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"Real People provide Real Service"

February, 2014

January did not turn out to be such a "Sweetheart" month. Winter was all over the Midwest and East Coast. Markets lost over 5%.

Last year was painful for emerging markets and 2014 is shaping up to be even worse.

Among the hardest hit are Brazil, India, Indonesia, Turkey, and South Africa -- dubbed the 'Fragile Five' by Morgan Stanley last August.

Those countries have seen their currencies tumble 15% to 20% over the past year. And that plunge has continued this month, despite a series of aggressive and, in some cases, unexpected interest rate rises aimed at stopping the rot.

So after years of rapid expansion, and relative calm, what's going wrong?

For one, economic growth has slowed. As a group, emerging and developing economies grew on average by 6.4% over the past decade. Last year, that number was 4.5% and its forecast to rise only modestly in 2014.

And signs of instability in China's huge shadow banking system have raised fears of a credit crunch that would make it hard for Beijing to deliver its 7.5% growth target. The first decline in factory activity in six months has only made matters worse.

Cheap money is also drying up. The Federal Reserve said Wednesday that it would continue pulling back on its stimulus, to the tune of $10 billion.

That means the U.S. central bank will pump $65 billion a month into the U.S. economy, down $20 billion from December. And the flow of cash is likely to cease completely by the end of this year.

But that doesn't entirely explain the dramatic moves seen in some markets. Take India, for example. "The (Fed) decision was expected and should not in any way surprise or affect the Indian markets," the Indian finance ministry said Thursday. That country's central bank surprised investors with an interest rate hike this week, in an effort to calm the turmoil.

Still, the gradual normalization of monetary policy and rising U.S. interest rates make it less attractive to invest in emerging markets, particularly those which have failed to tackle deep-rooted problems during the years of plenty, or where other risks abound.

And that's where the Fragile Five come in. Over the past year or two, all have experienced slower growth, along with a heavy dependence on foreign capital, and stubbornly high inflation of between 6% and 11%.

"Several of the most vulnerable emerging markets in terms of external balances -- Turkey, South Africa and Brazil -- have not yet seen their currencies fall to fair value," UBS noted this week.

HSBC Chief Economist Stephen King said some of the weakest were experiencing a loss of competitiveness similar to that seen in countries of the eurozone periphery before the euro crisis.

Political upheaval is another thing they have in common, and may be the single factor that determines whether they can bounce back or not.

The Fragile Five all face elections at some point in 2014, making painful reforms even less likely.

In Turkey, where the lira fell to a record low this week despite interest rates almost doubling overnight, the prime minister has faced calls to resign over a wide-ranging probe into corruption. Local and presidential elections are due later this year.

The African National Congress may well lose ground in parliamentary elections this year but are still likely to form the next South African government. That will reduce the chances of major reform.

India's finance minister was talking up his country's prospects at last week's World Economic Forum ahead of national elections, but a weak coalition and continued policy stagnation remains the most likely outcome.

Brazil may catch a break from hosting the soccer World Cup in June, and in Indonesia, the popular governor of Jakarta is a clear front-runner for July's presidential election. But the biggest economies in Latin America and Southeast Asia are not out of the woods.

"There is a risk of the problems spreading to other countries. Brazil and Indonesia, for example, have current account deficits, exposure to China and lofty inflation," noted BNP Paribas economist Dominic Bryant.

Senior citizens throughout Cook County are wondering why their property tax freeze was taken away this year.

“We’re getting about 200 taxpayers a day coming in here and most of them are seniors complaining about the freeze,” a spokeswoman for the Worth Township assessor’s office said.

Cook County property tax bills were mailed out last week, and many senior citizens are stunned to discover their property values are down, their property taxes are up and a tax exemption they’ve been receiving for years has been removed.

It doesn’t make any sense.

There’s nothing I dislike more than explaining a property tax system that was designed to confuse the people who pay taxes.

But here’s my attempt at a simplistic explanation for what’s going on, from what I’ve heard from the Cook County assessor’s office.

Say Jane Doe successfully applied to freeze her equalized assessed value about six years ago at $100,000.

The reason she wanted to do that was because property values were booming and, at 72, she couldn’t afford to keep paying higher property taxes because her income wasn’t going up.

But because of the downturn in the economy, her equalized assessed value now is $50,000.

Keeping her property value frozen at $100,000 makes no sense. Instead of getting a tax break, she would be paying higher taxes than she should.

So the Cook County assessor's office reviewed the bills and decided many senior citizens were better off getting something called a 7 percent expanded homeowner's exemption or Long Term Homeowners Exemption.

The expanded homeowner's exemption should not be confused with the standard homeowner's exemption, just like the senior freeze should not be confused with the regular senior exemption.

Of course, you are confused by all of that, as any normal person would be. The regular senior exemption can be received in addition to the 7 percent expanded homeowner exemption. The senior freeze exemption cannot be received with the 7 percent exemption. With property values going down, it's better to get the 7 percent exemption (which is really not 7 percent for everyone, but has been called that since it was passed) because it can get you a reduction off the current equalized assessed value.

Cook County sent out 43,000 letters to homeowners notifying them they would benefit more from the 7 percent homeowners exemption than the senior freeze. But the county apparently decided to make the change for many seniors instead of letting them make the choice, which created one of the problems. Cook County made the assumption that seniors don't understand numbers and did not print out the calculations. That was a mistake.

People don't always like the government making decisions for them. But why are property taxes higher if property values are down? Your municipality, school district, library district, township, park district and others all set levies, actual dollar amounts they need to collect.

Even if your property values go down, someone still has to pay for snow removal, teacher salaries, park programs, pothole repair — and those costs aren't going down.

So to collect the revenues needed, the tax rates in many south suburbs went up, often by 20 percent. You can find the tax rate information on the Cook County clerk's website, www.cookcountyclerk.com.

In addition to property values going down, there are more homes in foreclosure and more businesses closing their doors, meaning fewer dollars for local governments, also causing them to raise their tax rates.

It's not a good situation. And it's only going to get worse because that 7 percent expanded homeowners exemption is being phased out, meaning it's going to be less and less each year and eventually disappear in the Southland in 2014.

As for the people whose senior freeze was taken away this year, the Cook County assessor's office said they should reapply next year and contends they will not lose their base year when the exemption was first applied.

Property tax lawyers make millions of dollars appealing property tax bills. There's a perception among taxpayers that the system is crooked. Though there might be some savings to the property owner, the cost of the attorney fees to get that savings however small, is a racket. It is already driving small-business owners, young couples and the elderly out of state.

Chicago-centric political leaders don't seem to understand, or care, about the plight of south suburban residents.

Is it fair to all concerned is the issue here. And this property tax system ain't right. A primer to the County officials. If your revenue is going down, cut your services. Or go the way of Detroit. Why should the government assume that the taxpayers will always be there, regardless of the increasing costs?

Things that Insurance companies didn't tell you.

Actually, it is the spin that they used on the media, who ate it up, and you the premium holders.

For starters, think old school. Back in the day, insurance companies would re-write policies that did not meet with compliance. After all, they didn't want to lose your business.

But with the current environment, they call it "dropping you". This means the regulators can carry the burden of blame. The reality? The majority of “Dropped policies” are not coming back to the same insurance carriers. I wonder why? Would you take it with a smile if your health insurance was dropped? You win by leaving the “Dropped Policy” carrier and looking for a different carrier.

Then there is the case of the people losing their jobs and can’t find health coverage because of pre-existing conditions. Where do they go after a couple of denials? To the health care marketplaces. The result is the same companies that denied coverage due to pre existing conditions are signing up marketplace enrollees. That smells of the word hypocrite on the part of the insurance industry.

Finally, at least for now, the media loves a good horror story. So what is the plot? Get policymakers and pundits to scream about a website that does not work. It makes headlines and political types feed off it. Never mind that some people can use phones and local agencies to sign up for the same services that are on the failed website.

Oh, as a postnote, a relative of mine signed up using the marketplace website in less than a half hour, enrolled in a BCBS plan and was subsidized by $200 a month for a PPO plan.
Go figure.

Morale? Don’t believe all the “news” that you hear. You might as well be living in a Texas slum without access to TV. Oh, that would actually be a plus! No TV.

When economist Andrew Lo, 53, was working on his Ph.D. in the mid-1980s, he had little reason to doubt the theory that stock prices can't be predicted. Then he started on a paper that he thought would show that the market's weekly ups and downs were random.

Things didn't go right. More volatile periods and less volatile periods were strung together. Volatility is volatile too Lo says risks in the market can suddenly change, creating panic Since 1926, stocks have been... At the peak of the financial crisis, stocks were... 3.5 times as volatile as bonds 14 times as volatile as bonds
NOTE: Volatility measures from 1926 are standard deviation. Crisis volatility is implied volatility as measured by CBOE Volatility Index. SOURCES: Ibbotson, Andrew Lo

"We discovered, to our shock and amazement, that the theory failed," recalls Lo, sitting in his tidy MIT office overlooking the Charles River in Cambridge, Mass. He and collaborator Craig MacKinlay spent a decade confirming and trying to explain their results. The answer involved a bit of economics, a bit of psychology, and a bit of evolutionary biology.

Lo, who has advised the government on how to avoid another financial crisis, calls his competing theory the "adaptive-markets hypothesis." He says markets are efficient at processing information into prices most of the time. But traders aren't computers: At certain moments, especially in a crisis, investors respond to physiological cues we developed when threatened in the wild by, say, being eaten or speared.

"We're a biological species," Lo says. "We're subject to the same kinds of dynamics as fish in the ocean and springbok on the plains of the African savanna."

Like indexers, Lo doesn't think picking stocks per se is worthwhile. From there, however, he goes off in a totally different direction. He thinks our biological hardwiring causes other aspects of the market, like investors' appetite for risk, to follow patterns.

While you are accustomed to hearing that you must ride out the market's gut-wrenching ups and downs, Lo believes this is not only unnecessary but often counterproductive. Just as trying an extreme diet can backfire with late-night junk-food binges, white-knuckling through a crash won't work if you eventually cry uncle and cash out.

Lo says his fund can get cheaper if assets grow, and argues that for all their seeming simplicity, index funds were once regarded as odd too. Then they worked. "It's the natural evolution of financial products," he says.

The takeaway for you. You can hang back from Lo's unproven fund and still learn from him. Contrary to what efficient-markets purists say, markets go through bubbles and panics. Similar assets may move together in those times, which argues for lots of diversification.

And recognize that your own hard-wiring means you'll be pulled to join the fleeing herd when a bear appears. Even if you think you are risk-tolerant, build an asset allocation with enough safer assets to keep you from feeling threatened.

You may not know the next turn of the market, but knowing you can survive it helps.

Markets looked like this for January….

THE MONTHLY INDEX REPORT FOR JANUARY 2014

Index	January 2014	QTD	YTD	Description
S&P 500 Index	-3.5%	-3.5%	-3.5%	Large-cap stocks
DJIA	-5.2%	-5.2%	-5.2%	Large-cap stocks
Nasdaq Comp	-1.7%	-1.7%	-1.7%	Large-cap tech stocks
Russell 1000 Growth	-2.9%	-2.9%	-2.9%	Large-cap growth stocks
Russell 1000 Value	-3.6%	-3.6%	-3.6%	Large-cap value stocks
Russell 2000 Growth	-1.7%	-1.7%	-1.7%	Small-cap growth stocks
Russell 2000 Value	-3.9%	-3.9%	-3.9%	Small-cap value stocks
EAFE	-4.0%	-4.0%	-4.0%	Europe, Australasia & Far East Index
Barclays Capital U.S. Aggregate	1.5%	1.5%	1.5%	U.S. Government Bonds
Barclays Capital U.S. High Yield	0.7%	0.7%	0.7%	High Yield Corporate Bonds
Newedge CTA Index*	-2.1%	-2.1%	-2.1%	Managed Futures
3-month Treasury Bill	0.0%	0.0%	0.0%	

All returns are estimates as of 01/31/14; Return numbers include reinvestment of dividends.
**Returns are estimates as of 01/30/14*

Will vs. Living Trust: What's Best for You?
You have worked hard for your money and made every attempt to be a conscientious saver. So it's only natural that you want some control over what happens to your assets after your die. Even if you are a person of modest means, you have an estate—and several strategies to choose from to ensure your assets are distributed according to your wishes and in a timely fashion: your estate plan. The right strategy depends on your individual circumstances. For some, a living trust can be a useful and practical tool. For others, it may be a waste of time and money. What is a living trust anyway? And how does it differ from a will? A will is a written document—signed and witnessed—that indicates how your property will be distributed at the time of your death. It is revocable and subject to amendment at any time during your lifetime. It also allows you to appoint a guardian for your minor children.

What Is a Living Trust?

A living trust provides lifetime and after-death property management. If you are serving as your own trustee, the trust instrument will provide for a successor upon your death or incapacity. Court intervention is not required. Livings trusts also are used to manage property. If a person is disabled by accident or illness, the successor trustee can manage the trust property. As a result, the expense, publicity, and inconvenience of court-supervised distribution of your estate can be avoided

If a living trust is properly written and funded you can, · Avoid probate on your assets; Plan for the possibility of your own incapacity; Control what happens to your property after you are gone; Use it for any size estate; and Prevent your financial affairs from becoming a matter of public record.

While a trust sounds appealing, there are drawbacks. A living trust is more expensive to set up than a typical will because it must be actively managed after it is created. Most importantly, however, a living trust is useless unless it is funded. A living trust only can control those assets that have been placed into it. If your assets have not been transferred or if you die without funding the trust, the trust will be of no benefit as your estate will still be subject to probate and there may be significant estate tax issues.

Trust vs. Will Considerations

There are many positive reasons to establish a trust but do not overlook the fact that it will involve more upfront effort and expense. To determine if you should make the extra effort and invest in the expense of a trust, answer these questions:

Is informal probate an available option? Most states have an expedited or simplified form of probate for estates under a certain dollar threshold (that dollar value varies by state). If your estate could pass under an expedited form of probate, or if you live in a state where probate is not a complex or burdensome process, a will could be appropriate.

Do you have minor children? A trust allows you to establish provisions specifying when a child will be entitled to any assets held in trust.

Do you have children, grandchildren, or other dependents with special needs? In those instances the access or control those heirs have over their inherited property may need to be limited. With a standard will your property can be passed on to those heirs but a will alone does not allow you to exercise much control over their use of the property.

Will your estate be subject to estate taxes? If the value of your estate exceeds the current estate tax threshold, you may wish to consider setting up a trust with tax planning provisions. The estate tax threshold frequently changes, so be sure to check with the IRS to determine whether or not estate tax is a concern for you.

Will you actively manage your estate plan? If not, a living trust may not be a suitable solution. Again, a trust will only be beneficial if assets are transferred into it.

So what is best for you? In many respects, a living trust and a will accomplish similar objectives. A trust, however, allows you to realize other objectives that a will cannot. But those advantages don't come without a price. Whether or not a living trust is better for you than a will depends on whether the additional advantages are worth the cost. When choosing, remember that one size does not fit all. What is right for one person may not be right for everyone. Your estate plan should be prepared in a way that best meets the needs of you and your family.

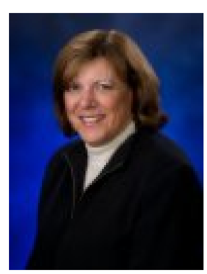
This article does not address all the intricacies associated with wills and living trusts. Consulting with a competent attorney can help you make the right decision.

Tips on changes in your taxes. Mortgage insurance is going away in 2014; teacher's $250 deduction is going away. You need to file those 1120S and Cs by March 15th. February 18th is the new delivery date for brokers to send 1099 information to investors.

For the county individuals turning 66 this year, you need to file a Senior Freeze form. Contact your local assessor for a form and get it back to them this month, if possible.

Meanwhile, try to stay warm in the Midwest and East, enjoy the weather in the Southwest, remember this is the month of Lincoln and Washington birthdays, and contribute to the cause on Valentine's Day. Someone will smile.

Timothy T Fullerton, Sr.



Mary Ahart

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