A Look Back at 2013

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We’ve just entered the New Year, making it the perfect time to take stock of 2013 and share some thoughts on how we can help position your portfolio as we continue down the road called 2014.

There is no better place to start than to recreate the atmosphere that greeted investors at the conclusion of 2012. The country had just emerged from a bruising presidential election, and the fiscal cliff loomed large over the economy and the markets. Without any action by Congress, steep tax increases were scheduled to take effect, threatening to tip the economy into a recession again. At the midnight hour, Congress managed to craft a narrow bill that raised taxes for the wealthiest Americans while enshrining the Bush-era tax cuts as law for the rest of the population. It wasn’t the so-called Grand Bargain that some had dared to hope for.

Nevertheless, the economy side-stepped the fiscal cliff, a stiff headwind for the market was removed, and stocks soared out of the 2013 gates, foreshadowing what would be the best year for the S&P 500 since 1997, according to data provided by the St. Louis Federal Reserve. Even better, the headlong plunge into equities lifted the riskier S&P SmallCap 600 Index by nearly 40%, according to Standard & Poors.

The Three-Legged Stool

Many are asking, “Why did we see the emergence of a ferocious bull market when the economy is still limping along?” It’s a great question. The short answer: 2013 turned out to be the year that bad news was good news.

Let me explain. First, the economy has been limping along since it officially emerged from the Great Recession in late 2009. With job growth in low gear and inflation even lower, the Federal Reserve embarked on a series of bond purchases, popularly called quantitative easing, or QE for short. Remember, by definition, rising bond prices equate to falling yields. The Fed’s goal? Put downward pressure on yields in the hopes that consumers and businesses would borrow and spend, sparking job growth.

Reviews on the effectiveness of QE have been mixed, but one thing seems certain: The Fed’s ultra-easy monetary policy has been a boon for the stock market.

Second, we wouldn’t discount the impact from rising corporate profits. According to Thomson Reuters, earnings per share (EPS) for S&P 500 companies hit a record in the first quarter of 2013, and subsequently broke the record in the second and third quarters respectively. Moreover, analysts are forecasting another high in the fourth quarter. True, economic growth has been substandard, but very modest revenue gains, coupled with a very keen eye on expenses, have been a tailwind for profits.

That leads us to the third leg of the stool: Companies have more cash than they know what to do with, at least the major corporations. Given heightened levels of economic uncertainty and few opportunities to expand, companies are buying back stock (or borrowing at record low interest rates to finance purchases).

Yet it is not just the repurchases of shares that count, but whether companies are also selling new shares to the public. Howard Silverblatt, senior index analyst at S&P Dow Jones Indices, summed it up well in December when he said, “We are starting to see excess buying, where the repurchases outnumber the issuance, and therefore, reduce the share count. The lower share count leads to higher EPS, and the market likes higher EPS.”

While the repurchase of company stock has underpinned the market, dividends have also sweetened the pot. S&P Dow Jones Indices estimates that companies returned a record $310 Billion last year in the form of dividends.

Finally, though we hesitate to call this a tailwind, Europe has quieted down. Banking woes haven’t been put to rest, but the vicious headlines that swirled across the continent and created uncertainty in the U.S., especially in 2011, were mostly absent last year. Think of it like the fiscal cliff – for now, a hurdle removed.
Think Outside the Shoe Box When Organizing Financial Records

If you've ever had trouble finding an important financial document, you know why it's necessary to keep your financial records organized. Less clutter means less stress, and though you'll need to commit a bit of time up front to organize your files, you can save time and money over the long term when you can find what you need when you need it.

**What records do you need to keep?**

If you keep paperwork because you "might need it someday," your files are likely overflowing with nonessential documents. One key to organizing your financial records is to ask yourself "Why do I need to keep this?" Documents that you should retain are likely to be those that are related to tax returns, legal contracts, insurance claims, and proof of identity. On the other hand, documents that you can easily duplicate elsewhere are good candidates for the shredder. For example, if you bank online and can view or print copies of your monthly statements and cleared checks, you may not need paper copies of the same information.

**How long should you keep them?**

A good rule of thumb is to keep financial records only as long as necessary. For example, you may want to keep ATM receipts only temporarily, until you've reconciled them with your bank statement. If a document provides legal support and/or is hard to replace, you'll want to keep it for a longer period or even indefinitely.

**Records that you may want to keep for a year or less include:**
- Bank or credit union statements
- Credit card statements
- Utility bills
- Annual insurance policies

**Records that you may want to keep for more than a year include:**
- Tax returns and supporting documentation
- Mortgage contracts and supporting documents
- Receipts for home improvements
- Property appraisals
- Annual retirement and investment statements
- Receipts for major purchases

**Records that you may want to keep indefinitely include:**
- Birth, death, and marriage certificates
- Adoption papers
- Citizenship papers
- Military discharge papers
- Social Security card

Of course, this list is not all-inclusive and these are just broad guidelines; you may have a good reason for keeping some records for a shorter or longer period of time.

**Where should you keep them?**

Where you should keep your records and documents depends on how easily you want to be able to access them, how long you plan to keep them, and how many records you have. A simple set of labeled folders in a file cabinet works fine for many people, but electronic storage is another option if space is tight. For example, one easy way to cut down on clutter and still keep everything you need is to store some of your files on your computer. You can save copies of online documents or purchase a scanner that you can use to convert your documents to electronic form. But make sure you keep backup copies on a portable storage drive or hard drive, and make sure that your files are secure.

Another option to consider is cloud storage. Despite its lofty name, cloud storage is simply an online backup service that allows you to upload and store your files over the Internet, giving you easy access to information without the clutter. Information you upload is encrypted for security. If you're interested, look for a company with a reliable reputation that offers automatic backup and good technical support, at a reasonable subscription cost.

**Staying organized**

Keeping your financial records in order can be even more challenging than organizing them in the first place. One easy way to prevent paperwork from piling up is to remember the phrase "out with the old, in with the new." For example, when you get this year's auto policy, discard last year's. When you get an annual investment statement, discard the monthly or quarterly statements you've been keeping. It's a good idea to do a sweep of your files at least once a year to keep your filing system on track (doing this at the same time each year may be helpful).

But don't just throw your financial paperwork in the trash. To protect sensitive information, invest in a good quality shredder that will destroy any document that contains account numbers, Social Security numbers, or other personal information.

Whatever system you choose, keep it simple. You'll be much more likely to keep your records organized if your system is easy to follow.
Estate Planning and Income Tax Basis

Income tax basis can be important when deciding whether to make gifts now or transfer property at your death. When you make a gift or transfer property at your death, the recipient generally receives your basis in the property. When you receive a gift, you generally take the donor's basis in the property. (This is often referred to as a "carryover" or "transferred" basis.) The carried-over basis is increased--but not above fair market value (FMV)--by any gift tax paid that is attributable to appreciation in value of the gift (appreciation is equal to the excess of FMV over the donor's basis in the gift immediately before the gift). However, for purpose of determining loss on a subsequent sale, the carried-over basis cannot exceed the FMV of the property at the time of the gift.

Example: Say your father gives you stock worth $1,000 at her death. She purchased the stock for $500. Your basis in the stock is a stepped-up basis of $1,000. If you sold the stock for $1,000, you would have no gain ($1,000 received minus $1,000 basis).

Now assume that the stock is only worth $200 at the time of your mother's death. Your basis in the stock is a stepped-down basis of $200. If you sold the stock for more than $200, you would have gain.

Make gift now or transfer at death?

As the following example shows, income tax basis can be important when deciding whether to make gifts now or transfer property at your death.

Example: You purchased land for $25,000. It is now worth $250,000. You give the property to your child (assume the gift incurs no gift tax), who then has a tax basis of $25,000. If your child sells the land for $250,000, your child would have taxable gain of $225,000 ($250,000 sales proceeds minus $25,000 basis).

If, instead, you kept the land and transferred it to your child at your death when the land is worth $250,000, your child would have a tax basis of $25,000. If your child sells the land for $250,000, your child would have taxable gain of $225,000 ($250,000 sales proceeds minus $25,000 basis).

In addition to income tax basis, you might consider the following questions:

- Will making gifts reduce your combined gift and estate taxes? For example, future appreciation on gifted property is removed from your gross estate for federal estate tax purposes.
- Does the recipient need a gift now or can it wait? How long would a recipient have to wait until your death?
- What are the marginal income tax rates of you and the recipient?
- Do you have other property or cash that you could give?
- Can you afford to make a gift now?
Are you ready to retire?
Here are some questions to ask yourself when deciding whether or not you are ready to retire.

Is your nest egg adequate?
It's obvious, but the earlier you retire, the less time you’ll have to save, and the more years you'll be living off of your retirement savings. The average American can expect to live past age 78. (Source: CDC, "Deaths: Preliminary Data for 2011") With future medical breakthroughs likely, it's not unreasonable to assume that life expectancy will continue to increase. Is your nest egg large enough to fund 20 or more years of retirement?

When will you begin receiving Social Security benefits?
You can begin receiving Social Security retirement benefits as early as age 62. However, your benefit may be 25% to 30% less than if you waited until full retirement age (66 to 67, depending on the year you were born). How will retirement affect your IRAs and employer retirement plans?
The longer you delay retirement, the longer you can build up tax-deferred funds in your IRAs--remember that you need compensation to contribute to an IRA. You'll also have a longer period of time to contribute to employer sponsored plans like 401(k)s--and to receive any employer match or other contributions. (If you retire early, you may forfeit any employer contributions in which you're not yet fully vested.)

Will you need health insurance?
Keep in mind that Medicare generally doesn't start until you're 65. Does your employer provide post-retirement medical benefits? Are you eligible for the coverage if you retire early? If not, you may have to look into COBRA or a private individual policy—which could be an expensive proposition.

Is phasing into retirement right for you?
Retirement need not be an all-or-nothing affair. If you're not quite ready, financially or psychologically, for full retirement, consider downshifting from full-time to part-time employment. This will allow you to retain a source of income and remain active and productive.

How much can I contribute to my IRA in 2014?
The amount you can contribute to your traditional or Roth IRA remains $5,500 for 2014, $6,500 if you're 50 or older. You can contribute to an IRA in addition to an employer-sponsored retirement plan like a 401(k). But if you (or your spouse) participate in an employer-sponsored plan, the amount of traditional IRA contributions you can deduct may be reduced or eliminated (phased out), depending on your modified adjusted gross income (MAGI). Your ability to make annual Roth contributions may also be phased out, depending on your MAGI. These income limits (phaseout ranges) have increased for 2014:

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<tr>
<td>2. Not covered by an employer-sponsored retirement plan, but filing joint return with a spouse who is covered by a plan</td>
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<th>Income phaseout range for ability to fund a Roth IRA in 2014</th>
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