GLOBAL WEALTH ADVISORS LLC
Registered Investment Advisor

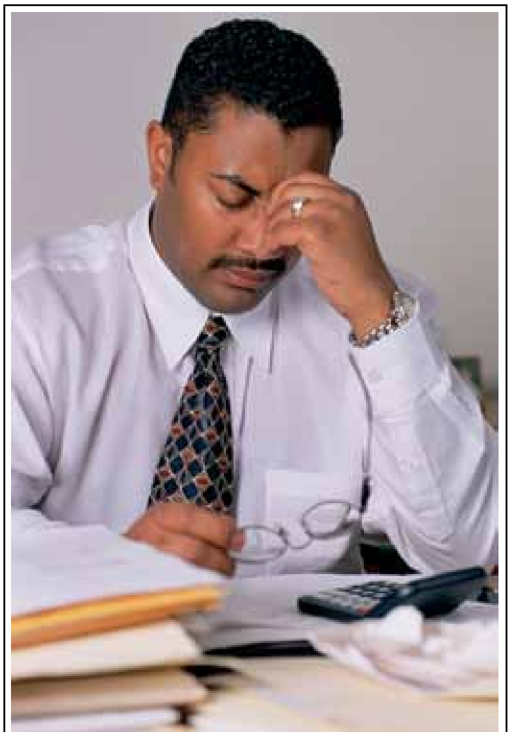
INSIGHTS

Michael J. Krencicki, MSF, CFP® | Spring 2013 | James M. Knaus, MSM, CFP®

Don't Pay Tax Twice

Reinvestment can be a crucial component of the wealth accumulation process, as the reinvested amount compounds and grows over time. Yet if you are reinvesting dividends and capital gains ("distributions") in funds you hold in your taxable account, it can be important to ensure that you're not paying more tax than necessary. You pay tax on those distributions in the year in which you receive them. But if you don't keep good records, you could end up paying tax on those distributions again when you sell. For example, say you bought 1,000 shares of a fund for your taxable account at the end of 2011; you paid $18 per share for a total of $18,000. In 2012, with the share price still at $18, the fund made a dividend distribution of $0.50 per share, or $500 for your 1,000 shares. You'd owe tax on the $500 on your 2012 taxes, whether you reinvested the money or took the cash in hand. (The taxes would be deferred if you held the fund in a tax-sheltered account). If you reinvested the money in the fund, you'd now own 1,027.78 shares: your original 1,000 plus the nearly 28 additional shares that you were able to buy (at $18) with the $500 dividend distribution. If you sell now, with the fund's net asset value at $20, you'd think you'd owe taxes on your $2,555.56 profit ($20,555.56 minus $18,000), right? Wrong. You would only owe taxes on $2,055.56 ($20,555.56 minus $18,000 minus $500). Otherwise, the $500 dividends would be taxed twice.

Investments are subject to risk of principal and risk of loss. Dividends are not guaranteed. Retirement accounts are tax-deferred vehicles designed for retirement savings. Any withdrawals of earnings will be subject to ordinary income tax and, if taken prior to age 59½, may be subject to a 10% additional federal tax penalty. This should not be considered tax or financial planning advice. Please consult a tax and/or financial professional for advice specific to your individual circumstances. ●



A Personal Note From Global Wealth Advisors

The year 2012 ended well for the US equity markets, a trend continuing in spite of the current political and fiscal turmoil in Washington. As of Friday March 22, year to date, the S&P 500 is up 9.69%, the DJIA is up 11.46%, and the NASDAQ is up 7.75%. What is driving these positive returns?

Some of this is in response to the avoidance of the Fiscal Cliff at year-end and the tax law changes that were enacted with the American Taxpayer Relief Act. In addition, the old saying on Wall Street is "You don't fight the Fed" when it comes to its monetary policies. Money is cheap to borrow and confident consumers are spending more money on big-ticket items like new automobiles. In addition, permits for both new homes and commercial buildings are up, and fewer people are filing for unemployment benefits than in prior months. That's the good news.

What is the not so good news? If the Sequestration that took effect March 1st takes months of continued fighting before a compromise is reached, the slowly emerging budget cuts can negatively impact our GDP. That in turn could have a cooling effect on consumer spending and investor confidence. Let's hope the spending, debt and revenue issues are worked out sooner than later.

Jim Knaus Mike Krencicki

Investing with a Long-Term Focus

It's easy to follow a long-term investment strategy in good times; the hard part is sticking with it during bad times. What should you do if you are a long-term investor sitting in the midst of a bear market? If you are holding a well-diversified portfolio, the answer is rather straightforward: stay the course.

Volatile markets can cause investors to abandon their long-term goals for risky short-term investment strategies. Volatility can range from a single-day market crash to extended periods of jagged performance. The market has undergone cycles with high and low annual returns from 38% (1995) to -37% (2008) over the past 50 years. It can be tough to stay the course in the face of such fluctuations.

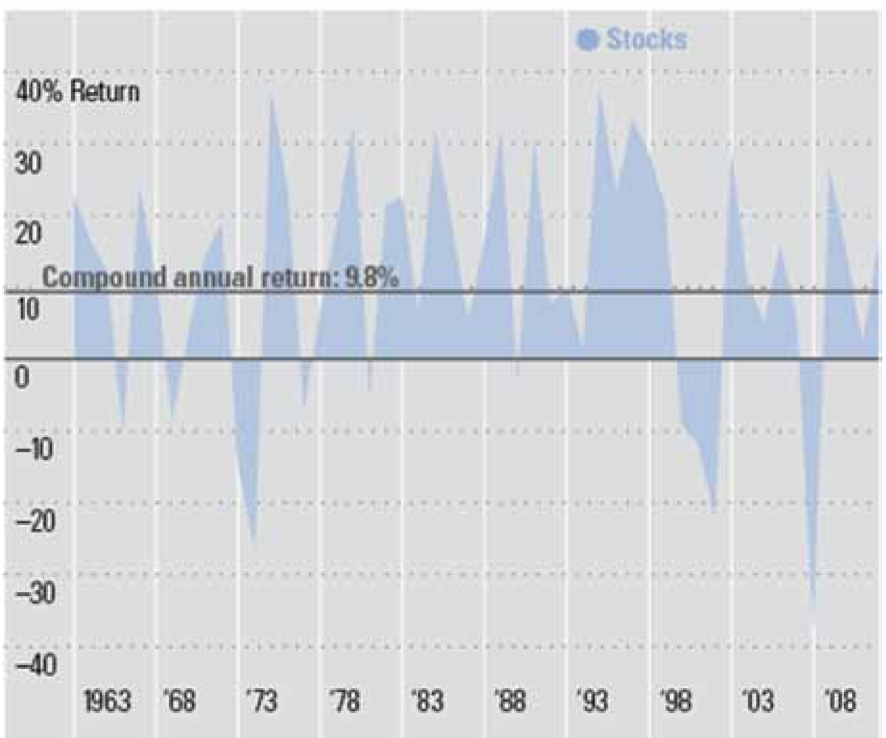
The graph illustrates annual stock market performance since 1963. The bull market from 1991 to 1999 lasted the longest, with an average annual return of 21%. In contrast, a majority of the downturns shown in the image have lasted for shorter periods of time. Despite the ups and downs over the years, the stock market generated a compound annual return of 9.8% over this historical time period of 50 years.

It goes without saying that the market will head south at times, but history shows that despite this, the market's long-term trend is upward. Consequently, the sooner an individual implements an investment plan, the better. By contributing early and as often as possible to such a plan, an investor's money compounds over time. Compounding is the ability of an asset to generate earnings from previous earnings, which serves to accelerate the growth of your assets as time moves on.

A disciplined investment approach is still the best strategy for handling market downturns. This includes maintaining a well-diversified portfolio and using dollar-cost averaging, instead of lump-sum purchases, to ease into new investments. Dollar-cost averaging involves the purchase of securities, usually mutual funds, in fixed dollar amounts at regular intervals. This strategy is maintained no matter what direction the market is moving. Finally, staying focused on a long-term investment plan may enable you to participate in recoveries.

Overall, the stock market has exhibited positive performance in the past, but be prepared for periods of underperformance. The fact is no one can predict market declines with any type of certainty. As a result, a portfolio consisting of both stocks and bonds can serve as a good strategy for short-term diversification. On the contrary, investors who have a larger appetite for risk may want to consider long-term investments in stocks. With a disciplined approach to investing, one may be able to take advantage of market rebounds and may enjoy superior returns in the long run. Don't be sidelined by market expansions and contractions. ●

Annual Stock Market Performance: 1963–2012



This is for illustrative purposes only and not indicative of any investment. An investment cannot be made directly in an index. Past performance is no guarantee of future results. Returns and principal invested in stocks are not guaranteed.

Source: Stocks—Standard & Poor's 500,® which is an unmanaged group of securities and considered to be representative of the U.S. stock market in general.

He Called The Crash

February 13, 2013
By: Weston Wellington,
VP Dimensional Fund Advisors

The investment community lost one of its more colorful characters last week with the passing of Martin F. Zweig, a prominent market pundit, author, and chairman of Zweig-DiMenna Associates LLC, a New York investment firm. His death also marks the close of another chapter in the long-running debate on the virtues of market timing.

Zweig took a keen interest in stocks as a teenager, and after earning a PhD in finance from Michigan State University, he began writing investment newsletters while teaching in New York. He launched *The Zweig Forecast* in 1971 with a handful of subscribers and continued to publish it, with considerable success, for the next 26 years. Zweig loved numbers (including baseball trivia) and was closely associated with statistical measures of monetary policy and market momentum that he combined into what he called a "super model" to assess market conditions. He is credited with introducing the put/call ratio, a measure of investor sentiment, to the toolkit of market forecasters. He transitioned to money management, and in October 1986, he launched the Zweig Fund, a closed-end mutual fund that relied on his analysis of market trends to adjust its exposure to stocks and bonds.

Zweig was a frequent contributor to both print and broadcast media and wrote numerous articles for *Barron's*, a weekly publication with a devoted following among those seeking comprehensive market statistics. Perhaps his finest hour was an appearance on the television show *Wall Street Week with Louis Rukeyser* on Friday evening, October 16, 1987. When his host asked him to comment on assertions from other market commentators that the "bull market is dead," Zweig replied he was expecting a crash but was reluctant to say so publicly. It was too similar, he said, to shouting "fire" in a crowded theater. Zweig's prediction proved eerily accurate: The Dow Jones Industrial Average fell by a staggering 29.2% in chaotic trading the following Monday, an even bigger setback than the combined losses from Black Monday and Black Tuesday in October 1929. The Zweig Fund emerged relatively unscathed: According to a profile several years later in *SmartMoney*, the fund had 58% of its assets in cash leading up to the crash, and experienced a loss of only 6.2% on October 19. Traumatized by the unprecedented market break, many investors sought out advisors or analysts who appeared to have avoided the debacle. Zweig's reputation as a financial expert soared. For years, he was introduced as "the man who called the crash." The headline of Zweig's obituary in the Wall Street Journal described him as a "master market timer."

Zweig was not the only analyst to predict the 1987 crash, but his appearance on *Wall Street Week* was so visible and so perfectly timed that his status as an astute financial guru was greatly enhanced. By the time *SmartMoney* published its profile in 1995, his firm was managing nearly $4 billion in assets. In 1999, Zweig purchased a multistory penthouse above the Pierre Hotel, the most expensive residential transaction in New York City up to that time.

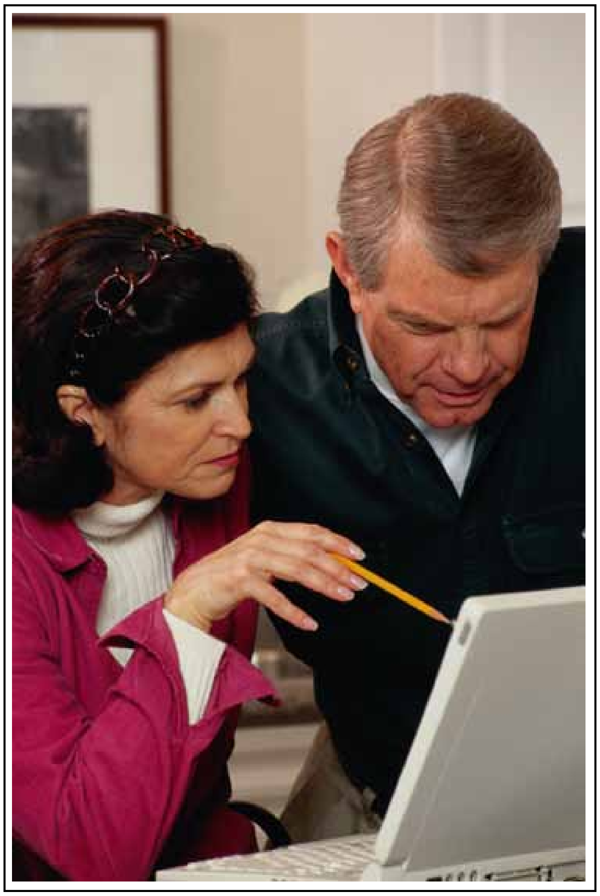
Should investors seek to enhance their returns by applying Zweig's statistical timing tools? The evidence is mixed at best. Zweig's October 1987 market call was on the money, and the *Hulbert Financial Digest* once reported that *The Zweig Forecast* ranked first among market newsletters for risk-adjusted performance. Many investors have discovered, however, that making one or two great predictions is often insufficient to generate above-average long run results—you have to be right over and over again to outperform Mr. Market.

Moreover, it appears that achieving excess returns with real dollars is more challenging than making prescient forecasts in a newspaper column. Annualized return for the Zweig Fund from inception in October 1986 through January 31, 2013, was 6.79% calculated from net asset value and 5.84% based on NYSE closing share prices. (The latter figure reflects the difference between the fund's reported net asset value and the market price of the shares in NYSE trading.) Over this same time period, the annualized return was 9.84% for the S&P 500 Index and 7.90% for a static mix allocated 30% to the S&P 500 Index and 70% to the Barclays Aggregate Bond Index. A tilt toward small cap or value stocks within these indices over this period would have produced even higher returns.

Market timers often acknowledge that their signals do not provide sufficient guidance to outperform a buy-and-hold, 100% equity strategy. Their goal, they say, is to avoid major bear market losses by holding a large fixed-income allocation during market downturns and capturing a meaningful portion of equity market rewards by increasing stock holdings during the upswing. Reducing bear market losses may be a laudable goal, but as this example shows, it can also be pursued with greater simplicity by adopting a lower equity exposure at all times and ignoring the costs and frustrations associated with constant fiddling.

It's safe to say that no one worked more diligently or enthusiastically than Martin Zweig to tease out tomorrow's stock prices from today's data. But the evidence suggests that even the most dedicated student of market statistics is unlikely to meet with long-run success. ●

Questions to Ask Before Paying Off a Mortgage



The decision to pay off a mortgage or invest in the market is far from black and white. For those who are close to retirement and already have plenty of other liquid financial assets, paying off a mortgage could be a wise use of cash. Such homeowners aren't likely to be saving a lot because of their mortgage-interest deductions, which tend to be more valuable early in the life of the loan than in the later years, and their investment-asset mixes might be skewing toward low-returning cash and bonds, not stocks. Moreover, many retirees concur that reducing their in-retirement overhead by retiring debt reduces worries and frees up cash for travel and other pursuits. For others, however, a mortgage pay down might not be the right answer. Although it might seem comforting to own your home free and clear, there's invariably a trade-off involved. You're reducing your investments in more liquid assets in favor of an asset that's not liquid at all. A happy medium for many households might be to balance modest prepayments of mortgage principal with ongoing contributions to retirement-plan accounts. Here are some questions to think through as you make this important decision for your household.

Is your retirement plan on track? Before paying off a mortgage you may want to spend some time evaluating the viability of your retirement plan. Paying off a mortgage rather than investing in the market may mean having fewer liquid assets for retirement. However, with lower household expenses, you may be able to step up your future retirement-plan contributions; having a paid-off home will also mean that your in-retirement costs may be lower. Time horizon is an important aspect of decision-making here. Those with more years until retirement can better harness the compounding benefits of investment assets, whereas those nearing or in retirement and expecting to begin drawing on their investment assets might not get such a big bang from investing more.

What's your investment mix, and where are you holding it? The composition of your investment assets and where you hold them are also important considerations. The case for investing in the market rather than prepaying the mortgage gets even stronger if you hold your investments within the confines of a tax-sheltered vehicle and/or you're earning matching dollars on your contributions. On the flip side, portfolios that are heavy on cash and fixed-income securities, especially those that are fully taxable from year to year, are less likely to out-earn mortgage interest rates.

How diversified are you? Some homeowners think of their houses as a retirement-savings vehicle: When it comes time to retire, they'll cash in their equity and downsize to a smaller place. However, the past several years have taught many homeowners that's easier said than done. Many haven't been able to sell when they wanted, and they also haven't been able to receive anything close to the prices they were expecting. Pairing home equity with more liquid stock and bond assets may give you a lot more flexibility to ride out downturns in the housing market.

How much is your mortgage-interest deduction saving you? Many homeowners assume that it's wise to hang on to their mortgages because of the tax deduction they can take on their interest. But that deduction shrinks as the years go by because home loans are front-loaded toward interest payments. People who have been able to pay down a mortgage for many years may be overestimating the amount of taxes they're saving by having a mortgage, and itemizing deductions may not be saving them much versus the standard deduction.

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