Wealth Management

INVESTMENTS, ADVICE & TRUST SERVICES

MEMBERS® Trust Company

14025 Riveredge Drive
Suite 280
Tampa, FL 33637
(888) 727-9191

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Your Financial Plan — Doing Its Job?

Reviewing whether your financial strategy is meeting your expectations is an appropriate way to start the new year. Is your current asset mix moving you closer to the goals you've set for yourself? Have any of your goals changed? Answering questions like these in an annual review can help you determine if you are on track to meet your objectives or if you need to make adjustments to your portfolio or your plan.

Setting Clear Goals

Your task would be a lot simpler if you had just one financial goal, but that's probably not the reality. You may be investing for multiple short- and long-term objectives simultaneously. You may also want to have easy access to cash reserves should an unanticipated business or investment opportunity present itself. Because having clearly defined goals is a critical part of the planning process, you'll want to be sure you revisit your goals and update them if necessary during your annual review.

An Objective Look

The investment markets are unpredictable. Altering your long-term investment strategy in response to a down market is usually not wise. At other times, however, your investments' performance may lag behind the performance of similar investments. It's important to understand which factors are responsible for returns that don't meet your expectations.

A portfolio review should include a comparison of your investments' performance with appropriate benchmarks. That way, you'll be able to see if your investment is outperforming, underperforming, or keeping pace with other investments in the same asset class. If possible, look at returns over one-, five-, and ten-year

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Market and Economic Update

By Kate Braddock, CFA
Co-chief Investment Officer

As we head into the end of 2013, the Dow, although off its high of 16,175, remains up 25% to 30% for 2013. Economically, we are seeing signs of life. Retail sales have been growing. The housing market recovery has lifted household net worth, and inflation remains low. November's employment number came in stronger than expected, dropping the current unemployment rate to 7% and speeding up expectations for the Fed to begin tapering as soon as its January meeting. Congress has reached a budget deal, and the rate on the 10-year treasury is close to 3%. Overall, third quarter GDP was stronger than expected at 3.6%. As we head into 2014, we remain cautiously optimistic for the year. However, a pull back in the short term is a good possibility. We have not seen a 10% correction in more than two years. With an expected global recovery gaining strength over the course of the year, we would see any pull back as a buying opportunity.

Make the Most of Retirement Assets

Your retirement is unknown territory. You don't know how long it will last or to what extent inflation will affect your purchasing power. How best to generate a sustainable retirement income from your portfolio may be a real concern. You're likely to feel more comfortable if you enter retirement with a plan in place.

Your plan for withdrawing money from your portfolio should take taxes into consideration. You're taxed at favorable tax rates on long-term capital gains and qualified dividends earned on investments held in your brokerage and other taxable accounts. The higher ordinary tax rates apply to short-term gains and taxable interest income.

The ability to defer taxes on earnings generated in your traditional individual retirement accounts (IRAs) and qualified employer plans can be a significant advantage. Your withdrawals from these accounts will be taxed at ordinary rates (unless they represent a return of after-tax contributions). Qualified withdrawals from Roth IRAs are free of federal income tax.

How your retirement assets are invested will be critical. Instead of investing in only fixed income securities, you may want to consider keeping a portion of your portfolio invested in assets that are positioned for potential growth.

Order, Please!

The order you choose for making withdrawals from investment accounts can have a big impact on the long-term growth of your assets. You'll want your strategy to be as tax efficient as possible. Here are some general guidelines.

- **Retirees over age 70½ must take required minimum distributions (RMDs) from qualified retirement plans and traditional IRAs annually.**
- **Withdraw taxable assets next. In general, sell assets with the highest cost basis first.**
- **Leave any Roth IRA assets in your account until you need them. If you don't need the money, the Roth IRA can pass intact to your heirs.**

Consult with your professional advisors to determine the withdrawal sequence that's best suited to your personal circumstances.

No Retirement for Your Stocks

Individuals who are near retirement may be focused on maintaining the value of the assets in their portfolios. To accomplish this, retirement investors often choose to move money out of stocks and into fixed income and cash investments. Although this strategy may preserve gains, there are reasons you may want to keep a portion of your retirement portfolio invested in stocks.

You don't know how long retirement will last. You may have another 20 or 30 years — or longer — to invest.

You can't predict inflation. As retirement unfolds, it may take more money to sustain your lifestyle because of increases in the cost of living. Stocks offer the greatest potential for earning long-term returns that will stay ahead of inflation during your retirement years.

You could add to your income. Many stocks pay dividends that can help supplement your retirement income.

Your portfolio could benefit from continuing growth. Investing a portion of your portfolio in stocks may allow your savings to continue to grow after you retire.

Digital Assets and Your Estate Plan

Online banking and bill pay, virtual account statements, digital portfolio access — the Internet has changed the way people manage their finances, their friendships, and their personal lives. But the convenience of having a virtual presence is not without drawbacks. In the absence of a paper trail, access to your financial and personal information may be possible only through your computer or another electronic device. And that presents some unique estate planning challenges.

A Complete Inventory

Disposition and transfer of digital assets require special attention during estate planning. Digital assets are generally defined as any electronic content, information, or media. Consider creating a complete inventory — along with web addresses, usernames, and passwords — that includes:

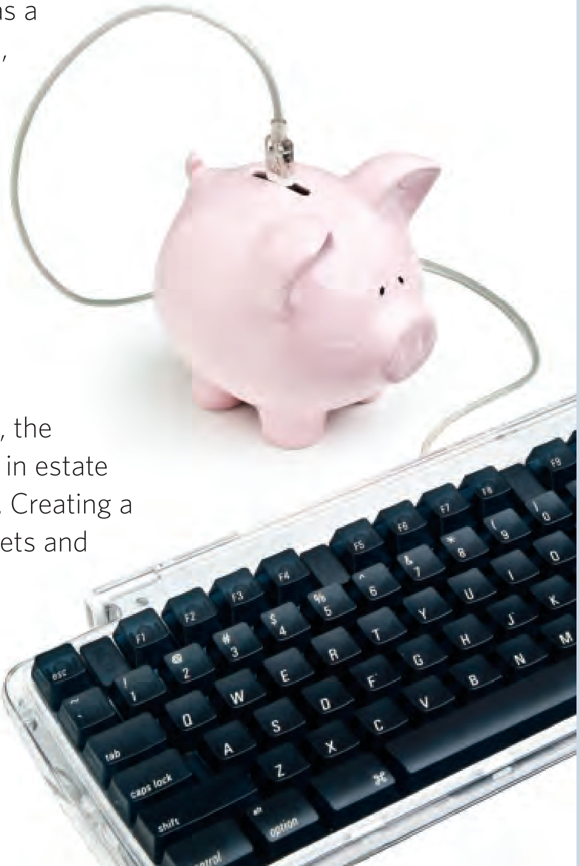
- Computer, phone, and other devices
- E-mail accounts
- Financial information, such as bank, brokerage, PayPal, and other online accounts; creditors; and loans
- Social networking profiles, such as Facebook, LinkedIn, Twitter, etc., along with instructions for deleting or maintaining your profiles
- Blogs, web pages, domain names, and hosts
- Photos stored on photo sharing sites

Your Instructions

In addition to creating a list, you'll need to provide instructions for transferring ownership of digital assets. You may be able to transfer ownership of some assets to an entity, such as a corporation, partnership, or LLC, set up for that purpose. In addition, online storage accounts can provide a means for cataloging digital assets so that a designated individual can identify and access them.

Planning Ahead

As one's online presence grows, the need for including digital assets in estate planning becomes more critical. Creating a comprehensive inventory of assets and the means to access them can prevent potentially substantial financial losses for your family or estate that might occur if digital accounts are overlooked or inaccessible.



Collectibles for Profit?

Investing in collectibles may provide a level of diversification for your portfolio. But predicting the future value of collectibles — and even which items will *be* collectible — is a difficult task. Before you make a significant financial commitment, consider the collectible's potential for increasing in value over time.

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Rely on experts. Talking with other collectors at stores and flea markets can broaden your perspective on collecting and introduce you to various collectibles markets. Price guides and information are also available on the Internet.

Learn about valuation. What makes a collectible valuable? The *rarity* of an item, its *condition*, its *age*, and its *authenticity* may all be factors.

Shop around. Before you buy, make sure you're paying a reasonable price for the item.

Because the value of a collectible depends on the price others are willing to pay, the risk of financial loss is high.

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periods. An investment that consistently underperforms its benchmark can undermine your efforts to reach your goals. Switching it for a similar investment with a better track record might help.

Risk Assessment

Over time, the mix of stocks, bonds, and cash alternative investments in your portfolio can change from their original proportions. You may find you're taking more or less risk than you feel comfortable taking. An annual portfolio review will reveal whether your asset allocation is still in line with your risk tolerance or if rebalancing is necessary.

You might also discover that your tolerance for risk has increased or decreased. Rebalancing your portfolio to include more aggressive — or more conservative — investments can bring your asset mix in line with your current feelings about risk. Remember, though, that taking some risk with your investments can potentially provide the growth that will help you reach your long-term objectives.

Plans for Retirement

Seek out tax-advantaged opportunities to save and invest for your retirement. Your employer may offer one or more plans or, if you are self-employed, you can have your own retirement plan. There are various tax-favored options you might consider. Individual retirement accounts — traditional or Roth — also may have a role to play in your planning.

Your Estate Plan

If you haven't reviewed your estate plan recently, it may have become outdated. Taking the time for an estate planning review can help ensure that your loved ones are protected and your wishes will be carried out.