Wealth Management

INVESTMENTS, ADVICE & TRUST SERVICES

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FALL 2014

Year-end Tax Planning — Get an Early Start

Although tax season might seem as if it's a long way off, tax planning in the months before year-end allows you to take advantage of strategies that might help reduce your income-tax obligation. Reviewing commonly used strategies will help you identify those that might be useful to you.

Capitalize on Winners

Your investments are a good starting point for implementing tax-saving strategies. You can benefit from favorable tax rates on long-term capital gains by selling and taking profits on appreciated securities you've held longer than one year. Long-term gain is currently taxed at a maximum rate of 15% for most taxpayers and 20% for taxpayers in the top regular tax bracket (39.6%).

Cut Your Tax Bite with Losers

Investments that have lost value and have consistently underperformed a benchmark over time may be perfect sell candidates, particularly if you're not confident of a turnaround. By selling your losers, you can use your losses to balance out gains on appreciated securities you've sold. Capital losses are fully deductible to offset capital gains and up to $3,000 of ordinary income each year ($1,500 if married filing separately). Any losses that you can't deduct for 2014 can be carried over for deduction in future years, subject to the same limits.

Don't make taxes your only reason for selling an investment. Many different factors should go into the decision to sell securities, including how the sale of a specific investment would affect your overall portfolio.

Curb Surtax Exposure

The 3.8% surtax on net investment income is a relatively new wrinkle for higher income taxpayers. The surtax comes into play when an individual filer's modified adjusted gross income (AGI) is more than $200,000 ($250,000 on a joint return or $125,000 if married filing separately). The surtax applies

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Market and Economic Update

By Jason Ritzenthaler, CFA, CTFA
Co-Chief Investment Officer

All indications point to an October end to what has been coined "QE Infinity," the Fed's third Quantitative Easing program. With the equity markets hovering at all-time highs, MTC believes it's important to study the past to see if it can give us some insight into the possible market response over the next few months.

Over the 20-month period of QE1 from 2008-2010, the S&P 500 climbed nearly 36% but saw around 17% of those gains given back toward the end of the program. Over the eight months of QE2 from 2010-2011, the S&P 500 added nearly 12% but gave back those gains and then some at the close (again a nearly 17% decline). Over the current 24-month period of QE3, the S&P 500 has gained over 42%.

Mark Twain said, "History doesn't repeat itself, but it does rhyme." While the global economy has improved since QE1 and QE2, MTC is recommending patience and a cautious outlook to investors looking to increase their long-term risk allocations as we actively manage the potential risks in the current environment.

The Matter of Market Cap

Market capitalization is a measure of a company's size. It's calculated by multiplying a company's stock price by the total number of outstanding shares. Market cap is one of the criteria used to choose equity investments for a portfolio.

In general, stocks can be divided into three main categories. *Large-cap* companies tend to be market leaders with the financial resources to sustain them during an economic downturn. Although they may have less room for growth than smaller companies, large caps are more likely to pay dividends.

Small-cap stocks come from small companies that may have recently gone public. Investors like them for their growth potential. However, small caps are riskier than the stocks of larger, more established companies.

Mid-cap stocks are less risky than small caps but generally have more limited growth potential. However, in some years, mid caps have outperformed both large- and small-cap stocks.

Value, Growth, or Both

Growth and value are two approaches investment managers use when choosing stocks and stock funds.

Growth investing focuses on the stocks of companies that offer the potential for rapid growth and higher returns. Companies typically reinvest profits to expand their business and rarely pay dividends. Growth stocks generally require a higher tolerance for risk and a long time horizon.

Value investing focuses on stocks that appear to be undervalued and priced below the stocks of similar companies in the same industry. Investors buy value stocks at bargain prices, hoping shares will appreciate over time. Value stocks often pay dividends.

Is Your Estate Plan Current?

Changes in your personal and financial circumstances can have a significant impact on your estate plan. Make it a point to review your plan periodically, especially if:

- You receive an inheritance or other windfall.
- Your family situation changes due to marriage, divorce, births, adoptions, or deaths.
- You need to change a beneficiary, guardian, personal representative/executor, or trustee.
- You want to update advance directives, such as a living will and durable power of attorney for health care (health care proxy), or name a different person to manage your financial affairs under a durable power of attorney.
- Your charitable goals have changed.
- New federal or state tax legislation that may affect your estate plan has been enacted.

- You haven't reviewed your estate planning documents recently.

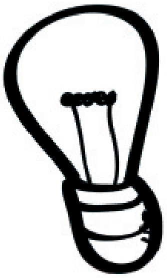
Confirming that your estate planning strategies reflect your current thinking can help ensure that your affairs will be handled according to your wishes.

Analyzing a Company's Stock

What makes a company a good investment? Investment professionals consider several factors when they're selecting companies to include in a stock portfolio. Here are some of the criteria they're likely to use.

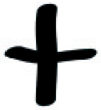
A Company's Finances

A strong financial position on the part of the issuing company can make a stock attractive to investors. Analysts typically look at the company's *cash flow* to evaluate how much money the company spends, how much it brings in, and how much "free" cash is left after the bills are paid. Reviewing *revenues, net income*, and *earnings per share* helps analysts assess the company's history of sales and earnings growth. Another gauge of financial health is the amount of debt the company has compared to equity.



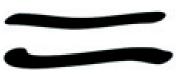
A Look at the Business

Stocks of companies that are leaders in their industries generally are desirable choices for a portfolio. Analysts look for profitable companies with limited competition whose products or services are valuable to customers. Keeping an eye on *earnings estimates* helps analysts determine whether the company is likely to experience rising profits or unexpected slow-downs in the future.



Valuing Stock

Analysts use different calculations to assess a stock's relative value. *Price-to-earnings ratio* (P/E) shows the relationship between the current stock price and the company's projected earnings. *Price-to-book ratio* (P/B) is a stock's current price divided by its book value (i.e., total assets minus total liabilities) per share. Both can help identify potentially undervalued stocks and also may be reliable indicators of investor sentiment.



The Personal Factor

An investor's personal circumstances — other investments, goals, time frame, and risk tolerance — should always be important factors in determining whether a stock is right for a particular portfolio.

Its Own Asset Class

When you hear the term *asset class,* you might think exclusively of stocks, bonds, and cash alternatives. But many investors and advisors regard life insurance as an alternative asset class that can complement traditional investments.

No Guesswork

Life insurance proceeds can be used to preserve or even replace an inheritance, to ensure a basic legacy for loved ones, or to benefit a charity. While the future value of most other assets is unknown, the future value of a policy's death benefit generally is certain, as long as premiums are paid and the issuer remains solvent.

"... life insurance ... can complement traditional investments."

A Private Affair

Because the policy's death benefit is typically paid directly to the designated beneficiary, life insurance proceeds avoid probate and the associated publicity.

Tax Advantages

Life insurance may offer considerable tax advantages. For example, death benefits generally are income-tax free.

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to the lesser of net investment income or the amount by which modified AGI exceeds the threshold. For purposes of the surtax, net investment income includes taxable interest, dividends, annuities, royalties, rents, net capital gain, and income from passive trade or business activities. The surtax doesn't apply to municipal bond interest or distributions from tax-deferred retirement plans.

A number of planning moves are available that may help reduce your exposure to the surtax. These include:

- Maximizing your contributions to your employer's qualified retirement plan. For 2014, you can contribute up to $17,500, plus an additional catch-up amount of $5,500 if you're age 50 or older and your plan allows, to a 401(k) or similar plan. Pretax contributions to a tax-qualified plan reduce your taxable income.
- Contributing to a traditional individual retirement account (IRA). Contributions are tax deductible if neither you nor your spouse actively participates in an employer-sponsored retirement plan. For 2014, the contribution limit is $5,500 ($6,500 with catch-up).
- Investing in tax-free municipal bonds. Be cautious, however, about investing in private activity municipal bonds, which can increase your exposure to the alternative minimum tax (AMT).
- Deferring capital gains through the use of installment sales. The installment method lets you defer taxes on the sale of certain property by recognizing profit over more than one tax year.

Some strategies may not be appropriate for your situation. Check with your tax advisor.

This publication involves sophisticated tax and financial planning concepts. Before applying anything you read to your situation, you should consult with your professional advisor.