



# Fullerton Tax & Planning

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*A Real People provide Real Service@*

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## Happy 4<sup>th</sup> of July,

Do you remember that childhood routine between two siblings? The conversation goes, “I didn’t do it, you did it. No, I didn’t do it, you did it.” This goes on until the adults in the room stop the useless and senseless exercise. Now, fast forward to today. As we watch the adult version of this senseless act in Congress and the Senate, the Supreme Court stepped in and corrected the “children” who can not stop this petty exercise on their own. Immigration, Same Sex, voting rights.

Go figure, we actually voted this body of individuals into office, proceeded to give them 90 days of work, paid them \$170,000 a person, added a sizable allowance to cover staff and furnishings, gave them full medical benefits, and then told them to go play in Washington and don’t bother the adults.

How’s that working for you?

Finally, you need to pull out that score card that you used for the baseball game last week, retitle it with the names of your Congressman and Senators, and start keeping score on how they voted on the important bills that are failing to pass. Then count the number of times that they blame it on you or better yet, the Executive Branch. You may need a couple of the score cards. So stock up.

Meanwhile on the markets side, there were some major adjustments in the past quarter. So the returns were not so spectacular in size. Which leads to the next comments.

## Know When to Bail

Ask professional stock pickers to describe their discipline for selling, and they’ll typically give one or more of these reasons: We sell when other investors come around to our way of thinking and the stock reaches the price we expected. Or, we sell when new, negative information invalidates our thesis.

Finally, we sell if we can find stocks with greater potential.

Straightforward as that sounds, selling can be extremely difficult, in part because it’s a

psychological minefield. We sell some winning stocks too soon for fear that our well-earned gains will evaporate. We hold on to other winners too long because we've fallen in love with the companies that have made money for us. Maybe worst of all, we often hold on to losing stocks for no better reason than unwillingness to admit we were wrong.

As investing legend Philip Fisher wrote decades ago in *Common Stocks and Uncommon Profits*: "More money has probably been lost by investors holding a stock they really did not want until they could 'at least come out even' than from any other single reason."

Selling tips. Given the potential pitfalls, what can you do to improve your chances of selling successfully? A mental exercise we've found useful to combat psychological stumbling blocks is to imagine being forced to liquidate your portfolio and start over from scratch. Which stocks would you buy, and how much of each would you own? Then compare this hypothetical new portfolio with your current one. If there are stocks in your current portfolio you wouldn't buy today, ask yourself why on earth you're holding them at all.

Also critical to knowing when to sell is keeping an up-to-date estimate of what you believe a stock is worth. But don't focus on that value relative to what you paid for the stock. Instead, consider it in relation to the price at which it is currently trading. If you bought something at \$30, you believe it's worth \$55, and the stock trades today at \$50, you need to ask yourself whether capital devoted to a company with an expected upside potential of 10% might be better invested in something with a much higher expected return. If the answer is yes, it's time to sell.

Finally, always remember why you bought in the first place, as different types of ideas can expire at different times. Three examples that illustrate this point are ANHEUSER-BUSCH INBEV (SYMBOL BUD), and BP (BP), all of which are popular holdings in portfolios.

Given InBev's strong position in the stable beer business and its fine management (among the best seen in any industry), you can project earnings and cash flows years into the future. As a result, you may be able to hold this stock for a long time.

The horizon for BP is even shorter. The stock was bought betting that its crippled well in the Gulf of Mexico would be capped sooner than most investors expected, that the environmental damage would be less than feared, that the cleanup and legal liabilities would be at the low end of estimates, and that the company had the assets and cash flows to meet the eventualities. That has been reflected in the share value to date. And while there hasn't been a sell off, unless oil prices continue to climb, investors will be ready to get out once the price has been bid up.

## **Bill to End Farmer Payments Passes Senate**

The Senate passed a multiyear \$955 billion bill that would end a long-running government practice of funneling direct payments to farmers regardless of crop yields, market prices or economic circumstances, marking a notable shift in agriculture assistance.

The payments, which totaled \$47 billion between 2002 and 2011, have accounted for between 21% and 45% of total farm-program payments in recent years, according to the **U.S. Department of**

**Agriculture**, covering various crops produced across the country.

The Senate legislation would end the payments, plowing some of the savings into an expansion of crop-insurance support and other assistance programs to offset the impact on farmers. The overall bill would cut \$18 billion in government farm spending over the next decade, according to the nonpartisan Congressional Budget Office, almost all of it coming from ending the direct payments.

The bill, which passed the Senate by a 66-to-27 vote Monday evening, outlines farm and nutrition-program spending over the next decade, the bulk of which goes to food-stamp assistance for lower-income families.

Seventeen Republicans joined Democrats in support of the bill, including Sen. Jeffrey Chiesa ( R., N.J.), who was sworn in Monday after being named last week to succeed the late Sen. Frank Lautenberg. One Democrat—Sen. Sheldon Whitehouse of Rhode Island—voted against it.

The House is expected to take up its version of the farm bill next week. Although lawmakers in both chambers have agreed on ending the direct payment program, Republicans and Democrats disagree over how much to cut back on food-stamp assistance and are offering competing approaches for changes to other farm-support programs. Should the House pass its own version of the bill, food-stamp assistance would likely be a difficult hurdle for final congressional approval. House efforts to produce a farm bill fell apart last year, leading to a one-year temporary extension of many farm programs.

The Senate plan would cut \$4 billion from spending on food-stamp programs over the next decade, while the House wants \$20 billion in cuts over that period. Lawmakers expect that with the disappearance of direct payments, more farmers would purchase crop insurance.

“Getting paid when you don’t need it is not what farmers want,” said Gerald Tumbleson a farmer who grows corn and soybeans on 1,300 acres 50 miles southwest of Mankato, Minn. “But being protected from weather downturns or from foreign countries’ actions, that’s really important.”

As an update to the above, the House of Representatives failed the bill.

## **Lenders will apply what’s known as the five C’s of credit in the course of their credit underwriting process.**

**Capital:** Simply put, the difference between what you own (your assets) and what you owe (your liabilities) is what you’re worth — known as your equity. Lenders focus on the extent to which you have skin in the game in terms of money left in the business.

**Capacity:** Although you may have great promise and a hugely talented team, unless you can prove you have enough cash flow to make the loan payments, the lender won’t want anything to do with you.

Collateral: This represents the thing you're looking to finance or willing to pledge to back up your promise to repay the loan. It also represents a way out for a lender in the event of payment default. Let me also add that, although you may have the most amazingly valuable collateral in the world to pledge, it still boils down to sufficient cash flow.

Conditions: These are rules set by those who have the gold.

Character: This has nothing to do with what your spouse, parents, or friends think of you and everything to do with how you've conducted yourself in the past. In particular, if you had previously been granted credit, did you pay it back on time and in full? Do you have any blemishes on your personal or professional credit [reports]? The personal credit bureau report is important because most small businesses are closely held. In other words, few people control the business, in which case the lender will want those persons to be financially liable along with their company.

## **Financial Planning versus Investment Advisor**

### **From CNNMoney**

The confusion regarding financial planning versus an investment advisor can be cleared up by asking what the person or firm offers in regarding to the financial services.

#### **Financial Planning includes the following services**

- Review of insurance products, including health, real estate, annuities and long term care.
- Review of real estate products, including mortgages, sales and purchases.
- Review of planning for retirement, college, major purchases.
- Review of vehicle purchases versus leasing.
- Review of taxes, including income, estate taxes, and real estate taxes.
- Review of caregiving for seniors and disabled
- Review of documents needed to protect your title to assets, including trusts and wills, health care power of attorney, and power of attorney.
- Review of charitable giving both annually and lifetime, including donations, quality of charities donated to, setting up foundations and charitable trusts.

#### **Review of investments including real estate, mutual funds, equities and bonds. Offer financial products for commission or fees. (This is your investment advisor)**

This is your financial planning scenario. See if you can find the one and only line in the list that relates to investment advisor.

## **Go Figure.**

The latest trend in politics from what was a lofty and prestigious position.

Likely candidates for Senate and Congress seats are turning away from running for the office of Senate or House of Representative.

Why? The main theme is that most of the people who would run for the office are in office elsewhere and get things done. The disappointment registered by the Beltway of Washington is reaching the cheap seats of the local districts and states. People are not interested in a high profile office that has such high negative overtones.

Meanwhile, the local governments are finding that they can move things on their own without the direction or assistance of the Federal government.

Seems, if you wait long enough, the Federal government will downsize on its own. Laws will expire and government employees will be laid off without any effort by the Senate or Congress.

## Three tax strategies to consider

Fiscal cliff worries spark ideas on dealing with possible increases

1. Sell investments such as concentrated stock positions, businesses, real estate or other assets that would trigger capital gains and harvest some losses for future years, when capital gains rates will be higher.

Why: Long-term capital gains rates will rise to 20%, from 15%, if Congress doesn't act. In reality, the rates for affluent Americans will be 23.8% because of the 3.8% health care reform tax that starts next year.

Why not: Selling securities to lock in the tax rate won't make sense in every case. For example, cashing out an investment with a \$1,000 gain and reinvesting the funds in a security that earns an average 8% a year will in 10 years net the investor \$1,638. Keeping the investment and paying a 20% capital gains tax over 10 years will net \$1,727.

2. Receive ordinary income from sources such as individual retirement accounts and annuities or exercise nonqualified stock options this year rather than later to avoid higher income tax rates.

Why: The top ordinary income tax rate will increase to as high as 40%, from 35%, if Congress does not extend or rewrite the tax cuts enacted under President George W. Bush.

Why not: Such a move could be jumping the gun because Congress has through Dec. 31 to edit the rules for next year. In 2010, the extension of the Bush cuts for 2011 and this year wasn't signed until Dec. 17.

3. Move money into holdings that aren't affected by higher taxes on investment income, such as municipal bonds, Roth IRAs, variable annuities and life insurance, or choose mutual funds or exchange rated funds that are managed to be tax-efficient.

Why: Funds held in A Roth IRA for at least five years can be withdrawn tax-free (if the person is 59 ½ or older.) Roth also have no minimum withdrawal requirements. Annuities offer a tax deferral feature. The death benefit on a life insurance policy isn't subject to income tax.

Why not: Income limits may make some clients ineligible for Roth IRAs and Some advisers shy away from annuities because of their price tags.

## Federal budget cuts are taking a big bite out of the unemployment checks for the long-term jobless.

Precisely how those cuts are being carried out varies by state. Most are enacting an across-the-board reduction for all federal unemployment insurance recipients, but some are ending the program early or slashing benefits only for new enrollees.

And in some states, recipients should brace for an upcoming shock. The places that took the longest to implement the cuts will need to compensate by slicing off a bigger chunk of recipients' remaining checks.

Federal unemployment insurance, which kicks in when state benefits run out, is one of the programs caught up in the forced budget cuts known as sequester. An estimated 3.8 million people will see their federal payments reduced this fiscal year, which ends in September.

Federal benefits can last up to 47 weeks. State benefits, which last up to 26 weeks, are not affected.

The overall cut equals about 10.7% of each recipient's benefits this year, or an average of about \$450 per person.

Some states began trimming their payments right after sequestration began in March. For others, the hit is still looming.

Maryland, for instance, is not enacting the cuts until the end of June because it had to reprogram its computers and retrain its staff, said David McGlone, acting assistant secretary of the state's Division of Unemployment Insurance. The state will reduce federal benefits for all recipients, though it hasn't yet announced the size of the cut.

"We want to make sure our claimants get consistent payments," McGlone said. "We feel something is better than nothing. We know people have bills to pay."

The cuts can be substantial. Residents in states where the cuts took effect in early June saw a reduction of nearly 17% in their checks, for instance, while those in states implementing the change in early July will likely see more than 22% of their checks disappear, according to estimates by the federal Department of Labor.

As of this week, only 40 states and the District of Columbia have carried out the sequester cuts, according to the agency.

"With each passing week, the percentage increases," said George Wentworth, senior staff attorney at the National Employment Law Project, an advocacy group.

## From the Go Figure statistics..... 66%

Approximate share of jobs created under Democratic presidents since January 1961. 42 million in 23 years in office, compared with 24 million under 28 years of GOP presidents.

Meanwhile, the indices for the Month of June, the Second Quarter and Year to Date are....

THE MONTHLY INDEX REPORT FOR JUNE 2013				
Index	June 2013	QTD	YTD	Description
S&P 500 Index	-1.3%	2.9%	13.8%	Large-cap stocks
DJIA	-1.3%	2.9%	15.2%	Large-cap stocks
Nasdaq Comp	-1.4%	4.5%	13.4%	Large-cap tech stocks
Russell 1000 Growth	-1.9%	2.1%	11.8%	Large-cap growth stocks
Russell 1000 Value	-0.9%	3.2%	15.9%	Large-cap value stocks
Russell 2000 Growth	-0.6%	3.7%	17.4%	Small-cap growth stocks
Russell 2000 Value	-0.4%	2.5%	14.4%	Small-cap value stocks
EAFE	-3.5%	-0.7%	4.5%	Europe, Australasia & Far East Index
Barclays Capital U.S. Aggregate	-1.5%	-2.3%	-2.4%	U.S. Government Bonds
Barclays Capital U.S. High Yield	-2.6%	-1.4%	1.4%	High Yield Corporate Bonds
Calyon Financial Barclay Index*	-1.8%	-2.1%	0.7%	Managed Futures
3-month Treasury Bill	0.0%	0.0%	0.0%	

*All returns are estimates as of 06/28/13; Return numbers include reinvestment of dividends.  
\*Returns are estimates as of 06/27/13*

As we head into the second half of the year, investor perception of the current state of the economy is changing. One of the biggest changes in perception is the role of gold in a diversified portfolio.

After enjoying a spectacular decade of returns, gold took a major breather in the second quarter. Recent data indicates that the inflation rate remains stubbornly low. The 30% drop in [GLD](#) from its peak this year is an indication that investors are seeking alternatives to precious metals. The same thing seems to be occurring in other hard assets as well.

Have a Great 4<sup>th</sup> of July, stay safe and to those in the West, pray for rain. See you in August.



Timothy T Fullerton, Sr.



Mary Ahart

**Note:** The securities listed are subject to market change. The above information is compiled with information from Research Departments of Investors Business Daily, Standard & Poor's, Zacks.com, The Motley Fool, Marketwatch and Bankrate.com. It is not reflective of Fullerton Tax & Planning or FTP Services as a solicitation to buy or sell a specific security. The report is for information purposes only. For further details on any specific listed securities, visit the websites of the research companies listed. Securities offered through Fidelity, UBS, Schwab and ETrade.