Look Abroad!

Since the beginning of the bull market that started in March of 2009, the S&P 500 has significantly outperformed international markets. If you compare the S&P 500 gain of over +160% from March 9, 2009 through November 2013 to the gain on the MSCI EAFE Index of +102% and the return of +97% on the MSCI Emerging Markets Index, you get the picture. Is this outperformance by U.S. stocks a signal for investors to shift money away from international holdings? We don't think so. Actually, we believe the opposite may be true and international stocks are looking more and more like a bargain these days. The dilemma facing investors is rooted in what psychologists call "recency bias," or the tendency to recall more vividly, the most recent events that have occurred. Since lately, domestic investments have outperformed international, investors will tend to favor U.S. stocks, even though valuation and history should lead one to arrive at a different conclusion.

Today, the S&P 500 trades at 16 times forward earnings (according to Birinyi Associates) while the average multiple of forward earnings of the MSCI EAFE and MSCI Emerging Markets is roughly 12 times. In addition, the average dividend yield paid by stocks in these two international indices is almost 50% greater than that of those in the S&P 500. Historically, when the multiple on international stocks is at this large of a discount to domestic stocks, they tend to outperform.

A Word to the Wise

"Since lately, domestic investments have outperformed international, investors will... favor U.S. stocks, even though valuation and history should lead one to arrive at a different conclusion."

There are other reasons to consider International stocks at this time, based on historical precedent. In 2013, the S&P 500 outperformed both the MSCI EAFE and MSCI Emerging Markets Index. As illustrated in the Callan Periodic Table of Investment Returns covering the period from 1993-2012, the S&P 500 has only outperformed both the MSCI EAFE and MSCI Emerging Markets Index in the same year, seven times or 35% over this 20 year period. In the 14 years since 2000, the S&P 500 has only outperformed these two international indices, four times in the same year or 28% of that period and never in consecutive years. The probability of continued dominance is therefore, unlikely.

Lastly, there are fundamental dynamics that would suggest international outperformance in the long run. U.S. economic growth has waned and the rest of the world is catching up. This however, has not been reflected yet in the value of stock markets. For example, the U.S. economy generates about 25% of global economic output or GDP according to The World Bank, but U.S. stocks make up a disproportionate 50% of the world's stock market value. Over time, this isn't a sustainable relationship and one would ultimately, expect prices in the market to more reasonably reflect the economic realities.

At MutualWealth, we believe in protecting our clients by remaining diversified and including both domestic and international investments in our portfolio strategies. We see this valuation disparity between U.S. and International stocks as an opportunity to make a measured modification to our overall allocations. As always, we welcome the opportunity to answer questions about this or any other wealth management topic.

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Economic and Market Review and Outlook: 2014

As we enter 2014, we leave a year that presented a multitude of challenges and opportunities for investors.

2013 opened with the fight over the federal government budget dubbed the "fiscal cliff" and later, over raising the national debt ceiling. After much debate and consternation, the ceiling was raised and investors' concerns were alleviated. Additional areas of concern in 2013 included the possibilities of renewed recession in Europe, a sharp drop in the Chinese economy and military action in Syria - none of which occurred.

In the midst of these potential perils came a steady stream of news related to unanticipated positive events. Housing starts and new home sales continued to improve, industrial production maintained its upward trajectory, corporate earnings grew to new highs, inflation remained subdued and the unemployment rate declined.

The S&P 500 Index, the premiere U.S. stock market barometer, finished 2013 with a total return including dividends of 32.4%. This is only the fourth time since 1929 that the index has gained more than 10% for three consecutive years.

A Word to the Wise

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One of the primary catalysts of stock market performance in 2013 was the Federal Reserve's continued efforts to hold interest rates down and pump new money into the economy, otherwise known as quantitative easing or QE. This liquidity found its way into financial markets, resulting in higher prices.

Bond markets didn't fare as well as the U.S. aggregate bond index declined by 2.0%. In late May, Fed chairman Bernanke indicated that a phase out of the QE program could begin soon. Shortly thereafter, rates spiked to levels not seen in more than two years, resulting in lower prices for bonds and stocks. Notwithstanding the fairly sharp rise in rates, yields on bonds remain near historical lows. The rate on the benchmark U.S. 10-year Treasury note rose to 3.03% from 1.76%.

After the Fed assured investors that QE would remain in place for the foreseeable future, the stock market resumed its advance. However, bonds and other interest-rate sensitive investments, such as REITS and commodities remained at lower levels.

Looking ahead to 2014, although the S&P 500 has advanced significantly, it does not appear to be overvalued from a historical perspective at 16 times next year's expected earnings. Opportunities may be found in other asset classes that performed poorly in 2013, such as gold and emerging markets, which declined by 28.2% and 2.3%, respectively. Other international investments have lagged the U.S. market for some time and also may be attractively priced as discussed in our cover article. Bonds are still an important asset class from a safety perspective, but low interest rates may restrict their upside potential for the foreseeable future.

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Asset Categories	
Returns 2013	
Stock Market Indexes	
S&P 500	32.4%
Europe-Australia-Far East	23.3%
Emerging Markets	-2.3%
SmallCap	38.8%
Market Neutral Funds	3.2%
Bear Market Funds	-34.4%
Long/Short Equity Funds	14.6%
Bond Market Indexes	
U.S. Aggregate	-2.0%
U. S. Treasury 7-10 Year	-6.0%
U.S. Credit	-2.0%
U.S. Corp High Yield	7.4%
U.S. Mortgage Backed	-1.4%
Municipal Bond	-2.6%
Emerging Market Gov. (local currency)	-4.3%
Other	
Gold	-28.2%
Commodities Index	-1.2%
U.S. Real Estate Index	2.7%
Crude Oil	7.2%

Tax Season: Delays to Filing

As tax season approaches, it is important to keep in mind some of the more recent tax laws affecting individuals and trusts. There have been many modifications over the past few years. As a result, we highlight some of these important changes below. As always, this is for informational purposes only and should not be construed as tax advice. Always consult your tax advisor to determine how this or any tax related information, may impact your individual situation.

Net Investment Income Tax.
Beginning in 2013, you may be subject to Net Investment Income Tax (NIIT). This is a tax on passive investment income and originated from the Affordable Care Act that was signed into law in 2010. The NIIT is 3.8% of the smaller of (a) your net investment income or (b) the excess of your modified adjusted gross income over:

- $125,000 if married, filing separately
- $250,000 if married, filing jointly or qualifying widow(er), or
- $200,000 if any other filing status.

Change in Tax Rates.
The highest tax rate in 2014 is 39.6%.

Tax Rate on Net Capital Gain and Qualified Dividends. The maximum tax rate of 15% on net capital gain and qualified dividends has increased to 20% for taxpayers in the highest bracket.

Personal Exemption Amount Increased for Certain Taxpayers.
Your personal exemption is increased to $3,900. But the amount is reduced if your adjusted gross income is more than:

- $150,000 if married, filing separately,
- $250,000 if single,
- $275,000 if head of household, or
- $300,000 if any other filing status

Schedule X - If your filing status is Single			
If your taxable income is:		The tax is:	
Over ...	But not over ...		of the amount over ...
$0	$8,925	.... 10%	$0
8,925	36,250	$892.50 + 15%	8,925
36,250	87,850	4,991.25 + 25%	36,250
87,850	183,250	17,891.25 + 28%	87,850
183,250	398,350	44,603.25 + 33%	183,250
398,250	400,000	115,586.25 + 35%	398,350
400,000	....	116,163.75 + 39.6%	400,000

Schedule Y-1 - If your filing status is Married filing jointly (or Qualifying widow(er))			
If your taxable income is:		The tax is:	
Over ...	But not over ...		of the amount over ...
$0	$17,850	.... 10%	$0
17,850	72,500	$1,785.00 + 15%	17,850
72,500	146,400	9,982.50 + 25%	72,500
146,400	223,050	28,457.50 + 28%	146,400
223,050	398,350	49,919.50 + 33%	223,050
398,350	450,000	107,768.50 + 35%	398,350
450,000	....	125,846.00 + 39.6%	450,000

Limit on Itemized Deductions.
You may not be able to deduct all of your itemized deductions if your adjusted gross income is more than:

- $150,000 if married, filing separately,
- $250,000 if single,
- $275,000 if head of household, or
- $300,000 if any other filing status.

Unified Credit against Estate Tax.
For an estate of any decedent dying during calendar year 2014, the basic exclusion amount is $5,340,000 for determining the amount of the unified credit against estate tax.

Annual Exclusion for Gifts.
For calendar year 2014, the first $14,000 of gifts to any person (other than gifts of future interests in property) are not included in the total amount of taxable gifts made during that year.

*Note: There will be a delay of the 2014 tax filing season due to the 16-day federal government closure. The IRS will start accepting and processing 2013 individual tax returns no earlier than January 28 and no later than February 4.

Internal Revenue Service. (October 31, 2013). Retrieved from www.irs.gov/uac/Newsroom/In-2014,-Various-Tax-Benefits-Increase-Due-to-Inflation-Adjustments

Retirement Plan Services: Taking Advantage of Your Employer-Sponsored Plan

Employer-sponsored qualified retirement plans such as 401(k)s are some of the most powerful retirement savings tools available. If your employer offers such a plan and you're not participating in it, you should be. Once you're participating in a plan, try to take full advantage of it.

Understand your Employer-Sponsored Plan

Before you can take advantage of your employer's plan, you need to understand how these plans work. Read everything you can about the plan and talk to your employer's benefits officer. You can also talk to a financial planner, a tax advisor, and other professionals. Recognize the key features that many employer-sponsored plans share:

- Your employer automatically deducts your contributions from your paycheck. You may never even miss the money--out of sight, out of mind.
- You decide what portion of your salary to contribute, up to the legal limit. And you can usually change your contribution amount on certain dates during the year.
- You contribute to the plan on a pretax basis. Your contributions come off the top of your salary before your employer withholds income taxes.
- Your plan may let you make after-tax Roth contributions--there's no up-front tax benefit but qualified distributions are entirely tax free.
- Your employer may match all or part of your contribution up to a certain level.
- Your funds grow tax deferred in the plan. You don't pay taxes on investment earnings until you withdraw your money from the plan.
- You'll pay income taxes and possibly an early withdrawal penalty if you withdraw your money from the plan.
- You may be able to borrow a portion of your vested balance (up to $50,000) at a reasonable interest rate.
- Your creditors cannot reach your plan funds to satisfy your debts.

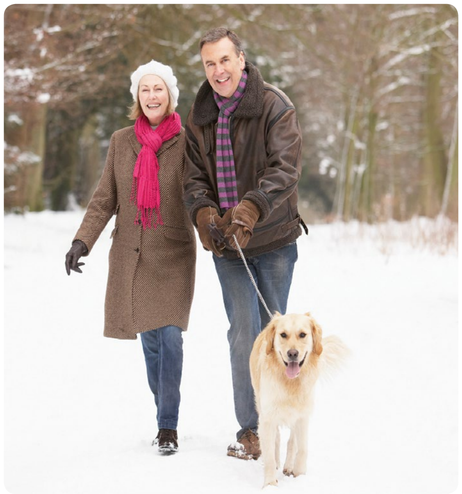
Contribute as Much as Possible

Why put your retirement dollars in your employer's plan instead of somewhere else? One reason is that your pretax contributions to your employer's plan lower your taxable income for the year. This means you save money in taxes when you contribute to the plan--a big advantage if you're in a high tax bracket. For example, if you earn $100,000 a year and contribute $10,000 to a 401(k) plan, you'll pay income taxes on $90,000 instead of $100,000.

Another reason is the power of tax-deferred growth. Your investment earnings compound year after year and aren't taxable as long as they remain in the plan. You should end up with a much larger balance than somebody who invests the same amount in taxable investments at the same rate of return.

Capture the Full Employer Match

If you can't max out your 401(k) or other plan, you should at least try to contribute up to the limit your employer will match. Employer contributions are basically free money once you're vested in them (check with your employer to find out when vesting happens. If you don't take advantage of your employer's generosity, you could be passing up a significant sum over time.



Know Your Options when You Leave Your Employer

When you leave your job, your vested balance in your former employer's retirement plan is yours to keep. You have several options at that point, including:

- Taking a lump-sum distribution. This is often a bad idea, because you'll pay income taxes and possibly a penalty on the amount you withdraw. Plus, you're giving up continued tax-deferred growth.
- Leaving your funds in the old plan, growing tax deferred (your old plan may not permit this if your balance is less than $5,000, or if you've reached the plan's normal retirement age--typically age 65). This may be a good idea if you're happy with the plan's investments or you need time to decide what to do with your money.
- Rolling your funds over to an IRA or a new employer's plan if the plan accepts rollovers. This is often a smart move because there will be no income taxes or penalties.