at your portfolio before year-end and estimate your gains and losses. Some investments, such as mutual funds, incur trading gains or losses that must be reported on your tax return and are difficult to predict. But most capital gains and losses will be triggered by the sale of the asset, which you usually control. Are there some winners that have enjoyed a run and are ripe for selling? Are there losers you would be better off liquidating? The important point is to cover as much of the gains with losses as you can, thereby minimizing your capital gains tax.

Consider taking losses before gains, since unused losses may be carried forward for use in future years, while gains must be taken in the year they are realized.

Unearned Income Tax

A new 3.8% tax on "unearned" income went into effect in 2013, effectively increasing the top rate on most long-term capital gains to 23.8%. The tax applies to "net investment income," which includes interest, dividends, royalties, annuities, rents, and other passive activity income, among other items. Importantly, net investment income does not include distributions from IRAs or qualified retirement plans, annuity payouts, or income from tax-exempt municipal bonds. In general, the new tax applies to single taxpayers with a modified adjusted gross income (MAGI) of $200,000 or more and to those who are married and filing jointly with a MAGI of $250,000 or more.

What's to Come?

While there are currently no major changes in federal tax rules planned for 2014 that have been approved by Congress, there are many steps you can take today to help lighten your tax burden. Work with a financial professional and tax advisor to see what you can do now to reduce your tax bill in April.

This communication is not intended to be tax advice and should not be treated as such. Each individual's tax situation is different. You should contact your tax professional to discuss your personal situation.

Source/Disclaimer:

[1]Under certain circumstances, the IRS permits you to offset long-term gains with net short-term capital losses. See IRS Publication 550, Investment Income and Expenses.

Investor, Know Thyself

Want to be a smarter investor? Get in touch with your feelings. If we better understand how we feel, how we think and what kind of personality we have, we get more insight into the forces that affect our investing behavior. And that might make us smarter investors — or at least invest in ways that don't give us heartache.

What are you prepared to lose?

Suppose that you could replace your current investment portfolio. The new portfolio has a 50-50 chance to increase by 50% your standard of living during your lifetime. However, the new portfolio also has a 50-50 chance to reduce by X% your standard of living during your lifetime. What is the maximum X% reduction in standard of living you are willing to accept?

The lower the number you chose, the more you think the pain of a decline outweighs the joy of an increase. For instance, people who are willing to accept a maximum 25% reduction are saying, in effect, that the potential pain is twice as important as the potential joy.

Surveys show that, on average, Americans are willing to accept a maximum reduction of approximately 12.5% — meaning pain outweighs joy by 4 to 1. Fear of loss magnifies risk, driving us out of stocks, as at the peak of the financial crisis in 2008. Exuberance blinds us to risk, rushing us into stocks, as at the peak of the technology boom in 1999.

If you're very reluctant to take risks, you might want to consider a bigger position in stocks to make up for your cautious tendencies. If you're more aggressive, perhaps think more closely about bonds or other more conservative investments.

Do Bad Choices Bug You?

If you tend to feel bad about decisions you've made, remember one important fact: Regret is a powerful teacher, but sometimes it teaches the wrong lesson. All too often, highly regretful people shy away from everything that didn't work out for them, for whatever reason. Regret unfortunate choices and learn not to repeat them. But don't regret wise choices that turned out poorly, or else you could end up missing out on valuable opportunities.

Think You Can Beat the World?

Overconfidence can be handy in some situations, but it can lead you to make poor choices when you're investing. If you have confidence that you can beat the market, remember one simple fact: A consistent ability to earn higher-than-average returns is rare, and most investors who try to beat the market end up beaten by it. Find ways to tamp down your eagerness and make fewer trades. Look for stocks that you'll buy and hold for the long term, or buy a portfolio of mutual funds that take care of the trading for you.

Attention to Details

Those who describe themselves as organized, responsible and thorough are considered conscientious. When it comes to managing money, conscientious people are good at saving, accumulating fatter portfolios than people with equal income but lower conscientiousness. But be sure to avoid going overboard. Don't let conscientiousness turn you into a miser, injuring your family and yourself.

The Life of the Party

Extroverts, as psychologists call them, are overconfident, willing to tolerate risk, and largely immune to regret. This combination of traits makes them good salespeople, whether selling products or themselves. But extroversion detracts from introspection and gets in the way of listening.

If you're extroverted, recognize that some of your willingness to take risks in investing is probably rooted in your psychology — and not in a thoughtful assessment of risks and returns. Be sure to think twice about any move you make.

A Generous Spirit

Agreeableness is a mixed blessing when it comes to investing. If you're agreeable, consider buying riskier issues that may generate big returns, but don't make a lot of moves with your holdings once you've got them.

A Vivid Imagination

"Open" intellectuals are more interested in ideas and inventions than in money, and are easily bored by routine. Many spend their careers without thinking much about what they're accumulating in their pensions and defined-contribution savings plans. Many often find, too late, that they still don't have enough, because they never paid attention to their investments and didn't build up enough wealth. It may help to try thinking of investing as a puzzle or a machine, something whose mysteries you can examine and try to make sense of. (Just don't imagine you can beat the market consistently; there's no system that will get you great returns every time.)

A Worrywart?

Worriers may think they're objectively assessing risk when they make moves, or resist making moves. But more likely, those actions are due to fear and pessimism.

Regardless of your personality, a good strategy is to turn to your financial advisor to design and enforce a portfolio for you. An advisor can calm you down when the market tanks and you feel compelled to dump your stocks. He can also impose rules to make sure you're making wise moves that will help you meet your long-term goals.

Rising Rates Got You Down?

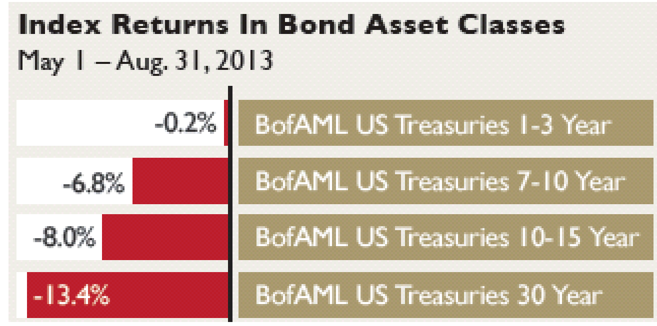
The slightly improving economy and talk of the Federal Reserve winding down some of their bond buying programs has put rising interest rates front and center in the news lately. Long-term interest rates on US Government 10-Year Treasury bonds started the year at 1.86%, but have risen nearly a full percentage point to 2.78% as of August 31. This is a significant increase and a reversal of a falling rate trend that has lasted nearly 30 years.

So what does it mean for your investments? Interest rates and bond prices are inversely related. Bonds issued with lower interest rates become less attractive to investors when new bonds come out with higher yields; therefore, the old bonds will need to trade at discounts in order to make them attractive investments.

However, not all bonds are affected by interest rate changes in the same way. Because longer-term bonds will have a fixed coupon payment well into the future, they are affected more by interest rate changes than shorter-term bonds which will mature soon and be able to be reinvested in new bonds with higher rates.

For example, a bond with 10 years left to maturity may lose about 10% of its value when interest rates rise by 1%, but a bond with 3 years left to maturity may lose only about 3%. We've seen that relationship with index returns in bond asset classes this year, with longer-dated bonds experiencing larger losses.

Nobody knows exactly which way interest rates will go from here or when additional moves will happen. However, we can control what type of exposure we have to interest rate risk. Longer-dated bonds may leave you more exposed to potential losses if rates continue to rise. Staying with short term and high credit quality has historically resulted in lower volatility.



Most investors include bonds in a portfolio in order to try and reduce the amount of overall value fluctuations. Shorter-term bonds will generally help dampen overall portfolio risk, regardless of what happens with interest rates. It's always a good time to review your bond exposure with your own financial advisor to make sure that it's in line with your financial goals.

Source: Morningstar Direct 2013. Indexes are unmanaged baskets of securities that are not available for direct investment by investors. Index performance does not reflect the expenses associated with the management of an actual portfolio. Past performance is not a guarantee of future results. All investments involve risk, including loss of principal.

Hallett News

We are pleased to welcome Sulene Krause to the Hallett Advisors team as our new Client Relations Manager. Sulene came to us from the Port Angeles Food Bank where she worked as an Administrative Manager.

Sulene's professional demeanor and friendly disposition make her a welcome part of our team.

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